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ECONOMIC ALERT

OCR REVIEW — JUNE 2019

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"The Official Cash Rate (OCR) remains at 1.5 percent."

But …

"A lower OCR may be needed over time to continue to meet our objectives."

Why …

"Weaker global economic outlook and the risk of ongoing subdued domestic growth."

And …

"Domestic growth has slowed over the past year."

And …

"Softer house prices and subdued business sentiment continue to dampen domestic spending."

And …

"Downside risks related to trade activity have intensified."

In conclusion …

"The members agreed that more support from monetary policy was likely to be necessary."

And …

"[The members] noted a lower OCR may be needed over time."

Looking ahead …

"We expect low interest rates and increased government spending to support a lift in economic growth and employment."

In conclusion …

"Given the downside risks around the employment and inflation outlook, a lower OCR may be needed."

Market Implications

After May's pre-emptive OCR cut, markets were not expecting any more action this time from the Reserve Bank of New Zealand's ("RBNZ") Monetary Policy Committee ("MPC"). Rather, markets were expecting a dovish bias. Not only did the MPC deliver to those expectations, it made it abundantly, and frequently, clear that a lower OCR is coming soon.

Once past the initial calls mimicking those often heard on the cricket pitch of *"Yes, No, Sorry"* market reaction was subdued because the MPC delivered exactly to market expectations, having massaged those same expectations in the first place (kudos to Adrian Orr). As a result, currency and interest rate markets were little changed once the dust settled.

Going in to today's OCR announcement, markets had fully priced in an OCR cut on 7 August. So, the markets' question has shifted to "how much" the OCR cut will be.

Comment

The RBNZ Governor's brief official OCR announcement and the slightly more detailed Summary Record of the MPC meeting made it clear that there will be an OCR cut soon and that it may not stop at one more cut.

The MPC sees that *"more support from monetary policy was likely to be necessary"* and it *"discussed the merits of lowering the OCR at this meeting."* To make sure the message got home, it repeatedly said that *"a lower OCR may be needed over time."* Furthermore, the MPC is keenly watching *"the employment and inflation outlook"* in deciding when to next cut the OCR.

Markets now know that the MPC is ready to cut the OCR and what will motivate it to act. The MPC and markets will be closely analysing CPI and labour market data due for release next month ahead of the next MPC meeting and *Monetary Policy Statement* on 7 August