

# Economic Alert

MONETARY POLICY STATEMENT – OCTOBER 2024

Wednesday, 09 October 2024

***“The Committee agreed to ease the level of monetary policy restraint by reducing the OCR to 4.75%.”***

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## **Because:**

*“The Committee assesses that annual consumer price inflation is within its 1.0% to 3.0% inflation target range and converging on the 2.0% midpoint.”*

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## **And just to emphasise the point:**

*“The Committee agreed that excess capacity has dampened inflation expectations, and price and wage changes are now more consistent with a low-inflation environment.”*

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## **Whether to go 25bps or 50bps was discussed:**

*“The Committee discussed the respective benefits of a 25-basis point versus a 50-basis point cut in the OCR. They agreed that a 50-basis point cut at this time is most consistent with the Committee’s mandate of maintaining low and stable inflation.”*

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## **And the global economic outlook isn’t helping either:**

*“Global economic growth remains below trend. The outlook for the United States and China is for growth to slow, while geopolitical tensions remain a significant headwind for world economic activity.”*

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## **Finally ...**

*“The Committee confirmed that future changes to the OCR would depend on its evolving assessment of the economy.”*

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## **Comment:**

Stunned by the silence!

Compared to some of the earlier headline generating meetings in 2024, this meeting was a subdued affair. Yes, the central bank cut the OCR by 50bps, but it was largely expected, and the statement provided no forward guidance, and with nothing to speculate on, the markets have largely ignored the event.

The statement merely stated what we already know ... economic activity is subdued, business investment and consumer spending has been weak, employment conditions are softening, and economic indicators suggest continued subdued growth.

I wish I could add more ... but there’s nothing to say!

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## **Market Implications:**

With no forward guidance, markets traded slightly lower, but it was orderly. The NZD sold-off -0.5% to trade near 0.6100 against the USD and at 0.9050 against the AUD, while NZD/JPY fell to 90.50.

The short-end of the interest rate curve fell by -5bps, with the medium part of the curve falling -4bps while the longer-end was -3bps lower, although outright pricing is still approximately 10bps-15bps above its recent lows.

The RBNZ noted that a 4.75% OCR is still restrictive, setting up another 0.50% cut in late November (the last policy meeting of 2024 and followed by a long recess until mid-February 2025). Markets have a 0.50% November cut almost fully priced, with forward pricing implying an OCR near 3.00% by late next year.

Market attention will now shift to next Wednesday’s September quarter CPI data, which is expected to show annual headline inflation comfortably back within the RBNZ’s 1.00%-3.00% target range. After three long years, the rollercoaster is almost over.



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