

New Zealand Fixed Income Monthly September 2023

Interest rate action unlikely until February 2024 amid sticky inflation

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Interest rates unchanged since May 2023 amid stickier-than-expected inflation

New Zealand's Official Cash Rate has been unchanged since the Reserve Bank of New Zealand (RBNZ) raised it from 5.25% to its current level of 5.5% on 24 May 2023. Although the RBNZ commented in its Monetary Policy Statement on the same date that inflation was likely to return to its target range of 1-3% per annum if the OCR remained at a restrictive level for some time, market expectations for interest rates have changed significantly since May. At that time, rate hikes were expected to lead to rate cuts as inflation began to ease. New Zealand's inflation has proved stickier than expected, however, as shown by the 6.0% annual rise seen in the consumers price index for the June 2023 quarter. This shows that interest rates continue to be held hostage by high inflation.

October election makes further rate adjustments unlikely before 2024

The fact that New Zealand will go to the polls for a general election on 14 October also reduces the likelihood of further action by the RBNZ in 2023. Given the RBNZ's neutral stance, it is likely to avoid appearing to act politically by hiking or cutting interest rates immediately before or after a general election. Looking ahead, we feel that the RBNZ is unlikely to adjust the OCR in its next quarterly Monetary Policy Statement, which is scheduled for 29 November. As that date will be followed by a large gap until the RBNZ's next scheduled rate decision on 28 February 2024, our view is that the OCR is unlikely to be changed before that timing. Although the RBNZ has made unscheduled adjustments to the OCR in response to sudden or unexpected events in the past, this has only happened twice to date: the first time following the 11 September 2001 attacks in New York and the second time in response to the COVID-19 pandemic.

Direction of economy to be key in coming months

We also expect any further monetary policy moves by the RBNZ to be informed by trends in New Zealand's economy. The direction of GDP growth is likely to be of special interest to the central bank given that New Zealand recently avoided a technical recession. This occurred after the economic growth figure for the March 2023 quarter was revised upward from -0.1% to 0.0% and the country posted 0.9% growth in the June quarter. This meant that New Zealand did not experience two consecutive quarters of negative growth, which is generally deemed to indicate a technical recession. This would not have been the case before the revision given that economic activity had declined in the December 2022 quarter. In contrast to the stronger-than-expected growth, negatives for New Zealand include recent weakness in the prices of beef, lamb and dairy products as well as the potential impact of slower growth in China. The RBNZ is likely to pay close attention to all such developments in the economy in the coming months.

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