

Housing announcements take wind out of NZD's sails

There's been a **significant financial market reaction** to yesterday's government announcement of a package of measures designed to restore balance to the NZ housing market.

Wholesale interest rates fell a decent 6-8bps as investors deduced that an end to the house price upturn – and attendant economic headwinds – would allow the RBNZ to maintain its ultra-accommodative policy stance for longer. The OIS-implied timing of the first OCR rate hike was pushed back into the second half of 2022. We haven't yet changed our view for an August 2022 lift in the OCR but we're currently running a ruler over all of our forecasts in light of yesterday's measures.

Our house price forecasts already allowed for some pull-back in investor demand as the cycle matures and LVR restrictions bite. Indeed, this was part of the basis for our recent [call](#) that the momentum under house price inflation had likely peaked. However, yesterday's announcements – particularly the removal of deductibility on mortgage interest – will further discourage investor participation in the market. This means it's now likely that house price inflation will slow at a faster rate from here than our prior forecasts allowed for, and the risk house prices experience outright falls later in the year has increased. Meanwhile, there will be additional pressure on rents to rise.

The fall in the NZD/USD yesterday has extended overnight, albeit on the back of broader USD strength. It is now down just over 1½ cents in 24 hours – the largest fall since this time last year. The NZD crosses are also weaker, but by less than NZD/USD reflecting the impact of the stronger USD. NZD/AUD is down at a six-month low around 0.9150. Yesterday's changes represent a significant change to the outlook, but NZ's positive favourable balance of payments and terms of trade backdrops are structural positives for the NZD, thus we think NZD will find support on dips towards 0.6900.

Overnight, sentiment wobbled a little as investors cast a wary eye over reviewed lockdown measures in parts of Europe and the implications for global growth in Q1. Global equity indices are off 0.1-0.5% but the reaction has tended to be largest in commodity markets. Brent crude prices have fallen 6% to US\$61/barrel. This has amplified downward pressure on commodity currencies, although CAD escaped most of the fallout thanks to news the Bank of Canada is winding down some of its stimulus programmes.

There was some attention on House testimonies from US policy heavy-hitters Powell (Fed Chair) and Yellen (Treasury Secretary) overnight. But both seemed to stick to a familiar song sheet, limiting market reaction. Yellen said the US could return to full employment as early as next year. Powell repeated the Fed's line that inflation is expected to move up, but the lift will be "neither particularly large nor persistent" a less-than-subtle push-back against the 'reflation trade'. US long bond yields slipped 2-4bps lower.

Day ahead: We expect today's Feb NZ trade data to show a monthly surplus of NZ\$181m, narrowing the annual balance from record highs to \$2.4b. Markets will likely let the data go through to the keeper as usual.

There will be more attention on the latest round of 'flash' PMIs in Australia, Europe, and the US this afternoon/tonight. The most recent readings showed the global manufacturing upturn continuing at a healthy clip, particularly in the US, so the prospect of this continuing in the March numbers would further support general market sentiment.

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Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7006	-2.3%	NZD/SEK	6.0165	-1.4%	CRB Index	184.5	-2.4%	Dow	32495	-0.7%
NZD/AUD	0.9166	-1.0%	NZD/NOK	6.0398	-0.9%	NZX WMP	3880	-0.5%	S&P 500	3927	-0.3%
NZD/EUR	0.5910	NA	NZD/THB	21.73	-1.8%	Gold \$/o	1727	-0.7%	NASDAQ	13276	-0.8%
NZD/JPY	76.15	NA	AUD/USD	0.7643	-1.4%	WTI Oil \$/b	58.6	-4.7%	FTSE	6699	-0.4%
NZD/GBP	0.5092	NA	EUR/USD	1.1853	-0.7%	NZD Swap Rates (%)			DAX	14662	0.0%
NZD/CAD	0.8806	NA	USD/JPY	108.69	-0.1%	OCR	0.25	0.00	CAC-40	5945	-0.4%
NZD/CHF	0.6540	9.8%	10 Yr Bond Yields (%)			3mth	0.34	-0.01	H.Seng	28497	-1.3%
NZD/HKD	5.4416	-2.3%	NZ	1.68	-0.06	1yr	0.34	-0.02	Nikkei	28996	-0.6%
NZD/SGD	0.9420	-2.0%	US	1.63	-0.06	2yr	0.42	-0.05	ASX200	6745	-0.1%
NZD/DKK	4.3947	-1.6%	Aust	1.74	-0.03	5yr	1.05	-0.09	NZX50	12394	0.5%

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