RBNZ holds OCR but turns unexpectedly dovish

Nobody expected the Reserve Bank to do anything other than hold its official cash rate steady at 5.5%, and that's exactly what it has just done.

- Wednesday, July 10th 2024

However, the tone of today's statement was moderated somewhat from its very hawkish position in late May and it notes that it looks like inflation will return to within its 1% to 3% target during the second half of this year.

Previously, it had said this would happen in the final quarter of this year.

The Consumers Price Index was 4% in the year ended March and today's decision comes a week ahead of the June quarter data, a curious piece of poor scheduling that many have noted.

The NZ dollar fell nearly half a US cent after the statement and an hour after the statement the two-year swap rate had dropped about 18 basis points.

“I think it might continue to trade lower overnight as the international markets come in,” says Jarrod Kerr, chief economist at Kiwibank.

“I wasn't expecting how dovish RBNZ would sound, but you can't ignore the collapse in business confidence we saw last week and consumer confidence is still at gallows level,” Kerr says.

Kerr has already forecast the first OCR cut of this cycle will come in November, and today's statement has increased his confidence about that.

Imre Speizer, currency strategist at Westpac, says the market moves have been significant.

The wording about the RBNZ's “restraint will be tempered” basically points to a cut in the OCR, although the central bank is still providing no clues as to the timing, Speizer says.

“This is the first time they've uttered this kind of signal.” Previously, the RBNZ has spoken about either holding or hiking the OCR further.

Today's decision was simply a review and wasn't accompanied by any updated forecasts – in late May, RBNZ projected that the CPI would come it at 3.6% for the year ended June and fall to an annual pace of 3% in the September quarter and to 2.9% in the December quarter.

In the summary of the six-member monetary policy committee's (MPC) meeting, RBNZ noted that the MPC had discussed “the recent stalling in global disinflation has tempered market expectations of the speed of official rate reductions.”

But the MPC also discussed the risk that “tight monetary policy is feeding through to domestic demand more strongly than expected” and that “there is also a risk that price-setting behaviour and inflation expectations could normalise more rapidly as headline inflation declines.”