RBNZ leaves rates at 1.0%

Governor Orr doesn't see any further "urgency to act" and no need to play "catch up" owing to earlier decisions.

Consensus expected a 25bp cut

We didn't really expect to get this decision right. After we decided that there was no real need for rates to be cut at this 13 November meeting, and wrote about this at length (see linked note), the consensus decided that more was needed, and the subsequent newsflow, though ambivalent in our view, provided further support for the consensus view. We were one of only a handful of forecasters looking for no change.

The surprising decision has pushed up the NZD by almost a full cent, and 10Y NZ government bonds rose by 13bp to 1.476% in response.

1.0%

NZ Official Cash rate

Unchanged

Higher than expected

Orr says no intention to surprise

Although this was not the first time this year the RBNZ has bamboozled market expectations, Governor Orr said that this was not something they did on purpose, but that market expectations had shifted around a lot recently and so there were always a few that were likely to be surprised.

In our view, what it does indicate, is that the RBNZ sets its own decisions and is not unduly moved by the market, or feels it necessary to steer them at times when they are off-message. if they get it wrong, it's their hard luck and they should look at the data more, and each others' forecasts less. Well, that's our interpretation.

Orr also noted that current policy was "very stimulatory", and that there was "no urgency to act" further. So this does indeed sound as if it is the last cut in this series. This is a little contrary to any suggestion after the rate decision had been published, that the RBNZ might try to talk the market back down. Although Orr did note that the RBNZ would add further stimulus if needed, it is also apparent that he didn't think they would have to.

Orr added a few times that monetary policy was now "very accommodative" and moreover, that contrary to suggestions that monetary policy was no longer effective, in New Zealand, it was indeed working. He also hinted that fiscal policy was likely to provide some additional support, though there was little offered to back up this suggestion.

Orr also noted that there was no need to play catch-up (to Australia, where rates are 0,75%) due to the RBNZ's decision to start cutting rates early - the implication here is that the RBNZ has been ahead of the game.

Other takeaway messages Orr was keen to highlight were that :

1. Monetary policy would likely remain low for some time, but that;
2. It would be data-dependent (so an expectation but no commitment to keep rates low);
3. Growth was likely to stay slower than usual;
4. But the projections for inflation were a bit higher, and;
5. Lower potential for growth meant that inflation could still pick up with slower than usual growth.

Orr's comments did take the edge off the NZD spikes, but it remained above 0.64 by the end of the press briefing.

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