

Macro Note

NZD/USD Tumbles As RBNZ Hints Rate Cut As Next Move

Wednesday, 27 March 2019

Lee Sue Ann

Economist

Lee.SueAnn@uobgroup.com

The Reserve Bank of New Zealand (RBNZ) kept the Official Cash Rate (OCR) steady at 1.75%. Holding the rate unchanged was a widely-anticipated outcome, but the RBNZ shifted to an outlook that favors a rate cut. In today's [accompanying press release](#), the RBNZ changed its opening line to: "Given the weaker global economic outlook and reduced momentum in domestic spending, the more likely direction of our next OCR move is down."

In the previous [statement in February](#), the RBNZ had stated that "We expect to keep the OCR at this level through 2019 and 2020. The direction of our next OCR move could be up or down." This was also a change from the [statement in November](#), stating that "We expect to keep the OCR at this level through 2019 and into 2020."

New Zealand's economy grew at a faster pace in the fourth quarter of 2018. GDP rose 0.6% q/q, in line with expectations but below the RBNZ's latest forecast of a 0.8%. It was also an improvement from the September quarter, which experienced growth of 0.3% q/q. Compared to a year ago, GDP rose 2.3% y/y in 4Q18. This is also below the RBNZ's projected growth of 2.7%. The annual average growth rate in 2018 was 2.8%, the lowest since 2014.

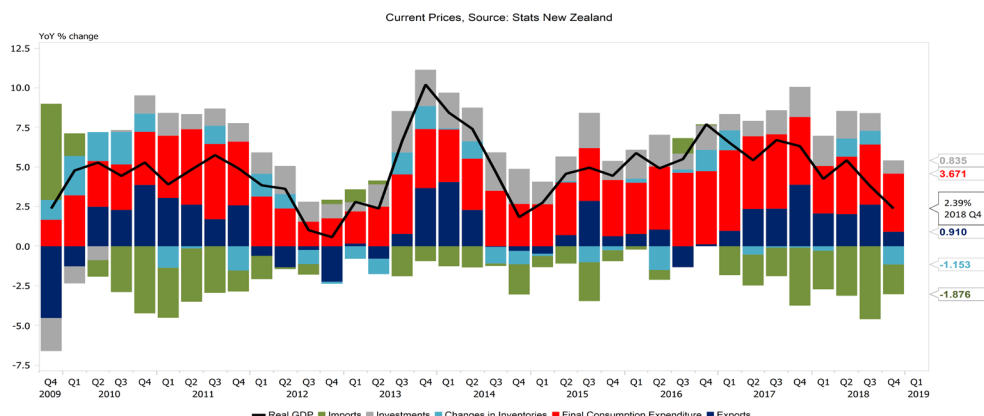
Growth momentum in New Zealand has indeed slowed, and this is likely to continue. The impetus to growth from net migration is poised to shrink; the housing market has cooled; the terms of trade are looking past their cycle peak as storm clouds loom over China's growth outlook; and while fiscal policy is expansionary, this is neither large nor expected to last long. We have revised lower our GDP forecast to 2.7% for 2019 and looking at a 2.6% print for 2020.

Many global central banks have shifted to a more dovish stance recently, and it is certainly not surprising for the RBNZ to follow suit. Financial markets now see a rate reduction by November as almost certain, according to swaps data, up from around 48% chance earlier today. But the road ahead may not be a straight one, meaning it is unlikely to be a smooth path for interest rates between now and an eventual cut. As such, as far as our OCR call is concerned, we will closely monitor upcoming economic data, though for now, we still think the most likely scenario is still for an unchanged policy rate.

NZD slumped around 1.5% against the USD following the announcement. As per FX Insights, NZD/USD fell to lows of 0.6807, plunging below our 0.6845 'key support'. The price action suggests that last Thursday (21 March) peak of 0.6938 is a short-term top and NZD is expected to trade below this level for the next couple of weeks. Despite the sharp and large decline, it is too soon to expect a sustained down-move. However, the strong downward pressure could lead to a test of the 0.6745 low registered earlier in March. At this stage, the prospect for a sustained decline below this level is not high (note that the Feb's low of 0.6720 is another solid support). On the upside, 'key resistance' is at 0.6910 for now even though for the next few days, NZD is likely to stay below 0.6880.

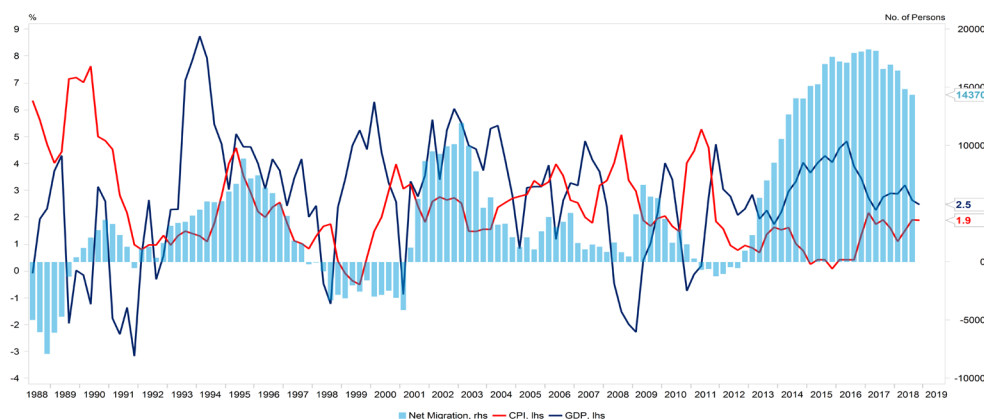
New Zealand: Contributions To GDP

Source: Macrobond, UOB Global Economics & Markets Research



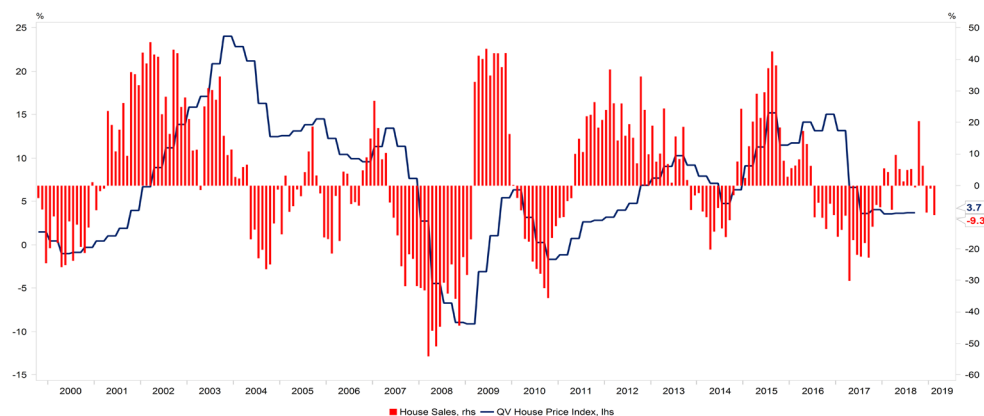
Softening GDP Growth Will Be Reinforced By A Slowdown In Net Migration

Source: Macrobond, UOB Global Economics & Markets Research



New Zealand Housing Market Cools

Source: Macrobond, UOB Global Economics & Markets Research



Recent Publications

[Gold: Set To Rally Further As FED Signals End To Rate Hiking Cycle](#), 26 March 2019

[Singapore Industrial Production: A Cautiously-Optimistic View On Singapore's Manufacturing Environment](#), 26 March 2019

[Singapore: Slower Than Expected Core Inflation Seen, MAS Likely To Stay Pat](#), 25 March 2019

[Quarterly Global Outlook 2Q 2019](#), 22 March 2019

[Malaysia: Feb CPI Declines -0.4% Y/Y](#), 22 March 2019

[BoE Keeps Rates Unchanged Amid Brexit Delay](#), 22 March 2019

[Taiwan: CBC Maintains Steady Hand On Interest Rate](#), 21 March 2019

[Philippines: BSP Holds Rates At 4.75%](#), 21 March 2019

[Indonesia: BI Introducing Accommodative Monetary Measures](#), 21 March 2019

[Singapore: Recalibrating The UOB S\\$NEER](#), 21 March 2019



Scan the QR Code for a list of all our reports

Disclaimer

This publication is strictly for informational purposes only and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose, and is also not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to its laws or regulations. This publication is not an offer, recommendation, solicitation or advice to buy or sell any investment product/securities/instruments. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. Please consult your own professional advisors about the suitability of any investment product/securities/ instruments for your investment objectives, financial situation and particular needs.

The information contained in this publication is based on certain assumptions and analysis of publicly available information and reflects prevailing conditions as of the date of the publication. Any opinions, projections and other forward-looking statements regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The views expressed within this publication are solely those of the author's and are independent of the actual trading positions of United Overseas Bank Limited, its subsidiaries, affiliates, directors, officers and employees ("UOB Group"). Views expressed reflect the author's judgment as at the date of this publication and are subject to change.

UOB Group may have positions or other interests in, and may effect transactions in the securities/instruments mentioned in the publication. UOB Group may have also issued other reports, publications or documents expressing views which are different from those stated in this publication. Although every reasonable care has been taken to ensure the accuracy, completeness and objectivity of the information contained in this publication, UOB Group makes no representation or warranty, whether express or implied, as to its accuracy, completeness and objectivity and accept no responsibility or liability relating to any losses or damages howsoever suffered by any person arising from any reliance on the views expressed or information in this publication.