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ECONOMIC ALERT

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“The Monetary Policy Committee agreed to expand the Large Scale Asset Purchase (LSAP) programme up to \$100 billion, and the Official Cash Rate (OCR) is being held at 0.25 percent in accordance with the guidance issued on 16 March.”

And ...

“The Committee also agreed that a package of additional monetary instruments must remain in active preparation. The package includes a negative OCR. Purchases of foreign assets also remain an option.”

Why ...

“So as to further lower retail interest rates.”

As ...

“Uncertainty is stifling household and business spending appetites, as highlighted in confidence surveys. Given the ongoing health uncertainty, there remains a downside risk to our baseline economic scenario.”

However ...

“Recent indicators highlight that the faster return to social norms and a higher proportion of employees working from home has seen output and employment recover sooner than projected in our May “Monetary Policy Statement.” Recent spending also reflected pent up demand resulting from the lockdown period.”

In conclusion ...

“Monetary policy will continue to provide important economic support in the period ahead. Its effectiveness is evidenced by retail banks’ lower funding costs and lending rates, which are benefiting businesses and households.”

And ...

“The Monetary Policy Committee will provide additional stimulus as necessary to meet its remit.”

Market Implications ...

Financial markets clearly saw some dovishness in the statement and the immediate reaction for the NZD/USD was to fall as low as 0.6525, from 0.6566 shortly before the announcement. The pair is currently hovering around 0.6550. The RBNZ noted the recent strength in the NZD, saying it is “moderating the return to local export producers” but they see recent currency movements as a reflection of the global disruptions and not a situation warranting intervention.

Swap rates also eased, down around 5 basis points across the curve in response to confirmation from the RBNZ that it wants a lower yield curve.

Comment

There was something for everyone in this statement, yet nothing was very surprising. The QE programme expands to NZD100 billion, slightly more than expected by most economists, and mortgage deferrals will be extended. Some will be disappointed that the central bank didn’t announce a foreign asset purchase programme. The Governor stated this tool was actually at the bottom of the list. Meanwhile, the threat of negative interest rates remains and looks to be gaining more traction.

The fresh lockdown restrictions announced last night barely got a mention, instead the central bank highlighted the better than expected economic data locally and warned of the global economic picture.

The RBNZ also noted the significant government spending but warned the end of the wage subsidy is “likely to coincide with a decline in employment.”

Overall no great surprises, other than the more than expected QE programme and the preparedness to act as needed to support the economy through this unprecedented and challenging period.