Economic Alert

MONETARY POLICY REVIEW — APRIL 2021

Wednesday 14 April, 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 Large Scale Asset Purchase and Funding for Lending programmes unchanged."*
- *"Some temporary factors are leading to specific near-term price pressures. These factors include disruptions to global supply chains and higher oil prices. However, the Committee agreed that medium-term inflation and employment would likely remain below its remit targets in the absence of prolonged monetary stimulus."*

A positive start:

"The global economic outlook has continued to improve since the February Monetary Policy Statement. Ongoing fiscal and monetary stimulus are continuing to underpin the global recovery in economic activity."

But then the warnings started:

"However, economic uncertainty remains elevated and divergences in economic growth both within and between countries are significant."

Future stimulus?

"The Committee agreed that it was prepared to lower the OCR if required."

Market Implications:

While the expectations leading into today's Reserve Bank of New Zealand ("RBNZ") meeting were low, the RBNZ did not disappoint.

Foreign exchange activity leading into the meeting was subdued and, post the announcement, we saw the NZD/USD gyrate across a modest 20 pip range to ultimately settle at its pre-announcement levels after half an hour. This move was also reflected in the other NZD-related crosses as market participants struggled to justify a break-out of the existing ranges.

Eventually the NZD started to gain momentum to eventually hit a 3-week high against the USD, but this move was most likely driven by stops-loss orders being triggered above the 0.7060 level, rather than anything fundamental from the statement.

Interest rates were just as quiet with the statement providing little rational to change or amend existing positions.

Comment:

Despite the unchanged first sentence, the statement was possibly a little more up-beat in its tone than in February, although there were sufficient warnings to dampen any enthusiasm. And given the unification of central bank messaging, we should not have been surprised.

While the trans-Tasman travel bubble and the extent of the dampening effect of the Government's new housing policies were referred to in the statement, the statement did note that their impact on consumer price inflation and employment will take time to filter through.

To summarise, there was not a great deal of deviation from the recent rhetoric of the Federal Reserve and Reserve Bank of Australia, and indeed the RBNZ's own February statement, and we should expect this synchronised approach to remain in place for a considerable period of time.