RBNZ policy meeting - next move could be up or down

Markets were hoping for a more dovish view from RBNZ Governor Orr, but that was probably unrealistic. Instead, it is hard to find much difference between the RBNZ and RBA in terms of policy statements, though we prefer the NZD on balance, and look for AUDNZD to keep moving slowly towards parity this year.

Here is the RBNZ statement in full

(Link to official site) (text copied in full but our emphasis)

"The Official Cash Rate (OCR) remains at 1.75 percent. ***We expect to keep the OCR at this level through 2019 and 2020. The direction of our next OCR move could be up or down.***

Employment is near its maximum sustainable level. However, core consumer price inflation remains below our 2 percent target mid-point, necessitating continued supportive monetary policy.

Trading-partner growth is expected to further moderate in 2019 and global commodity prices have already softened, reducing the tailwind that New Zealand economic activity has benefited from. The risk of a sharper downturn in trading-partner growth has also *heightened over recent months.*

Despite the weaker global impetus, we expect low interest rates and government spending to support a pick-up in New Zealand's GDP growth over 2019. Low interest rates, and continued employment growth, should support household spending and business investment. Government spending on infrastructure and housing also supports domestic demand.

As capacity pressures build, consumer price inflation is expected to rise to around the mid-point of our target range at 2 percent.

There are upside and downside risks to this outlook. A more pronounced global downturn could weigh on domestic demand, but inflation could rise faster if firms pass on cost increases to prices to a greater extent.

We will keep the OCR at an expansionary level for a considerable period to contribute to maximising sustainable employment, and maintaining low and stable inflation".

RBNZ vs RBA

As we wrote in the recent FX talking publication, we prefer the NZD to the AUD. We admit that the recent momentum behind the NZ economy has worsened, but on a straight comparison with the AUD, would make the following points:

1. NZ's economy is less exposed to a Chinese slowdown, and though it is heavily exposed to a slower Australian outcome, it should still outperform its larger neighbour. This is an argument about degrees of separation.
2. New Zealand is closer to its (lower) inflation target midpoint than Australia, even if inflation rates are broadly similar, so the RBNZ should be more biased towards a hike than the RBA.
3. New Zealand's housing market is showing signs of slowing growth, Australia's is showing outright negative growth.
4. Both Australia and New Zealand have tight labour markets and low unemployment rates, but in New Zealand, wages growth is a respectable 3.7% (private sector ordinary time hourly wages), the comparable rate in Australia is a mere 2.7%.

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