

RBNZ delivers double-barrel 50bp cut

The Reserve Bank of New Zealand (RBNZ) appears to be adopting the "sooner is better" approach to monetary policy setting - cutting rates 50bp to 1.0%. This is a contentious decision - there was even a case for no change. This was not considered.



1.0%

Cash rate target

Down from 1.5%

Lower than expected

Not one of the consensus expected 50bp of easing

18 out of 21 economists surveyed by Bloomberg forecast a 25bp rate cut today. We were one of them. The remaining three forecasters opted for no change, and there was a decent argument for that too, following strong employment and wages figures just the day before.

There is a respected stream of economic literature about expected versus unexpected monetary policy decisions. The latter are supposed to deliver more of a real impetus to the economy, whereas the former deliver more of a price level adjustment. The [accompanying statement to today's decision](#) does acknowledge the better labour market data, and even that inflation remains within range though below the mid-point of the 1-3% target (latest 2Q inflation was 1.7%, up from 1.5% in 1Q19).

But in keeping with concern over the state of the real economy, there are a number of somewhat perplexing references to weak GDP - the latest release of which was for 1Q19, which is now very dated. Either the RBNZ has some insight into the 2Q figure due on 19 September, which is possible,

but still a long way off, or they are imputing a lot of transmitted weakness from the challenging global conditions - namely trade war. This seems a sufficient excuse to justify a 25bp rate cut against a mixed domestic/ external backdrop, but it still doesn't deliver a very compelling case for a double-barrel 50bp cut.

Uncertainty may well weigh on New Zealand's business investment decisions in the months ahead to deliver a weaker 2Q19 GDP result. That would merit a second 25bp rate cut then. But it is hard to make that judgment now and raises the prospect that even today's 50bp of easing may not look like enough later on this year.

NZD on the receiving end of double-barrel rate blast

Not surprisingly, the NZDUSD has taken quite a blow from this policy action, dropping to 0.6423 before pulling back a little. The AUDNZD rate has spiked up to 1.0456, though if this move from the RBNZ was supposed to front-run some of their anticipated easing, then we would expect the RBA to pull ahead in the coming months with further cuts. They are also already at a 1.0% cash rate. The AUD itself has been dragged lower by this action, and AUDUSD fell to 0.6720 on this news.

We will have to consider whether or not to add further easing to our RBNZ forecast, as today's decision delivers what we had penciled in for the rest of the year. Our initial gut feeling is, that we probably will. It also begs a re-look at the RBA forecast, where we only had one further rate cut forecast.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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