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ECONOMIC ALERT

OCR REVIEW — SEPTEMBER 2018

27 September 2018 | www.bancorptreasury.com

"The Official Cash Rate (OCR) remains at 1.75 percent."

And ...

"We expect to keep the OCR at this level through 2019 and into 2020.

And ...

"The direction of our next OCR move could be up or down."

Why ...

"Our projection for the New Zealand economy, as detailed in the August Monetary Policy Statement (MPS), is little changed."

And ...

"Employment is around its sustainable level and consumer price inflation remains below the 2 percent mid-point of our target."

And ...

"Consumer price inflation is expected to gradually rise to our 2 percent annual target as capacity pressures bite."

And ...

"There are welcome early signs of core inflation rising towards the mid-point of the target."

Looking ahead...

"We will keep the OCR at an expansionary level for a considerable period."

And ...

"Downside risks to the growth outlook remain."

And ...

"Trade tensions remain in some major economies, increasing the risk that ongoing increases in trade barriers could undermine global growth."

Market implications

The only potentially influencing developments since the August MPS have been stronger than expected June quarter GDP (largely due to one-offs), lower overall business and consumer confidence (although both have become less gloomy in the latest reports) and the escalation of the US-China trade dispute. All of these should have given the RBNZ confidence to maintain its monetary policy stance and rhetoric.

The RBNZ delivered a concise assessment in a statement that met market expectations for a brief reinforcement of the message in the August MPS about future risks to the New Zealand economy and monetary policy.

The release of GDP last week and business confidence yesterday caused more of a flutter within local markets because of a surprise factor that today's RBNZ statement lacked.

The RBNZ's observation about *"early signs of core inflation rising towards the mid-point of the target"* seemingly reduced the odds that the next OCR move could be down and reinforced its expectation that the OCR will remain at 1.75% *"through 2019 and into 2020."*

That inference offset the downward pull on local interest rates from the aftermath of the Federal Reserve's announcement and gave the New Zealand dollar a lift, its third upward jolt in less than 24 hours.

Comment

The RBNZ is perfectly justified in maintaining its *"watch, wait and worry"* stance in the face of domestic and global (geopolitical, economic, fiscal and monetary policy) uncertainties and developments. Especially as it has laid out its assumptions, forecasts and expectations.

Markets will return to assessing inputs to the RBNZ's assumptions, forecasts and expectations, specifically local data on actual and expectations for inflation, employment, wages and growth, and global developments.

The latter have been more fluid in recent months and a more dominant influence on local financial markets, and will continue to do so for the foreseeable future.

Risk managers' best defences remain that of ensuring accuracy and timeliness of forecasts and making decisions based on known quantities, which excludes someone's (anyone's) guess at what the world, currencies and central banks will do over the next year.