

New Zealand Watch

RBNZ review: Dovish turn in sight

The RBNZ keeps the cash rate unchanged at 5.5%

As we expected, the Reserve Bank of New Zealand (RBNZ) kept the OCR unchanged at 5.5%, where we see the peak and despite market pricing 7bps of hikes for this meeting (see our report: [New Zealand Economic Watch: RBNZ preview: all about the time to target 22 February 2024](#)). Rates have not changed since May last year and the RBNZ committee remains confident that sustained high rates are constraining economic activity and prices. While the Bank will remain alert to inflation pressures, the overall tone of the Statement and mark-to-market changes to forecasts suggest a more dovish tone relative to the November Monetary Policy Statement (MPS).

The OCR track projects a peak for the cash rate at 5.6% from 5.69% as inflation printed softer than anticipated in 4Q. CPI is expected to fall below the 3% top of the target in Sep-2024, unchanged from November (Exhibit 1). These changes suggest (1) Unless there is a significant upside surprise to inflation, the OCR has clearly peaked, (2) the next move is down and likely earlier than anticipated in November as economic data disappointed. The Bank sees potential easing from 1H 2025 vs 2H 2025 back in November while we think easing could start as soon as 2Q 2024. — M. Fuchila

Upside risk to CPI, downside risk to growth

Recent disruptions to shipping in both the Red Sea and Panama Canal have led to a sharp increase in global shipping costs in recent months. The RBNZ assumes a small temporary increase in foreign import prices in the 2Q and 3Q of 2024.

The Bank has estimated the full impact of the hiking cycle will be felt around 9 quarters after the start of the hiking cycle, implying 1Q 2024 will reflect the full impact (Exhibit 2). The labour market is expected to weaken further (Exhibit 3) and wage inflation is expected to fall, reducing aggregate labour income. However, population growth is expected to support aggregate consumption and house prices.

Notably, current economic conditions are much weaker in New Zealand than elsewhere (Exhibit 4), arguing policy support may soon be needed provided inflation continues to move towards the 2% midpoint of the target. (We will hold a conference call tomorrow to discuss the outlook for the RBNZ – please contact us for details). — M. Fuchila

AUD/NZD has more room to rally

The RBNZ's decision to lower their terminal cash-rate expectations and bring forward their projections for the start of the easing cycle supported a sell-off in NZD. We recommended buying 2m AUDNZD calls last Friday (see: [FX Alpha 23 February 2024](#)). The call is now at the money (spot 1.0675/ entry 1.0675) and premium has increased by 29bps to 0.8% (0.51% cost at entry). We continue to see AUDNZD moving closer to year-end forecast of 1.127 for AUDNZD. NZ's Q4 2023 GDP print on 21 March is the next catalyst for a rally in AUDNZD – the RBNZ forecasts GDP will print at 0% yoy after a sharp decline in Q3 2023. — O. Levingston

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OCR: Official cash rate

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High rates drag on activity and prices

Exhibit 1: Changes to the OCR and CPI forecasts

Lower peak and earlier easing

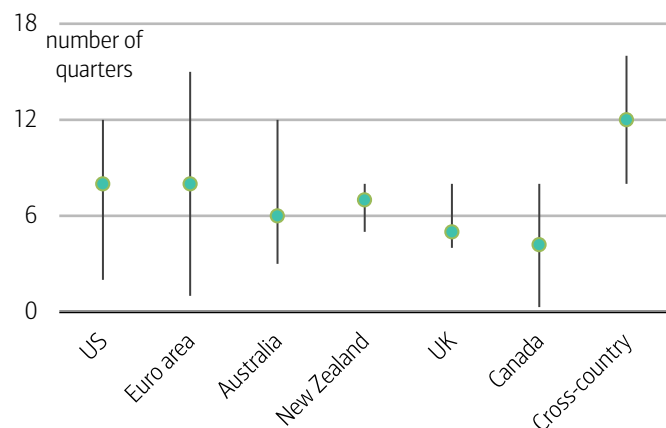
	OCR track Nov-23	CPI YoY Nov-23	OCR track Feb-24	CPI YoY Feb-24
Dec-23	5.55	5.0	5.5	4.7
Mar-24	5.63	4.3	5.6	3.8
Jun-24	5.67	3.7	5.6	3.2
Sep-24	5.69	2.9	5.6	2.6
Dec-24	5.66	2.5	5.6	2.5
Mar-25	5.56	2.4	5.5	2.6
Jun-25	5.42	2.2	5.3	2.4
Sep-25	5.23	2.0	5.2	2.1
Dec-25	4.95	2.0	4.9	2.0
Mar-26	4.62	2.0	4.5	2.0
Jun-26	4.25	2.0	4.2	2.0
Sep-26	3.89	2.0	3.8	2.0
Dec-26	3.55	2.0	3.5	2.0
Mar-24			3.2	2.0

Source: RBNZ

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Exhibit 2: The RBNZ estimates full impact of hikes around 9Q

Some pain is yet to be felt

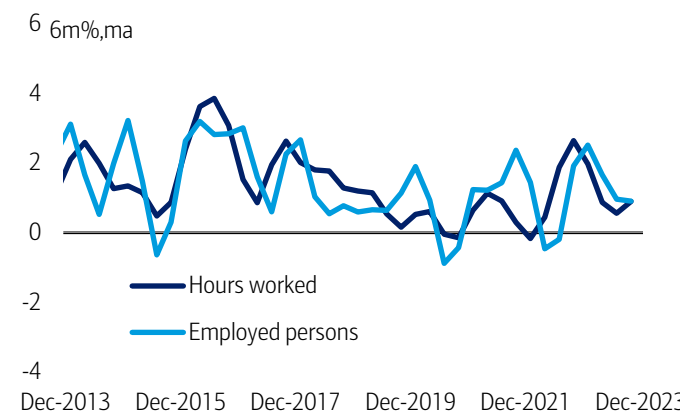


Source: RBNZ

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Exhibit 3: The labour market tightness is easing

Suggesting unemployment will rise



Source: StatsNZ

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Exhibit 4: Global PMIs

Current conditions suggest subdued growth remains in NZ

	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
Global	49.7	52.1	53.3	54.1	54.3	52.6	51.6	50.6	50.5	50	50.5	51
United States	46.8	50.1	52.3	53.4	54.3	53.2	52	50.2	50.2	50.7	50.7	50.9
Canada*	51	52.4	48.6	50.2	49	48.8	49.6	48	47.5	48.6	47.7	45.4
Australia	48.5	50.6	48.5	53	51.6	50.1	48.2	48	51.5	47.6	46.2	46.9
New Zealand	50.6	51.5	47.8	48.6	48.6	47.4	46.5	45.9	45.2	42.8	46.6	43.4

Source: S&P, Macrobond

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