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ECONOMIC ALERT

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The Monetary Policy Committee has agreed to significantly expand the Large Scale Asset Purchase ("LSAP") programme potential to $60 billion, up from the previous $33 billion limit."

And ...

"The Official Cash Rate ("OCR") is being held at 0.25 percent."

Why ...

"The global economic disruption caused by the COVID-19 pandemic is expected to persist and lead to lower economic growth, employment, and inflation both in New Zealand and abroad …"

But ...

"Members noted that the main thing needed to support the economy is fiscal stimulus, given that fiscal policy is best placed to directly support households and businesses. The role of monetary policy is to support the economy by ensuring that interest rates remain low, which will complement the effects of fiscal measures."

However ...

"The Committee discussed several different scenarios for the economic outlook. Members agreed that the situation is too uncertain to allow any one scenario to be treated as a central projection."

But ...

"The balance of economic risks remains to the downside."

In conclusion ...

"The Monetary Policy Committee is prepared to use additional monetary policy tools if and when needed, including reducing the OCR further, adding other types of assets to the LSAP programme, and providing fixed term loans to banks."

Market Implications

The Reserve Bank of New Zealand's ("RBNZ") Monetary Policy Committee's ("MPC") decision to expand the Quantitative Easing ("QE") or LSAP programme was largely expected by the big four banks, while only one was expecting a cut in the OCR. The RBNZ did not rule out using negative interest rates, saying that *"all tools would be considered,"* but had chosen an expansion to its QE programme which Governor, Adrian Orr, described as the most efficient tool.

The whole swaps curve fell and flattened slightly. The two year rate fell 6 basis points to 0.12%, the five year fell 7 basis points to 0.24% (below OCR) and the ten year touched a fresh record low, down 10 basis points to 0.62%.

The NZD/USD is down 80 points or so, falling from 0.6085 to just above the 0.6000 support. The market reaction was as one would expect with the expansion to the QE programme and talk of negative rates.

Comment ...

It was certainly one for the history books, the first RBNZ press conference held via web conference. There were the usual technical issues and muted microphones, but it was largely successful.

However, there was nothing positive in the RBNZ's statement. The central bank modelled three scenarios, putting unemployment somewhere between 9% and 12%, but clearly has no idea how this will all play out, stating that *"the situation is too uncertain to allow any one scenario to be treated as a central projection"* and summarising with *"all three scenarios involved a significant and unprecedented decline in economic activity and employment."*

There has been plenty of talk about the OCR going negative, and the RBNZ addressed that head on, saying it would maintain it as a policy tool, but not use it yet. Overall, a memorable one. 8/10.