What to expect from the RBNZ meeting

We expect the Reserve Bank of New Zealand to pause this week and delay any new measures to the November meeting, after more data is released and elections held. Currency comments will remain a key theme, but NZD/USD at 0.66-0.68 is still no cause for alarm at the RBNZ, in our view

RBNZ Governor, Adrian Orr

No fireworks

The RBNZ meets on Wednesday to review monetary policy after the latest rate announcement (12 August) was accompanied by an expansion of its Large Scale Asset Purchase (LSAP) programme.

Since the last meeting, growth data for the second quarter has been released, confirming fears of a bigger slump in New Zealand than its peers (-12.4% YoY), both due to the ultra-strict lockdown measures and the structural exposure of the economy to slowdowns in global trade and tourism.

Still, we do not think grim data is enough to trigger a back-to-back easing move by the RBNZ, and this week may be an in-between meeting with any new policy measures being unveiled at the November meeting instead. The resurgence of Covid-19 in New Zealand along with fresh restrictive measures in Auckland have laid a new veil of uncertainty about the economic recovery.

Accordingly, we would expect the RBNZ to wait for third quarter employment, CPI and some forward-looking releases to gauge the economic impact of new restrictions before making its next move. The NZ general elections, which will take place on 17 October, are another reason to pause at this meeting.

Two key threads: Negative rates and NZD

The RBNZ is openly considering the possibility of embarking on negative rates. RBNZ Governor Adrian Orr recently reiterated that the Bank is currently working on a new package of stimulus measures, and that negative rates are indeed an option on the table. At this week's meeting, we would not expect the policy message to fall any shorter than this in terms of openness to negative rates, but this is largely expected by markets and the impact on the New Zealand dollar may be quite contained.

The currency will also remain a key topic, after the RBNZ openly addressed the relative strength of the NZD as a factor curbing exports and the NZ economic recovery. It is likely that policy decisions ahead will be considered based on how much of a weakening effect they could have on the currency. We recently discussed the possibility of direct FX intervention in this article.

Still, the choppy risk sentiment environment in September has prevented another rally in activity currencies and the NZD is now trading within the 0.66-0.68 range which – in our view – is still no cause for alarm at the RBNZ. NZD-focused comments will likely drive most of the NZD reaction, although we expect this to be relatively short lived, with NZD back to trading in line with global risk sentiment quite quickly.

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