mni

All Signal, No Noise

MARKET ANALYSIS

MNI RBNZ Decision Preview – June 2020

Meeting Dates: Wednesday, 24 June

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Link To Statement: https://www.rbnz.govt.nz/monetary-policy/official-cash-rate-decisions

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Business Address – MNI Market News, 5th Floor, 69 Leadenhall Street, London, EC3M 2DB

MNI POV (Point Of View): RBNZ To Hold Fire

After expanding its LSAP programme to NZ$60bn at last month's MPS, the RBNZ is widely expected to stand pat on its main policy settings as it takes stock of the condition of New Zealand's economy in the midst of the coronavirus crisis. The outlook remains uncertain, but some green shoots have appeared in domestic economic backdrop, which should allow the MPC to shelve further steps for now.

Since the last monetary policy meeting, New Zealand managed to become coronavirus-free for more than three weeks. Despite the detection of several imported cases later on, the South Pacific country has earned wide acclaim for the effectiveness of its infection containment strategy. Reining in the coronavirus outbreak has allowed New Zealand to move to Alert Level 1 earlier than expected. The government relaxed virtually all of the restrictions but tight border controls, allowing social and economic life to return to relative normalcy.

Admittedly, New Zealand's most recent GDP data, released last week, showed that contraction in the first quarter was more severe than expected by consensus forecast, with the Q/Q reading hitting worst levels in 29 years. Yet, whereas strict lockdown measures imposed by the government knocked 1.6% off quarterly GDP, the print was still significantly better than the RBNZ's assumption from the May MPS, which was a 2.4% decline.

One concern for Governor Orr & Co. will be a sharp appreciation of the NZD over the recent months, after large-scale monetary action and fiscal steps seen across the globe helped revive broader risk appetite. An excessive strengthening of the Kiwi dollar might pose a headwind to the recovery of New Zealand's open, export-oriented economy. Policymakers may find it reasonable to try and use their rhetoric to place a speed bump ahead of NZD.

Furthermore, despite all the bright spots, the general outlook is still far from rosy. Speaking with New Zealand's Financial Services Council earlier this month, RBNZ Deputy Governor Bascand warned that the recent rebound in global equity markets seems detached from reality and reminded that New Zealand still has much economic pain ahead, with unemployment likely to peak in the last quarter. Meanwhile, tensions around China's handling of the initial outbreak of Covid-19 and Beijing's controversial Hong Kong legislation may soon spill over into global trade matters.

This will likely encourage the RBNZ to reiterate readiness to take action if needed and continue stressing their open-mindedness about various policy tools, including negative interest rates. In last week's interview with CNN, Governor Orr expressed satisfaction with the impact of QE to date, while repeating his usual refrain about negative interest rates – they are not ruled out, some banks are not operationally ready yet, but have been asked to get ready. But "that's really about optionality, it's not signalling". It will be worth watching how much signalling will the MPC offer us on Wednesday.

Albeit New Zealand's economy is facing unprecedented headwinds, the RBNZ has already deployed powerful monetary stimulus and there seems to be no urgency to add more at the upcoming meeting. Policymakers may afford to wait and watch how the steps taken so far are filtering through the economy. It should be an uneventful Monetary Policy Review, with language coming to the fore.

- **Base Case:** No change to the main policy settings. Readiness to add stimulus if needed, with various policy options on the table.
- **Dovish Risks:** Downbeat messaging about the economic outlook. Signalling that negative interest rates are more likely than not.
- **Hawkish Risks:** Optimism about New Zealand's economic recovery path. Rhetoric downplaying the potential for negative interest rates.

RBNZ May Meeting Statement

The Monetary Policy Committee has agreed to significantly expand the Large Scale Asset Purchase (LSAP) programme potential to $60 billion, up from the previous $33 billion limit. The LSAP programme includes NZ Government Bonds, Local Government Funding Agency Bonds and, now, NZ Government Inflation-Indexed Bonds.

The global economic disruption caused by the COVID-19 pandemic is expected to persist and lead to lower economic growth, employment, and inflation both in New Zealand and abroad. Even if New Zealand successfully contains the spread of disease locally, reduced world activity will mean lower demand for many of New Zealand's exports.

The Monetary Policy Committee is committed to achieving its employment and inflation objectives. The main support for the economy in this environment is appropriately being provided through increased fiscal spending. However, monetary policy will continue to provide significant support through keeping interest rates low for the foreseeable future.

The balance of economic risks remains to the downside. The expansion to the LSAP programme aims to continue to reduce the cost of borrowing quickly and sharply. This is preferable to delivering a smaller amount of stimulus now, only to risk later realising more should have been done.

We expect to see retail interest rates decline further as lower wholesale borrowing costs are passed through to retail customers. It remains in the best long-term interests of the banking sector to promptly maximise the effectiveness of our LSAP programme.

The Official Cash Rate (OCR) is being held at 0.25 percent in accordance with the guidance issued on 16 March. The Monetary Policy Committee is prepared to use additional monetary policy tools if and when needed, including reducing the OCR further, adding other types of assets to the LSAP programme, and providing fixed term loans to banks. The Committee's decisions are guided by the Reserve Bank's mandate and our decision making principles on the use of alternative monetary policy instruments.

Summary Record of Meeting - May 2020 Statement

The Monetary Policy Committee noted that the economic situation has deteriorated since the previous policy meeting. The COVID-19 pandemic is affecting economic activity throughout the world. The unprecedented health crisis has led many countries to introduce measures to contain the spread of disease. In New Zealand, activity has fallen sharply as a result of the pandemic and containment measures. The sharp contraction in activity is expected to reduce inflation and employment below the Bank's objectives for several years.

Members discussed the significant uncertainties surrounding the economic outlook. The pandemic and restrictions on the movement of people are uncharted territory for modern economic policy. Here, and overseas, there is uncertainty about the impact of containment measures on economic activity. Monetary policy is using tools which have not been deployed before in New Zealand, and their degree of success is something that will become evident over time.

To help understand the uncertainties, the Committee discussed several different scenarios for the economic outlook. Members agreed that the situation is too uncertain to allow any one scenario to be treated as a central projection. Three scenarios were discussed, including what could happen if extended containment measures are required. Members noted that the baseline scenario was the most optimistic of the three. All three scenarios involved a significant and unprecedented decline in economic activity and employment.

The Committee noted that more stimulus is needed to support a medium-term recovery in economic activity, employment, and inflation. Members noted that the main thing needed to support the economy is fiscal stimulus, given that fiscal policy is best placed to directly support households and businesses. The role of monetary policy is to support the economy by ensuring that interest rates remain low, which will complement the effects of fiscal measures.

Members discussed the fiscal assumptions in the economic scenarios. It was noted that the government has publicly announced that $52 billion has been made available for pandemic recovery packages. This figure is used as the core fiscal spending assumption in each scenario.

Members agreed that a 'least regrets' monetary policy approach is needed, delivering stimulus sooner rather than later, and thus minimising the risk that the stimulus delivered turns out not to be enough.

The Committee discussed the world economic situation. Members noted the global environment is volatile and uncertain. Some commodity prices are strong, but many of New Zealand's trading partners are experiencing economic disruption and declining activity. Despite pockets of relative strength, conditions in trading partners will be a drag on domestic activity.

The Committee discussed the balance of risks around the baseline scenario and agreed that the risks are to the downside. Activity could be lower than expected as a result of containment measures having more severe economic effects than assumed. Another risk is that the pandemic itself lasts longer or has more severe effects on trading-partner economies than assumed. There is also uncertainty about the impact of monetary policy actions on the economy.

Members noted some chance that activity could be higher than expected. There is some possibility that trans-Tasman travel could restart earlier than assumed, or that a return to alert level 1 could happen sooner than expected. Either of these events would result in spending and employment recovering faster. Another possibility is that supply-chain disruption leads to relative price shifts for specific consumer products, keeping average inflation higher than expected. Members agreed that these possibilities were not material enough to shift the overall balance of risks around the baseline scenario.

The Committee noted evidence on the effects of the Large Scale Asset Purchase (LSAP) programme so far. Members were pleased to note that both wholesale and retail interest rates have fallen. The functioning of markets has also improved – a secondary goal of the LSAP programme. Further declines in retail interest rates would be needed to fully deliver the stimulus. The Committee noted that long-term interest rates in the government bond market are also sensitive to a number of factors outside the LSAP programme, including bond issuance and foreign bond yields.

The Committee discussed the secondary objectives of monetary policy. Some members expressed concern about financial stability due to the economic disruption of the pandemic. The Committee noted that the banking system is sound and markets are functioning satisfactorily. Members agreed that all policy areas – monetary, financial stability, and fiscal – are mutually reinforcing in this environment, all working to achieve complementary goals.

The Committee discussed the range of monetary policy options. Members noted that there are policy tools available that have not yet been used. The Committee agreed that it will stand ready to deploy further tools as needed, should the need for stimulus continue to increase. Tools available include further reductions in the OCR; a term lending facility; and adding other asset classes, such as foreign assets, to the LSAP programme.

The Committee noted that a negative Official Cash Rate (OCR) will become an option in future, although at present financial institutions are not yet operationally ready. The current goal of monetary policy tools is to reduce borrowing rates for New Zealanders, and further OCR reductions at this stage would not be effective in achieving that. Consequently, the Committee reaffirmed its forward guidance that the OCR will remain at 0.25 percent until early 2021. It was noted that discussions with financial institutions about preparing for a negative OCR are ongoing.

Members agreed that an expansion to the LSAP programme is the most effective way to deliver further stimulus at this time. The Committee noted advice that adding inflation-indexed government bonds (IIBs) to the LSAP would improve both market function and policy effectiveness. The Committee agreed to add IIBs to the LSAP.

The Committee discussed ways to measure how much stimulus is delivered by a given volume of LSAP. It was noted that while more purchases will deliver more stimulus, it is not easy to translate this directly to an OCR-equivalent measure. The Committee noted that the size of the LSAP programme needed to be sufficiently large to keep interest rates lower across the yield curve. Members agreed that the LSAP programme can be scaled as needed in future. Members noted that additional LSAP purchases are covered by an updated Crown indemnity, which represented a ceiling, not a target, for the total volume of LSAP.

The Committee reached a consensus to:

- expand the LSAP programme to purchase up to a maximum of $60b over the next 12 months;
- delegate to staff the composition and pace of purchases within the LSAP programme, across the eligible asset classes of NZ Government Bonds, NZ Government Inflation-Indexed Bonds, and Local Government Funding Agency bonds; and
- hold the OCR at 25 basis points.

Analyst Views - Summary

- None of the sell-side analysts cited below expects the RBNZ to change its main monetary policy settings at the upcoming meeting. The RBNZ's rhetoric is expected to take centre stage.

Sell-Side Analyst Views

ANZ

- We expect the RBNZ to leave the OCR unchanged at 0.25% next Wednesday. Much of what the RBNZ has to say next week will be familiar. The RBNZ will acknowledge the positive surprise that NZ exited Level 2 lockdown much faster than they had assumed, but will be at pains to point out that beyond that, the outlook remains extremely challenging.
- We expect the RBNZ will emphasise that they stand ready to act further if required, mirroring the Fed's tone. We expect the RBNZ LSAP program to be further expanded to a cap of $90bn by August, but there is no need to act now.
- The RBNZ would likely prefer the currency to be lower. But with New Zealand a relative 'good news story' and risk appetite still elevated, any jaw-boning is unlikely to have a lasting impact.

ABS

- We expect the RBNZ will leave its policy settings unchanged, while emphasising it still has further options. The short-term economic dip may not be as deep as the RBNZ expected, but long-term recovery will be gradual. The extent of RBNZ stimulus is not much more extreme than in 2009-11, despite the extent of the downturn.
- The RBNZ has effectively made all the big policy decisions it is going to do for the time being. It has cut the OCR as low as it judges it can for now. It has expanded the ceiling size of its asset purchase programme to an amount that gives plenty of scope for continued asset purchases into early 2021. It has also relaxed its Loan to Value ratio restrictions on home loans and delayed its planned increase in bank capital requirements.
- We expect the RBNZ will continue to stress that it will take further action as needed, including keeping alive the possibility of a negative OCR. But the RBNZ's current stimulus efforts, extreme as they seem from a headline perspective, are not that much more stimulatory than the response to the Global Financial Crisis. Monetary stimulus is likely to remain in place for longer than the RBNZ signalled back in its May Monetary Policy Statement.
- The RBNZ is likely to sound more positive about the near-term outlook, given that recent events suggest NZ will not be in degrees of lockdown for as long as the RBNZ had assumed back in May. However, the RBNZ is likely to keep reminding that the global economy as a whole is far from out of the woods in the biggest global downturn since the Great Depression. Such comments would be similar to those recently made by the NZ Treasury, which also had forecast a more substantial economic impact from the lockdown than is likely to be the case in reality.

Bank of America

- The Reserve Bank of New Zealand meets on June 24 and we expect interest rates to stay unchanged at this meeting. While the Committee expressed it is "prepared to use additional monetary policy tools if and when needed, including reducing the OCR further" we think the earlier than expected reopening of the economy as well as NZ's success as stopping the spread of the virus makes the case for rates to stay on hold for some time.
- The Bank has been effective in keeping financial conditions easy through ongoing bond purchases (worth around NZ$20bn), term lending and forward guidance, and has further scope to add other types of assets to its purchasing program if required to ensure retail interest rates stay low. The global outlook remains challenging hence the balance of economic risks is tilted to the downside. We expect dovish guidance despite some slightly upbeat commentary on the rebound in activity since the reopening.

Barclays

- The RBNZ is unlikely to announce any further changes to its policy package for now, but should signal continuity and flexibility of increasing its LSAP program or decreasing the cash rate further, if needed. Since the bank has increased its bond purchase program to the cap set by the bank and the government, it will now wait to assess the impact of expansionary fiscal and monetary policies before taking any more steps.

BNZ

- This week's RBNZ OCR review should be singularly unexciting. As far as we are concerned, the very best thing the RBNZ could do is simply leave everything where it is. For now, things seem to be ticking along in the manner you would expect and there is insufficient evidence to stop the RBNZ from sitting very firmly on its hands.
- There remains no doubt the economy is in a parlous state and it requires a ton of fiscal and monetary policy support. But it's getting that support in spades and there is no indication it needs more, or that getting more would provide much help anyway.
- At the margin, it looks to us that economic activity will surprise the RBNZ to the upside. At one level, it already has, in that the Q1 GDP decline was 1.6% compared to an RBNZ assumption of -2.4%. And it now looks like the drop in activity in Q2 will be less, possibly significantly less, than the 21.8% decline estimated in the RBNZ's May MPS. For what it's worth, our current estimate is -16.0%. If we are correct, then, all other things being equal, the amount of spare capacity once assumed for the economy will be less.
- It would be nice to conclude the economy had responded more positively to RBNZ and fiscal policy stimulus than had been expected but we do not believe this to be so. The real boost to activity was the Government's decision to move the economy to Level 1 midnight June 8. While many had thought this a possibility it is doubtful that anyone formally had such a move built into their forecasts. We have certainly become more optimistic about the outlook and New Zealand Treasury has acknowledged domestic activity is stronger than it had assumed. So we see no reason why the RBNZ won't be adjusting its assessment accordingly.

Goldman Sachs

- The RBNZ left the OCR on hold at 0.25% at its May meeting as expected, but expanded the size of its Large Scale Asset Purchase programme to NZ$60bn (from NZ$33bn). This was both earlier and larger than we expected, and the discussions on further monetary tools (including the possible use of negative rates and/or further QE purchases to include foreign assets) were quite dovish. The MPS forecasts featured weaker near-term growth (-8.3% GDP contraction in 2020), a slower recovery and a higher peak unemployment rate (9%) than our own forecasts.
- Looking to the June meeting, we expect the RBNZ to leave its policy settings unchanged – including the level of OCR (0.25%), the size of the LSAP programme (NZ$60bn) and the forward guidance on rates ("the OCR will remain at 0.25 percent until early 2021"). Since the May meeting, both the domestic and the global outlook have improved – with NZ seeing active cases fall to close to zero, the Government easing restrictions back down to Level 1, and business sentiment rebounding (although remaining at weak levels). Higher frequency data also shows continued progress on the recovery. In turn, we expect the RBNZ to remain patient for now and wait for further data before reconsidering its policy toolkit. That said, we will be paying close attention to any commentary around the RBNZ's macro forecasts, particularly on any signs of incremental upgrades.

HSBC

- We see the RBNZ keeping its cash rate at 0.25% in 2H20 and 2021, and see negative rates as unlikely to be needed.
- New Zealand is, arguably, the western economy that is the most advanced in terms of containing COVID-19. On 9 June, the government removed all social distancing measures. The only constraints that remain are the border restrictions for foreigners. New Zealand should present the purest example of country where fear of the virus is not a constraint. We expect a 'V-shaped' recovery. There were already clear signs of a strong bounce back in some timely indicators for May. Retail card spending, which had plunged during April's lockdown, rebounded by 79% in May. Although this left these numbers 6% below the March level, further reopening should see spending pick up further in June. The significant loosening in monetary policy and large fiscal stimulus programmes should see consumers boost their spending sharply as the economy reopens.
- The key challenge for New Zealand is that, after a strong near-term bounce back the costs that come from constrained border movements, any permanent COVID-19 behaviour changes and a weaker global economy will start to become apparent.
- For the RBNZ, it should be enough that the economy is on a strong recovery path. We see the central bank as being on hold this year and although there is some risk of further easing next year, we see the likelihood

as low. In strategy, negative rate expectations have been pared back, which looks more appropriate given policymakers focus on QE and liquidity. Meanwhile, we think the NZD should fare relatively well within G10 in a gradual global growth recovery.

ING

- Weak 1Q GDP in the face of a mild Covid-19 outbreak shows that no economy is immune to the effects of this virus. There is little scope for more central bank stimulus though, except to suggest that options remain open. The aversion to a strong NZD should prompt the Bank to renew its threat of negative rates, which may put some pressure on NZD this week.

J.P. Morgan

- The RBNZ meets next week. Expectations are low relative to the dramatic events of recent times. The Bank expanded its LSAP (QE) package in May to NZ$60bn, alongside a large increase in the government's bond program. We wrote recently about the issuance plans, which surprised significantly to the upside, here. If history is any guide, plans for beyond the first year of the forecasts should be taken with a large dose of salt. The immediate concern is therefore how the LSAP commitment, which runs to March 2021, aligns with near-term supply.
- Given the RBNZ's stated caps on the share of market outstanding it can hold, the LSAP commitment is already near the limits of what's possible. And with local banks not yet operationally ready for negative rates, foreign asset purchases start to look like a more credible option for incremental stimulus. To be clear, this policy strikes us as risky, and would be outside central banks' usual comfort zone, by selling NZD in significant size at the low end of the range. Still, Governor Orr at least demonstrated in May's commentary that the RBNZ has thought about the political implications, stating that NZ is small enough that its choices wouldn't create geopolitical frictions. The policy therefore seems deserving of a risk premium in NZD/USD. We can see a scenario where the committee expands the LSAP limit very simply, by adding a clause that states "including foreign assets." This makes no specific balance sheet commitment, but would be a clear signal of willingness to engage if tactical opportunities arise. It is also probably a story more for later in 2H, than for next week's meeting. runs to March 2021, aligns with near-term supply.

Kiwibank

- The main event this week is the RBNZ's OCR announcement on Wednesday. The OCR is likely to be left unchanged at 0.25%. But the commentary around the decision will be (over)analysed for dovish tones. The commentary must strike a balance of cautious optimism, but a willingness to do more when needed.
- Last week's GDP report was worse than the consensus of economists had expected. But the -1.6%qoq print was a lot better than the RBNZ's -2.4% guesstimate. Success in eliminating the virus and moving out of lockdown earlier, makes New Zealand the envy of the world. And the sharp bounce in spending and activity out of lockdown, has us growing in confidence.
- Our currency is reflecting the relative optimism, rising towards 65c, which isn't helping. The RBNZ will be mindful of reporting on the positive domestic developments but acknowledging the weakening global backdrop and stronger NZD. An overly optimistic RBNZ commentary would put enormous upward pressure on the currency, at a time of stress for many exporters.
- Given the economic stresses and strains, we'd expect to see the RBNZ ramp up LSAPs in August (MPS). The RBNZ may eventually move to term lending if required. But we don't expect a negative OCR in this cycle. Although negative rates cannot be ruled out. Policy makers will do whatever they deem necessary in a recession. And New Zealand's inevitable recession officially began in the first quarter.

Natwest

- We are with the overwhelming consensus in expecting the RBNZ to leave policy unchanged at 0.25% in its policy meeting on 24th June. There is a chance that the ambit of the QE program is changed. Comments on the economic outlook relative to the central bank's baseline will be the main area of interest. We expect the overall tone to be cautiously optimistic given the New Zealand's successful lockdown easing.
- Since the May MPS, at which the RNBZ asserted that "the current goal of monetary policy tools is to reduce borrowing rates for New Zealanders, and further OCR reductions at this stage would not be effective in achieving that", New Zealand government bond yields have risen across the curve, the economy has successfully moved out of lockdown and confidence and spending indicators have strengthened.
- The outlook for the economy still remains negative, in our view, as slowing domestic & external demand point towards downside risk to growth & consumption. However New Zealand's successful handling of the first

wave of COVID-19 does warrant some optimism about the recovery, which may be reflected in the post-decision press release.

NZIER

- There remains a wide range of views amongst the Shadow Board on whether more monetary policy stimulus is required, and in what form. Overall, the consensus amongst the Shadow Board is that more stimulus would be required over the next twelve months, with the majority favouring an expansion of the Reserve Bank's quantitative easing programme.
- There was little support amongst the Shadow Board for the OCR going into negative territory at the upcoming meeting, although some members thought such a move would be required over the coming year. Members noted a negative OCR was unlikely to be effective in stimulating the economy, while highlighting the risks which include encouraging people to save more in order to achieve their savings goals (thus reducing spending) and reducing business confidence.
- When it comes to the quantitative easing programme, most Shadow Board members felt an expansion of the programme was appropriate. Some members also advocated the Reserve Bank expand bond purchases to include council and Housing NZ debt. Increasing its asset purchase programme was generally seen as a more effective way for the Reserve Bank to support the Government in stimulating the economy.
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TD Securities

- Expect the RBNZ to keep the cash rate on hold at 0.25%. The Bank is likely to acknowledge a quicker than expected unwind of restrictions but highlight global risks remain. As such it's likely to reaffirm it's prepared to use additional monetary policy tools if and when needed. There may be some scope to talk down NZD strength. Meanwhile, we don't expect a LSAP increase.

Westpac

- We expect that the RBNZ will leave its monetary policy settings essentially unchanged when it delivers its OCR Review next week.
- The most important variable for monetary policy at present is the weekly pace at which the RBNZ purchases Government Bonds under its Large-Scale Asset Purchase programme (LSAP). This is a decision that is made on a week-by-week basis by RBNZ staff. But the OCR Review is the Monetary Policy Committee's (MPS's) opportunity to either refresh or alter its instructions to staff. At present, the staff have simply been instructed to purchase sufficient bonds to "keep interest rates low across the yield curve". We think that mandate will be left unchanged.
- On May 21st we forecast that the RBNZ would slowly reduce the weekly pace of bond buying from $1.35bn at the time, down to $1.1bn. The RBNZ has hewed very close to that, actually reducing the pace to $1.075bn. We now expect that Steady tiller in a rough sea – OCR Preview, June 2020. 02 | 19 June 2020 Westpac Economic Bulletin the weekly pace of bond buying will average $1.05bn until April 2021, only a slight tweak to our previous forecast.
- The RBNZ will also review the maximum cap on the LSAP next week. At the May MPS, the MPC said that it would: "expand the LSAP programme to purchase up to a maximum of $60b over the next 12 months." From that wording, it is not clear whether the $60b figure includes or does not include the $10bn of bonds the RBNZ purchased before the May MPS. We are assuming that prior purchases are included, making the $60b a cumulative total for the LSAP programme.
- It is possible that the RBNZ will lift the cap on the LSAP to $70bn next week. That would give it sufficient headroom to maintain the $1.05bn pace of weekly purchases for twelve months. However, we judge it slightly more likely that the RBNZ will wait until August before expanding the cap to $80b, as August is a full Monetary Policy Statement (by August, $80bn will be required to give twelve months' worth of headroom).

MNI Policy Team Insights

MNI PREVIEW: RBNZ To Take Stock, Keep Policy Unchanged In June

--Likely To Repeat Can Use Negative Rates, More QE If Needed In Future

By Lachlan Colquhoun

SYDNEY (MNI) - The Reserve Bank of New Zealand is set to keep policy unchanged Wednesday, leaving the official cash rate at 0.25% and the cumulative stock of asset purchases to be completed over the next 12 months at NZD60 billion.

With New Zealand ahead of the curve in fighting the epidemiological impact of the Covid-19 pandemic, the central bank can use the June meeting as a chance to take stock of the economy, studying how previous policy decisions are playing out.

The RBNZ has been clear that it will not rule out unconventional policy measures if needed, including the use of negative interest rates, but it would be unusual for the Bank to make a major announcement at a meeting which does not include a quarterly Monetary Policy Statement.

In addition to leaving open the move to negative rates, the RBNZ has also not ruled out buying NZ Government bonds on the primary market or buying corporate debt.

The Bank has written to commercial banks asking them to be ready for negative rates by the end of the year, but has said this may not be necessary if the economy improves.

--POLICY IN PLACE

The Bank cut the OCR by 75bps in March and left it unchanged in May, as it focused on its Large Scale Asset Purchase (LSAP) program to buy NZ Government and semi-Government debt on the secondary market.

The NZ economy contracted by 1.6% in the first quarter of 2020 and a much larger contraction is expected in the second quarter, but the national lockdown ended earlier in June after the country's success in containing the virus.

This has led to some hopes the downturn could be less than initially feared, with a quicker recovery coming through.

Business Address – MNI Market News, 5th Floor, 69 Leadenhall Street, London, EC3M 2DB