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# ECONOMIC ALERT

MONETARY POLICY REVIEW — SEPTEMBER 2020

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*“On Wednesday 23 September, the Committee reached a consensus to:*

- hold the OCR at 0.25 percent, in accordance with the guidance issued on 16 March;*
- maintain the existing LSAP programme of a maximum of \$100b by June 2022; and*
- direct the Bank to prepare to have an FLP ready to deploy before the end of this calendar year. Details on the design of the programme would be agreed and published ahead of deployment.”*

## Why ...

*“This action is necessary to further lower household and business borrowing rates in order to achieve the Committee’s inflation and employment remit.”*

## And ...

*“Reflecting the possible need for further monetary stimulus, the Committee noted the progress being made on the Bank’s ability to deploy additional monetary instruments.”*

## Through ...

*“A Funding for Lending Programme (FLP), a negative OCR, and purchases of foreign assets.”*

## In conclusion ...

*“The Committee expects a rise in unemployment and an increase in firm closures, as resource reallocation continues. Members agreed that monetary policy will need to provide significant economic support for a long time to come to meet the inflation and employment remit, and promote financial stability.”*

## And ...

*“They also agreed they are prepared to provide additional stimulus.”*

## Market Implications

Ahead of the meeting, the NZD/USD fell to a 1 month low, briefly dipping below 0.6600 for the first time since late August as the expectations were for more detail around future stimulus. Heading into the meeting, market pricing for 50 basis points of OCR cuts by mid-next year had pared back slightly.

The immediate reaction following the announcement was for the NZD/USD to spike nearly 50 points higher as the RBNZ focused more on the FLP, rather than cuts to the OCR, but that move quickly moderated to just 20 points up. The interest rate market saw the FLP as a mechanism to reduce wholesale rates further, which caused swap rates to fall 2-3 basis points across the curve. The 2, 5 and 10 year swaps are now at 0.025%, 0.095% and 0.475% respectively.

## Comment

The hint was in the title of the media release: *“Prolonged Monetary Support Necessary.”*

At its first *Monetary Policy Review*, which replaces the old OCR review, reflecting on the alternative monetary policy tools the bank has at its disposal, the RBNZ made it clear more stimulus is required. The statement warned of a severe and prolonged economic downturn and the risks it poses.

The RBNZ clearly set out its intentions to introduce the Funding for Lending Programme by the end of the year, and reiterated the point that it is still considering a package of further stimulus which includes *“a lower or negative OCR.”*

Overall, the statement wasn’t too surprising, other than the focus on the FLP and the revelation that it will be ready by the end of the year. The statement will have done nothing to dissuade market participants from pricing in a sharply lower OCR next year. April 2021’s meeting is shaping up to be the crucial one, but watch for FLP announcements in the interim.