Economic Alert

MONETARY POLICY STATEMENT — FEBRUARY 2021

Wednesday 24 February, 2021

The Monetary Policy Committee agreed to maintain the current stimulatory level of monetary settings in order to meet its consumer price inflation and employment remit.

Key Points:

The Committee will keep:

- *the Official Cash Rate (OCR) at 0.25 percent;*
- *and the existing Large Scale Asset Purchase ("LSAP") Programme of up to $100 billion; and*
- *and the Funding for Lending Programme ("FLP") operation unchanged."*

The risks remain:

"Global economic activity has increased since the November Monetary Policy Statement. However, this lift in activity has been uneven both between and within countries."

What is the outlook?

"The Committee agreed to maintain its current stimulatory monetary settings until it is confident that consumer price inflation will be sustained at the 2 percent per annum target midpoint, and that employment is at or above its maximum sustainable level. Meeting these requirements will necessitate considerable time and patience."

Future stimulus?

"The Committee agreed that it remains prepared to provide additional monetary stimulus if necessary and noted that the operational work to enable the OCR to be taken negative if required is now completed."

Market Implications:

Simply put … it wasn't dovish enough to halt the momentum of the NZD or fixed income markets. Initially the NZD eased down to an intra-day low of 0.7315 as market participants sought any inference of subtle changes, but with little differentiation from the November statement, the dollar reverted to trend rallying towards the 0.7400 level to register its highest level since April 2018.

It should be noted that the RBNZ's projections assume the NZD TWI will average around the 72.40 level until March this year before rising to 74.9 in 2022. Unfortunately, since the release of the Statement it has breached 76.00 to trade at its highest level since October 2017.

With no change to the OCR, and the long end of the NZ yield curve being driven by international markets, local swap rates reverted to trend, rallying 1-7 basis points across the curve and sustaining the steepening bias.

Comment:

While the Statement did not contain any surprises, the RBNZ's rhetoric and tone emphasised that 'prolonged' stimulus will be needed amid the uncertainty as it sees inflation and employment staying below their targets for some time. Interestingly, the RBNZ refrained from publishing its cash rate projections, but it did emphasise that even with the recent pick up in the domestic economy, it is ready to add further stimulus as and when required.

The RBNZ is projecting mid 2021 GDP at 0.3%, with inflation at 2.5%, although it expects inflation to fall to 1.4% by second quarter of 2022. Ultimately, the RBNZ is expecting a short-term spike in inflation and unemployment in late 2021, although it won't be maintained. The RBNZ is not actually anticipating hitting its targets until 2024.

To summarise, as there was not a great deal of deviation from the recent rhetoric of the Federal Reserve and RBA, we should expect the existing trends to remain in place.

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