



# ECONOMIC BULLETIN

## Review of RBNZ October 2023 Monetary Policy Review.

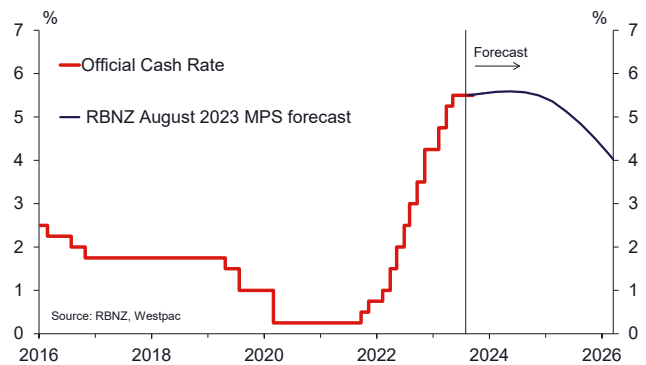


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## Rinse and repeat

- The RBNZ left the OCR unchanged at 5.5% as expected.
- The tone of the accompanying statement is somewhat more dovish than expected.
- The RBNZ assessment of the balance of risks looks unchanged from the August Statement
- We think this means that the RBNZ is less likely to raise the OCR by 25 basis points at the November Monetary Policy Statement than we forecast.
- Key factors that will determine the probability and size of a November tightening will be the outcome of the Q3 CPI due 17 October and the Q3 Labour market reports due 1 November.

Official Cash Rate



The RBNZ left the OCR unchanged at 5.5% and communicated a relatively dovish statement on the future OCR in the accompanying statement.

The overall tone of the statement and record of meeting displayed a similar degree of concern regarding the persistence of inflation pressures than previously communicated. Market pricing for around a 60% chance of a 25-bps tightening at the November Monetary Policy Statement looks too hawkish and is now adjusting.

The MPC's seems to still be concerned about the possibility of persistent inflation pressures and that the economy might not weaken as fast as required in the short term. The MPC noted that GDP was stronger than they expected in the first half of 2023. However, the RBNZ retains confidence that the required amount of slowdown will ultimately occur in light of recent indicators such as the QSBO and PMI indicators. Notably, concerns around increased house prices are not as prominent as in our own assessment with the MPC wanting to see how house prices evolve in the summer period when more activity usually occurs. The MPC seems to also take comfort from the increase in mortgage rates that has occurred since August as global long-term rates have increased, helping add disinflationary pressure.

Medium term growth and inflation pressures are seen as being held in check by the continued slowing of the global economy and China in particular given that commodity prices continue to be lower than last year.

We see this statement as more dovish than our expectations. We anticipated the RBNZ would craft a statement that broadly endorsed current market pricing for around a 50/50 chance of a 25 bp rate rise in November. This statement suggests that view was too hawkish. By not communicating any further concern on the inflation outlook means the hurdle for a November tightening remains high.

While we continue to see a 25 bp rate hike in November at this stage, but this must be a lower probability than previously thought. The Q3 CPI and Labour market data will be key to the probability/size of that rate increase as also will global economic and financial markets developments.

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