mni

All Signal, No Noise

MARKET ANALYSIS

MNI RBNZ Review – July 2025

Meeting Date: Wednesday, 9 July 2025

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

Link To MPS: https://www.rbnz.govt.nz/monetary-policy/monetary-policy-statement

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MNI POV (Point Of View): On Hold, Maintain Easing Bias, Waiting For More Inflation Data

As widely expected, the RBNZ held the policy rate steady at 3.25%. This was in line with the sell-side consensus (although some forecasters saw risks of a 25bps cut), while market pricing only gave a very small chance to a cut at this week's policy meeting.

The RBNZ gave a nod to stronger near term inflation pressures, it noted: "Annual consumers price inflation will likely increase towards the top of the Monetary Policy Committee's 1 to 3 percent target band over mid-2025. However, with spare productive capacity in the economy and declining domestic inflation pressures, headline inflation is expected to remain in the band and return to around 2 percent by early 2026."

On growth, it saw supports from higher export prices and lower interest rates. It noted the better Q4/Q1 growth trends but recognized softer trends more recently (April and May figures). It expects the lower rates backdrop (along with higher commodity prices) to support a gradual recovery in activity.

The central bank emphasized considerable uncertainty around both the domestic and international economic outlooks. On the international side this reflected the tariff/trade outlook. Locally, the RBNZ noted: "The Committee noted uncertainty about the speed with which the domestic economy would continue recovering. Some members highlighted that prolonged economic uncertainty might induce further precautionary behaviour by households and firms. "

Still, it added: "In contrast, other members emphasized stronger household consumption and business investment in the March quarter, along with higher surveyed investment intentions in the June quarter, as possible signals of a recovery in interest rate sensitive parts of the economy."

The RBNZ considered two options at this meeting, to cut by 25bps or hold policy steady. The case to ease largely reflected concerns around faltering economic momentum. The case to hold won out, amid high uncertainty: The RBNZ noted: "Some members emphasized that waiting would allow the Committee to assess whether weakness in the domestic economy persists, and how inflation and inflation expectations evolve." The central bank maintained an easing bias, subject to medium term inflation pressures easing.

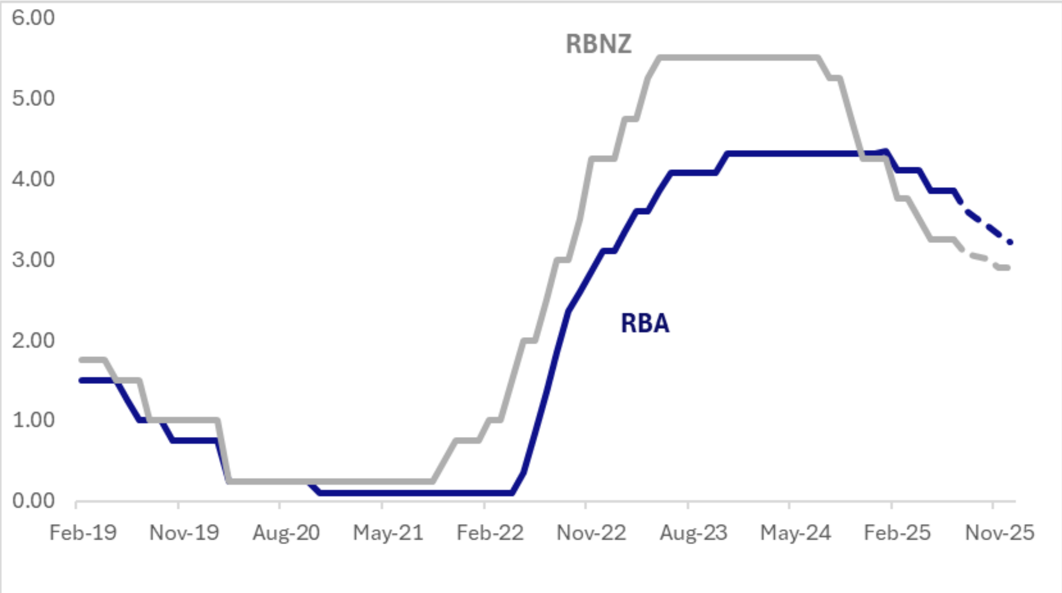
Note that Q2 CPI for NZ prints on July 21.

RBNZ Dated OIS Pricing

RBNZ dated OIS pricing is little changed across meetings today and versus yesterday's pre-RBNZ levels.

- 18bps of easing is priced for the August meeting, with a cumulative 33bps by November 2025.
- In contrast, Australian rates are sharply higher on the week following Tuesday's surprise 'no-change' decision from the RBA.
- As a result, the expected year-end AU-NZ policy rate differential, currently +60bps, has increased by 20–25bps since late June and stands at +31bps.

Figure 1: AU-NZ Official Rates Vs. End-2025 Expectations



Source: Bloomberg Finance LP / MNI

RBNZ July Monetary Policy Review Announcement

Annual consumers price index inflation remains within the Monetary Policy Committee's 1 to 3 percent target band. While inflation is expected to approach the top of the target band in Q2 and Q3 of 2025, spare productive capacity and declining core inflation are consistent with headline inflation returning to the midpoint over the medium term. The Committee noted that the outlook for medium-term inflation pressures in New Zealand has evolved broadly in line with the May MPS projections. The pace of recovery in domestic consumption and investment remains weak, reflecting heightened caution in the face of global policy shocks and uncertainty. But strong export prices and recent monetary policy easing are expected to support the economic recovery.

Global economic growth is expected to weaken

Global growth is expected to slow over the second half of 2025, reflecting the uncertain consequences of trade protectionism. However, the Committee noted that fiscal expansion in the euro area, the US, and China may counter some of the downside risks.
On balance, increased protectionism is expected to result in less inflationary pressure for New Zealand. While tariffs are likely to be inflationary in the US, forecasts for inflation in China and emerging Asia have been lowered recently, partly reflecting an appreciation in some Asian currencies.

The Committee discussed recent developments in global financial markets. Weaker investor sentiment for US dollar assets has contributed to rising term premia in the bond market and depreciation of the US dollar. Rising term premia in the US, and global fiscal expansion, have contributed to higher long-term bond yields in other advanced economies.

Domestic financial conditions have continued to ease

The Committee noted that, despite global factors, domestic financial conditions are evolving broadly as expected. Mortgage and deposit interest rates have continued to decline, reflecting a lower OCR, strong bank liquidity, and soft credit growth. The average interest rate on the stock of mortgages is expected to continue to decline in coming quarters as more mortgage holders refix at lower one to two year fixed-term interest rates. Close to half the stock of mortgages is due to reprice during the September and December 2025 quarters.

Domestic economic activity is expected to gradually recover

In aggregate, GDP growth over the December and March quarters was stronger than expected, reflecting a pick-up in household consumption and business investment. But higher frequency indicators suggest weaker than expected growth in April and May. Taken together, this suggests the current level of economic activity is broadly consistent with the Committee's judgement in May. Overall, there remains significant spare capacity in the New Zealand economy. Higher export prices and monetary policy easing should contribute to a gradual recovery in economic activity.

Inflation is expected to rise towards the top of the target band in mid-2025

Annual consumers price index inflation increased to 2.5 percent in the March 2025 quarter. Inflation is expected to increase further in the June and September quarters, towards the top of the MPC's inflation target band. The near-term increase in inflation is due to a pick-up in food prices and elevated administered price increases. Inflation is expected to fall over late 2025 and return to around the mid-point of the target band by early 2026, as significant spare capacity in the economy further reduces domestic inflation pressures.

Risks to the global outlook remain elevated

The Committee discussed several key risks around the economic outlook. There remains significant uncertainty about global tariff policy, and how this will affect the global economy. As outlined in the alternative scenarios in the May MPS, recently announced tariffs could result in higher or lower medium-term inflation pressure for New Zealand than assumed in the central scenario. The costs of trade could increase by more than assumed as global supply chains adapt to trade barriers, increasing inflationary pressure. Conversely, policy uncertainty could lower global investment, and trade diversion could lower import prices by more than currently assumed, lowering inflation pressure.

The Commit
tee noted the risk that large economic policy shifts overseas, and concerns about sovereign risk, could result in additional financial market volatility and increased bond yields. Conflict in the Middle East and Ukraine has contributed to volatility and heightened uncertainty around global energy prices. A re-escalation in conflict would present upside risk to energy prices. However, increased oil supply from OPEC could mitigate this risk.

The domestic economic outlook remains uncertain

The Committee noted uncertainty about the speed with which the domestic economy would continue recovering. Some members highlighted that prolonged economic uncertainty might induce further precautionary behaviour by households and firms. Such actions risk becoming mutually reinforcing and weigh on aggregate demand, slowing the economic recovery. The recent weaker than expected higher frequency indicators could be consistent with this. In contrast, other members emphasised stronger household consumption and business investment in the March quarter, along with higher surveyed investment intentions in the June quarter, as possible signals of a recovery in interest rate sensitive parts of the economy.

The Committee noted that there were upside and downside risks to the medium-term outlook for inflation. With higher inflation expected in the near term, some members underlined a risk that this could lead to more persistently elevated price- and wage-setting behaviour. Members also discussed the risk that administered price inflation could remain high for a prolonged period. However, other members emphasised the large negative output gap, moderate wage inflation and job insecurity, and continued weakness in house prices. Together with the broad-money-to-nominal-GDP ratio being well below its pre-pandemic trend, this could provide confidence that inflationary pressures remain contained.

The Committee agreed to hold the OCR at 3.25 percent

The Committee discussed the options of cutting the OCR by 25 basis points to 3 percent or keeping the OCR on hold at 3.25 percent at this meeting.

The case for lowering the OCR at this meeting highlighted weak near-term growth momentum and the risk of prolonged weakness in economic activity from excess caution by households and businesses in the face of economic uncertainty. This could lead to downward pressure on medium-term inflation. Some members emphasised that further monetary easing in July would provide a guardrail to ensure the recovery of economic activity, whilst being consistent with price stability.

The case for keeping the OCR on hold at this meeting highlighted the elevated level of uncertainty, and the benefits of waiting until August in light of near-term inflation risks. Some members emphasised that waiting would allow the Committee to assess whether weakness in the domestic economy persists, and how inflation and inflation expectations evolve. It would also allow more time to observe developments in the global economy.

On Wednesday 9 July, the Committee reached consensus to hold the OCR at 3.25 percent.

Subject to medium-term inflation pressures continuing to ease in line with the Committee’s central projections, the Committee expects to lower the Official Cash Rate further, broadly consistent with the projection outlined in May.

RBNZ May MPS – Key Forecast Variables

Key forecast variables

		GDP growth Quarterly	CPI inflation Quarterly	CPI inflation Annual	Unemployment rate	TWI	OCR
2023	Mar	-0.1	1.2	6.7	3.4	71.3	4.5
	Jun	0.8	1.1	6.0	3.6	71.0	5.3
	Sep	0.0	1.8	5.6	3.9	70.6	5.5
	Dec	0.2	0.5	4.7	4.0	70.8	5.5
2024	Mar	0.4	0.6	4.0	4.4	71.6	5.5
	Jun	-1.1	0.4	3.3	4.6	71.4	5.5
	Sep	-1.1	0.6	2.2	4.8	70.9	5.4
	Dec	0.6	0.5	2.2	5.1	69.5	4.6
2025	Mar	**0.4**	0.9	2.5	5.1	67.8	4.0
	Jun	**0.3**	**0.5**	**2.6**	**5.2**	**69.0**	**3.4**
	Sep	**0.2**	**0.8**	**2.7**	**5.2**	**69.0**	**3.1**
	Dec	**0.9**	**0.2**	**2.4**	**5.1**	**69.0**	**2.9**
2026	Mar	**0.8**	**0.5**	**1.9**	**5.0**	**69.0**	**2.9**
	Jun	**0.7**	**0.5**	**1.9**	**4.9**	**69.0**	**2.9**
	Sep	**0.7**	**0.9**	**2.1**	**4.8**	**69.0**	**2.9**
	Dec	**0.7**	**0.3**	**2.1**	**4.7**	**69.0**	**2.9**
2027	Mar	**0.7**	**0.5**	**2.2**	**4.6**	**69.0**	**3.0**
	Jun	**0.8**	**0.4**	**2.1**	**4.5**	**69.0**	**3.0**
	Sep	**0.7**	**0.9**	**2.1**	**4.4**	**69.0**	**3.1**
	Dec	**0.7**	**0.2**	**2.0**	**4.4**	**69.0**	**3.1**
2028	Mar	**0.6**	**0.5**	**2.0**	**4.3**	**69.0**	**3.1**
	Jun	**0.6**	**0.4**	**2.0**	**4.3**	**69.0**	**3.1**

Source: RBNZ

MNI RBNZ Watch: MPC Holds, Eyes August Cut

By Daniel O'Leary

MELBOURNE - The Reserve Bank of New Zealand's monetary policy committee held the Official Cash Rate steady at 3.25% on Wednesday as expected, but signalled further cuts may follow if medium-term inflation continues to ease in line with forecasts.

Inflation is likely to rise toward the top of the Bank's 1-3% target band in mid-2025, but with spare capacity in the economy and declining core price pressures, it still expects the rate of growth in CPI to return to around 2% by early 2026, the MPC said in a statement.

Markets had largely anticipated the hold, with pricing reflecting only a slim chance of a 25-basis-point cut ahead of the meeting. (See MNI RBNZ WATCH: OCR To Hold, Split Vote Likely) Reaction was also muted, with a cumulative 31bp of easing still priced in by November.

UNEVEN DOMESTIC RECOVERY

The decision followed signs of a patchy domestic recovery. While GDP growth exceeded expectations in the December and March quarters, high-frequency data from April and May suggest momentum has since slowed, the MPC noted. Mortgage rates and broader financial conditions have continued to ease, but the economy is still operating below capacity, with the Bank last estimating the output gap at -1.3%.

Elevated export prices and prior rate cuts are supporting activity, but consumption and investment remain cautious amid persistent international uncertainty, with the committee labeling protectionism as a significant risk to global growth that could weigh on New Zealand's recovery and dampen inflation pressures.

The MPC also noted that the impact of recently-announced tariffs remains uncertain and could either raise or lower medium-term inflation depending on global supply chains and pricing dynamics . Meanwhile, rising global bond yields were also cited as contributing to market volatility.

Headline CPI inflation rose to 2.5% in Q1 2025 and is expected to climb further in Q2 and Q3, led by food and administered prices. However, the Bank expects this to be temporary, with inflation returning to the midpoint of the target range by early 2026 as economic slack and modest wage growth weigh on domestic prices.

Some committee members flagged the risk that near-term inflation could trigger more persistent wage and price-setting behaviour, while others pointed to moderating housing markets, continued job insecurity, and sub-trend growth in money supply as reasons to believe price pressures will remain contained.

CONSENSUS HOLDS

While a consensus was reached, the MPC's comments illustrated a split among members. The committee weighed the option of a 25bp cut, citing subdued growth and the risk that heightened uncertainty may lead to sustained caution among households and firms.

However, most members favoured holding the OCR steady, given the near-term rise in inflation and the benefit of waiting for additional data ahead of the August meeting. "There was consensus to hold the OCR at 3.25%," the RBNZ said, reiterating that it remains prepared to lower rates further if inflation continues to ease in line with its central projections.

Sell-Side Analyst Views

ANZ:

- "As expected, the RBNZ left the Official Cash Rate (OCR) on hold at 3.25% today. • The RBNZ maintained its bias towards lowering the OCR while acknowledging both upside and downside risks to the inflation outlook.
- • The RBNZ robustly discussed a cut or a hold, but ultimately reached a consensus to pause, noting that data before the next meeting would resolve some uncertainty on economic momentum and inflation persistence, as well as the global outlook.
- • The RBNZ noted that "Subject to medium-term inflation pressures continuing to ease in line with the Committee's central projections, the Committee expects to lower the Official Cash Rate further, broadly consistent with the projection outlined in May." The May OCR track implied a cut in either July or August, and another 15bp of easing thereafter.
- We continue to expect that the RBNZ will cut the OCR by 25bp at the next Monetary Policy Statement in August, with more easing to come after that as the risks tilt toward medium-term inflation being too low rather than too high."

ASB:

- "As was widely expected the RBNZ held the OCR at 3.25%, following six consecutive decisions of OCR cuts, totalling 225bps. Importantly, the Bank noted that the outlook for medium-term inflation pressures in New Zealand has evolved broadly in line with the May MPS projections. The case for keeping the OCR on hold cited the elevated level of uncertainty, and the benefits of waiting until August in light of near-term inflation risks.
- Despite a higher short-term inflation outlook, an easing bias was maintained on the proviso that medium-term inflation pressures continue to ease in line with the Committee's central projections. This suggests an August MPS cut is the most likely course of action. The inflation outlook is uncertain, but we are aligned with the RBNZ view that a large margin of spare capacity and sluggish growth should be sufficient to deliver sub 3% inflation on a sustained basis. Forthcoming readings for inflation expectations and the Q3 RBNZ suite of core inflation measures will be closely scrutinised ahead of the August MPS. It would likely take a marked uplift for both to dissuade the RBNZ from cutting the OCR.
- Our base case is that a cautious, data- and event- dependent RBNZ will move the OCR to 3.0% by August. Developments can change significantly over time, so too can the resultant monetary policy path."

Goldman Sachs:

- "The RBNZ left the Official Cash Rate (OCR) unchanged at 3.25% at July's meeting, in line with expectations (GSe/BBG: 3.25%).

  The accompanying statement noted the decision was 'consensus' across the Monetary Policy Committee but highlighted a 25bp cut was considered given "weak near-term growth momentum and the risk of prolonged weakness in economic activity from excess caution by households and businesses in the face of economic uncertainty."

  The statement also flagged a clear easing bias, noting that "subject to medium-term inflation pressures continuing to ease in line with the Committee's central projections, the Committee expects to lower the Official Cash Rate further."

  Overall, the outcome was in line with our expectations and our base case remains for 25bp cuts in August, November and February to a terminal rate of 2.5%. Key upcoming data include CPI (21 July), unemployment (6 August), inflation expectations (7 Aug), as well as a speech by Chief Economist Conway on the impact of tariffs on New Zealand (24 July)."

J.P. Morgan:

- "The RBNZ was on hold today as widely expected at 3.25%, the first pause for the cycle. Relative to the last meeting where Governor Hawkesby described the committee's bias as neutral, there is a little more endorsement here of the staff OCR forecasts, which show one more cut. But it is conditional and backdated, as the MPR acknowledges inflation will in the near term "increase toward the top of the MPC's

1 to 3 % band" and will only get pulled back down through lower capacity utilization "by early 2026". As a result, "the committee expects to lower the OCR further" (per the staff forecasts), only "if medium-term inflation pressures continue to ease as expected."

Since a further easing requires evidence that the coming pop in inflation will be temporary, it appears consistent with a multi-month pause. This statement then doesn't disrupt our near-term outlook (on-hold in 2H25, before resuming easing in 1H26) and could see more squeezed out of August, which is quite fully-priced for another cut.

This is an MPR, so no refreshed forecasts, MPS or press conference. The minutes describe the coming lift in inflation from food and administered prices as a story for both 2Q and 3Q, again underscoring that it will be some time before the underlying path is revealed. Acting as a bit of an offset, the commentary on activity is relatively downbeat as the "pace of recovery" in consumption and investment are described as "weak, reflecting heightened caution." The leadership then clearly isn't convinced yet that the business surveys genuinely presage a broad acceleration in the economy. Mortgage and deposit rates have at least kept falling in the background and the committee expects further lagged effects of prior easing to flow through just by standing still, as "close to half" the mortgage stock refreshes to lower rates over 2H25.

The committee considered two options: hold and cut 25bp, with a cut described as a "guardrail to ensure the recovery" (don't say "insurance"). The on-hold option won the day largely as it gave scope for more information on global developments, and on the degree of local inflation pressure. The decision was carried by "consensus" with no vote count given, and the reporting of vote splits continues to be irregular."

Kiwibank:

- "What we all expected was what we got. The RBNZ kept the cash rate unchanged at 3.25% today. It's the first pause since the cutting cycle commenced in August last year.
  The RBNZ are taking a wait and see approach amid high global uncertainty and a near-term spike in inflation. But their bias still leans towards further easing.
  Risks to the outlook remain tilted to the downside. Our forecast continues to see medium term inflation at risk of falling below 2%. The direction for rates from here is still clear. But the timing is more up in the air.
  After six straight meetings delivering rate cuts, totalling 225bps, the RBNZ has today taken a widely expected breather. The cash rate remains unchanged at 3.25%...for now. The RBNZ's bias still leans towards further easing. But the pace of delivery has clearly slowed as policymakers feel their way towards the bottom of this cycle.

  It's a bottom which we're all still trying to figure it out. Some have it at 3%, others at 2.75%, while we continue to advocate for a stimulatory 2.5%. The RBNZ's OCR track in May printed a 2.85% endpoint. That signals a move to 3% and a 60% chance of a move to 2.75%."

Westpac:

- "As widely expected, the RBNZ left the OCR at 3.25%. • No vote was required although there remains a split in views among MPC members.
- • The Bank's commentary suggests a presumption that the OCR will be cut in August
- subject to data evolving as it expects.
- • Data on core inflation pressures and inflation expectations are likely to be key in making or
- breaking the case for an August cut.
- • Westpac continues to expect a final 25bp cut at the August MPS meeting."

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