

RBNZ set to cut rates

Wednesday's Reserve Bank of New Zealand is widely expected to deliver a further cut in the cash rate to 1.25%



RBNZ Governor, Adrian Orr

Catching up with the RBA and Fed

At its meeting last month, the RBNZ did not cut rates but instead, leaving rates unchanged, Governor Adrian Orr, noted that "more support from monetary policy was likely to be necessary".

Since then, not only has the Reserve Bank of Australia cut its own cash rate target a second time to 1.0%, but the US Federal Reserve also cut rates by 25bp and left it looking like they will ease further in the coming months. In short, the RBNZ looks as if it will be left behind if it does not cut rates at this week's meeting.

Not everyone agrees a cut is coming

Although only one of the seventeen economists providing forecasts for this meeting expects the RBNZ to leave rates unchanged, the "Shadow RBNZ" concluded that rates did not need cutting, noting that there were also negative consequences from excessively low rates. We don't expect the RBNZ to take this view, however. And with the further worsening of the external outlook

following the latest escalation in trade tariffs, it would be very odd indeed if the RBNZ decided to pause again.

Macro numbers also point to a further cut

The macro numbers released since the last RBNZ meeting also suggest that a cut is forthcoming. Business activity and confidence indicators have fallen further, house price growth has moderated again and the labour market is also looking softer, with expectations for some further increase in the unemployment rate.

More positively, inflation has edged a little higher, managing to rise to 1.7%YoY in 2Q19 from 1.5% in the first quarter. That said, inflation still remains well below the RBNZ target mid-point so, on balance, the macro story also seems to solidly support the notion of another RBNZ rate cut at this week's meeting.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

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