

RBNZ updates its outlook, but keeps the dovish tone

At the RBNZ's first Monetary Policy Statement of the year, the bank acknowledged the better position of the NZ economy, but sought to hold a dovish line, despite viewing the risks to the economic outlook as now being more balanced. The OCR was left on hold at 0.25%, with no adjustments to the Funding for Lending programme. The cap in purchases under the Large-Scale Asset Purchase Programme was left at \$100bn by June 2022, with the bank maintaining the flexibility to adjust purchases in order to support 'market functioning.' **We continue to expect the RBNZ will start lifting the OCR from the second half of 2022.**

As expected, the RBNZ revised up its short-term economic forecasts. The bank now expects a lower peak in the unemployment rate (peaking at 5.2% vs 6.4% in November). Despite the improved outlook, the bank's near-term GDP growth expectations are a bit weaker than our own and we both expect growth to remain relatively muted over the rest of the year. The RBNZ also forecast a slightly stronger short-term lift in the CPI but does not expect long-lasting inflation pressure.

In general, the RBNZ was keen to highlight the uncertainties remaining. With wholesale interest rates moving up sharply in recent weeks, the bank was keen to keep things in perspective. In the RBNZ's view 'economic certainty will remain heightened' for some time to come, which should keep business investment subdued. The bank believes the recovery is uneven, with substantial pockets of weakness in some sectors. In aggregate, the bank sought to reinforce the message that 'prolonged monetary support' is still necessary.

The local market focused more on the RBNZ's improving baseline scenario than its efforts to tow a dovish line. NZ interest rates firmed in the aftermath of the statement, with the 10-year swap rate nudging 1.81%, its highest level since late 2019. Gains for the 2-year swap were more modest, with further steepening in the yield curve. After some initial volatility, the NZD lifted against all the major crosses, reaching as high as 0.7410 against the USD overnight. The NZX was 0.86% lower over the day, amid falls for most Asian equity indices.

There was little in the way of other major data out yesterday or overnight. The only other releases of note were the Aussie construction and wage figures for Q4. The construction reading was quite different to expectations at -0.9% qoq (mkt: +1%). On the other hand, wage indices posted solid gains +0.6% qoq (mkt: +0.3% qoq), but our CBA colleagues expect the reading reflects the unwinding of temporary pay reductions, meaning the strength may be temporary.

Overnight, comments from Fed Chair Jerome Powell to Congress struck a dovish tone. Speaking to the House Finance Committee, Powell sought to downplay the recent speculation of a lift in inflation, describing the outlook as 'soft.' He emphasised there was a long way to go to meet the Fed's employment target and affirmed policy would remain accommodative. Comments from Lael Brainard, another key Fed official were similar in tone.

Equities posted gains in the US and Europe amid Powell's testimony. The comments seemed to help boost investor sentiment, and the Dow rose 1.2%, the S&P500 lifted 0.8% and the Nasdaq was up 0.6%. Meanwhile, the pan-European Stoxx index ended the session up 0.5%. **Despite the tone of Powell's comments, Treasury yields were higher** (US 10-year: 1.37%). Similar themes were evident in Europe with higher yields and a steepening bias in the curve. **Commodity prices continued their gains**, with Brent Crude up around USD\$66.82 a barrel.

FX Update: The NZD made solid gains yesterday in the aftermath of the RBNZ announcement and remained the standout performer overnight, lifting against all of its G10 peers. The gains saw the kiwi hit levels against the USD not seen since early 2018, with the NZD/USD at around 0.7401. The NZD was up to around 0.9324 AUD. The other theme in evidence overnight was the continued strength in commodity currencies, with the AUD and CAD two of the other stronger performers. USD trade was generally mixed.

Day ahead: The only local release of note is the final ANZ Business Confidence reading for February, following on from the provision reading earlier in the month. Across the ditch, private capital expenditure figures are out for Q4 (mkt: +1% qoq). Overnight, the key release is the Q4 US GDP reading, which is expected to show a 4.2% qoq lift (annualised). The latest US durable goods and initial jobless claims data are also released. **Author:** nathaniel.keall@asb.co.nz

| Currencies | | | Currencies | | | Commodities | | | Equities | | |
|------------|--------|------|------------------------------|--------|------|---------------------------|--------|-------|----------|-------|-------|
| NZD/USD | 0.7408 | 0.9% | NZD/SEK | 6.143 | 1.0% | NZX WMP | 3750.0 | -0.3% | Dow | 31965 | 1.3% |
| NZD/AUD | 0.9325 | 0.5% | NZD/DKK | 4.536 | 0.9% | Gold \$/o | 1798.0 | -0.4% | S&P 500 | 3916 | 0.9% |
| NZD/EUR | 0.6099 | 0.9% | NZD/THB | 22.3 | 3.0% | WTI Oil \$/b | 63.1 | 2.4% | NASDAQ | 13579 | 0.8% |
| NZD/JPY | 78.46 | 0.9% | AUD/USD | 0.7944 | 0.4% | Money Market (%) | | | FTSE | 6659 | 0.5% |
| NZD/GBP | 0.5248 | 0.9% | EUR/USD | 1.215 | 0.0% | 90 Day BB | 0.28 | 0.00 | CAC-40 | 5798 | 0.3% |
| NZD/CAD | 0.9282 | 0.4% | USD/JPY | 105.9 | 0.6% | OCR | 0.25 | 0.00 | DAX | 13976 | 0.8% |
| NZD/CHF | 0.6722 | 1.1% | 10 Yr Bond Yields (%) | | | ASB Swap Rates (%) | | | H.Seng | 29718 | -3.0% |
| NZD/HKD | 5.745 | 0.9% | NZ | 1.69 | 0.06 | 1yr | 0.31 | 0.00 | Nikkei | 29672 | -1.6% |
| NZD/SGD | 0.9777 | 0.9% | US | 1.37 | 0.03 | 2yr | 0.42 | 0.04 | ASX200 | 6778 | -0.9% |
| NZD/CNH | 4.774 | 0.9% | Aust | 1.62 | 0.05 | 5yr | 1.04 | 0.07 | NZX50 | 12282 | -0.9% |

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