

Interest Rate Research

27 November 2025

Outlook for Borrowers: Post November MPS

- The RBNZ reduced the OCR by 25bp to 2.25% as expected. The decision was not unanimous – one Committee member preferred to leave rates unchanged.
- The Bank maintained a marginal easing bias. The modelled OCR track reaches a 2.20% trough in mid-2026.
- Future moves in the OCR will be data dependent, but the hurdle for further easing appears high.
- Our forecasts are unchanged. We expect the RBNZ will leave the Cash Rate on hold until the beginning of 2027.
- Market pricing for the terminal OCR has increased to 2.20%, aligning with the RBNZ's modelled track, and marginally hawkish tone.
- Wholesale 2- and 5-year fixed rates have rebounded from the multi-year lows in October and extended higher after the Monetary Policy Statement.
- With the end of the easing cycle appearing complete, borrowers should consider topping up fixed rate exposure on dips in yields.

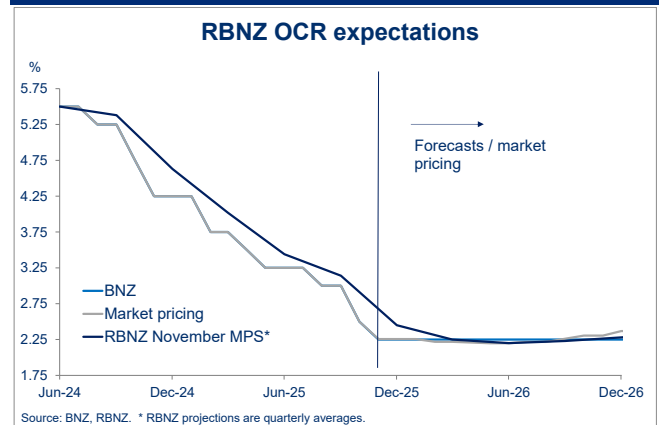
RBNZ Monetary Policy Statement

The Reserve Bank of New Zealand (RBNZ) reduced the Official Cash Rate (OCR) by 25bp to 2.25% at the Monetary Policy Statement (MPS) on Wednesday. The rate cut was widely expected by analysts. Market pricing implied a small chance of a larger cut following the surprising 50bp move in October. The decision was reached by 5-1 majority. The dissenter preferred to leave rates on hold, which was the alternative option discussed by the Committee. This was Governor Hawkesby's final meeting with Dr Anna Breman beginning her term on 1 December.

The RBNZ expects inflation to fall towards 2% by the middle of next year given significant spare capacity in the economy. Risks around the inflation outlook are characterised as balanced. The Bank expects the easing in policy to support a recovery in economic activity. The trough in its modelled OCR track was reduced to 2.20% in mid-2026, signalling a marginal easing bias, but the tone of the statement and projections suggest the hurdle for additional cuts is high and will be conditional on the incoming data.

As the bank notes in the concluding paragraph in its policy assessment and in the absence of strong guidance - future moves in the OCR will depend on how the outlook for medium-term inflation and the economy evolve.

Expected OCR path



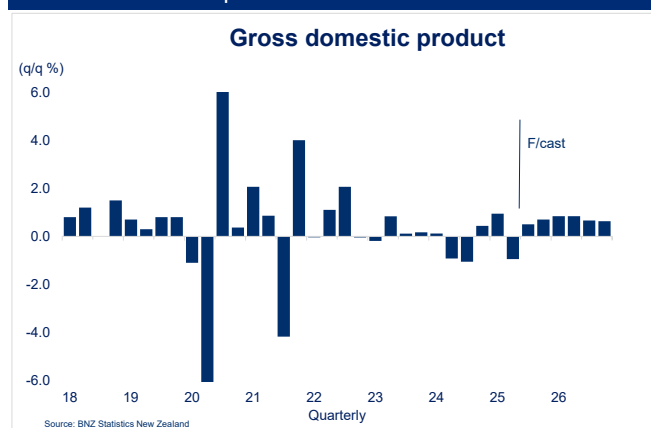
Economic overview

The NZ economy has barely grown in the past three years but there are tentative signs of a recovery in higher frequency activity indicators. Manufacturing and services sector PMIs edged higher in October, albeit while remaining at subdued levels. Building consents and concrete production have also increased. Tourism arrivals are higher than a year earlier, and job advertisements are recovering off a low base. Strong primary sector earnings will also underpin the recovery.

These factors support our thesis that an economic recovery is underway as lower interest rates foster increased consumption and investment. Furthermore, the lagged impact from previous rate cuts is still transmitting through the economy. For example, the average mortgage rate for households will decline by close to 70bp as existing fixed rates are refinanced at current rates. Around 50% of mortgages will reprice in the next six-months.

Q3 GDP is expected to rebound after the surprisingly large contraction in the June quarter. The weakness in Q2 was in part due to technical factors such as the balancing item, which are likely to reverse in subsequent releases. BNZ is forecasting a 0.5% expansion in the September quarter. This closely aligns with the RBNZ's Nowcast model, which currently indicates quarterly growth of 0.6%, and the Bank's updated 0.4% forecast in the Monetary Policy Statement.

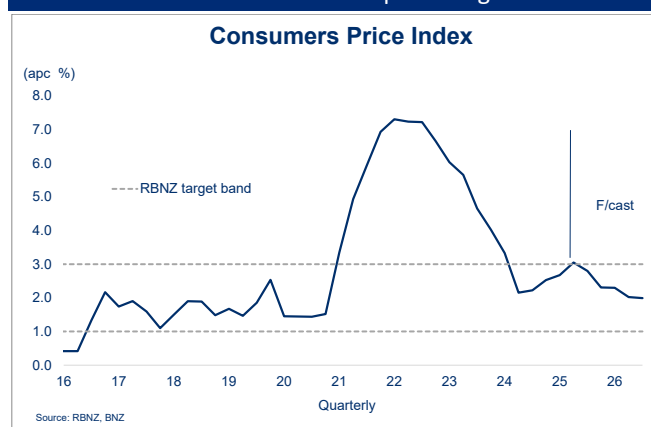
Growth rebound expected



The labour market remains soft, and the unemployment rate lifted to a nine-year high of 5.3% in Q3. This data lags the economic cycle, and we forecast the unemployment rate is close to a peak. The weak labour market is weighing on consumer confidence, alongside the lack of house price appreciation and the high prices for essential goods and services. Confidence will need to recover to be consistent with our growth forecasts.

Annual headline CPI increased to 3.0% in Q3, matching the top of the RBNZ's 1-3% target band. This should be a medium-term peak, and we forecast a return towards the midpoint of the band. Partial inflation indicators have closely aligned with our 2.8% projection for Q4. The negative output gap is expected to constrain domestically driven inflation. The decline in the NZ dollar poses an upside risk for inflation in tradables, but falling global commodity prices should provide some offset.

CPI forecast to revert towards midpoint target band



OCR forecast

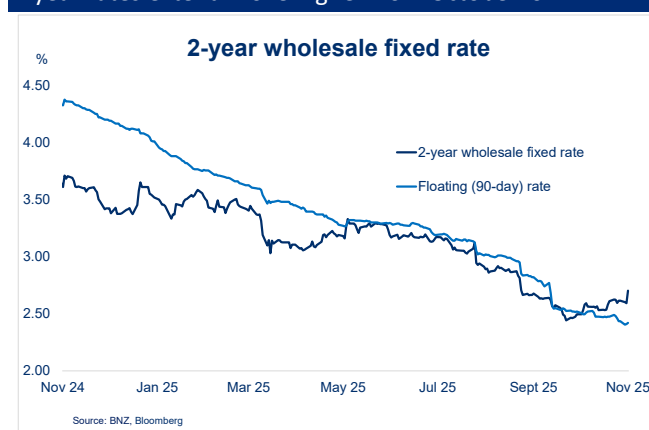
Our OCR forecasts are unchanged following the MPS. We think Wednesday's cut will be the final move in the cycle, which began in August last year, when the Cash Rate was 325bp higher at 5.50%. With economic activity expected to gradually regain traction, and underlying inflation pressures receding alongside a large negative output gap, our base case is the OCR will remain on hold at 2.25%

through 2026. The OIS market is pricing a trivial 4bp of easing for the next meeting in February.

The RBNZ's updated economic projections form the baseline from which to compare several first-tier economic releases ahead of the next MPS on 18 February. These include GDP, CPI, labour market data and the Quarterly Survey of Business Opinion. In addition, monthly activity releases headlined by the PMIs will be impactful for the monetary policy outlook, alongside partial inflation readings. The new Governor introduces some uncertainty about the Bank's reaction function at the margin but the incoming data will be key for the rates outlook.

Short-Dated Wholesale Fixed Rates (1-3 yr)

2-year rates extend move higher from October low



2-year NZ fixed rates have rebounded from a multi-year low near 2.45% in the middle of October. A sharp repricing in Australian markets spilled over to NZ, and contributed to the move higher, which has extended after the Bank's marginally hawkish tone at the MPS. With the RBNZ signalling the easing cycle is likely complete, the bulk of the decline in front end rates has likely already occurred.

Market pricing implies the RBNZ will begin raising rates from late 2026 and that the OCR will be back above 3.0% by the end of 2027. Some of the recent lift in rates reflects a risk premium related to the potential increased demand for interest rate hedging. We think there is a risk that the RBNZ holds rates at the cycle for longer than the market is pricing. Once market positioning is clearer, we expect a pullback in front end rates. 2-year fixed rates could trade in a 2.50%-2.80% range in coming months. Borrowers should increase fixed rate exposure on dips.

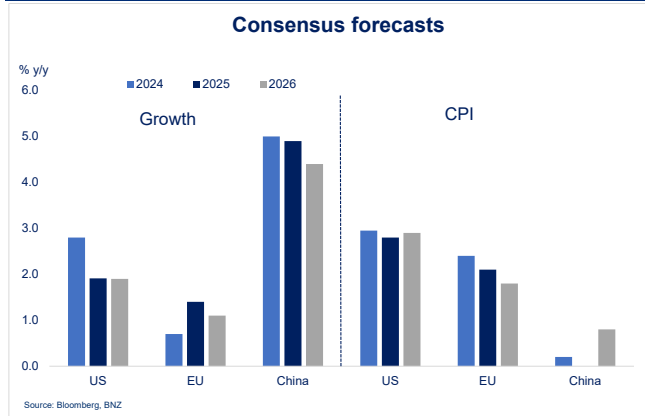
Long-Dated Wholesale Fixed Rates (5-10 yr)

Longer dated NZ fixed rates are relatively sensitive to the global macro backdrop, compared with shorter maturities, where the OCR forms a stronger anchor. Global growth is forecast to slow in 2026, but not materially, while inflation remains somewhat elevated for many countries. The global central bank easing cycle is becoming less synchronised,

and increasingly mature, which limits the downside for global interest rates.

The global economy has been more resilient to uncertainty on trade and tariffs than was originally expected. Growth forecasts for major economies have been revised higher relative to three- and six-months ago. Although growth is expected to slow in 2026 the likelihood of a more severe downturn has decreased. The US government shutdown has been resolved and the escalation of US-China trade tensions ended with lower tariffs and some winding back of export controls.

Global growth subdued, inflation mixed



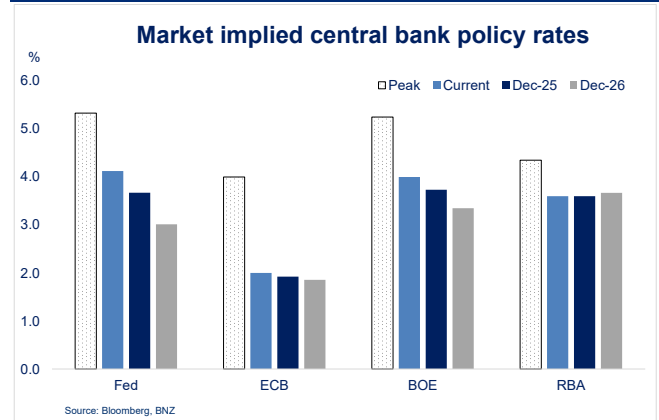
Headline inflation in many advanced economies is typically close to, or marginally above, central bank targets. Services inflation is slowly moderating from elevated levels, and central banks broadly expect this to continue, set against the backdrop of softening labour markets and slower growth in wages. US inflation remains elevated. Tariffs have added to core goods inflation and further pass-through is expected. The consensus forecast is for US inflation to remain above target through 2026, before declining the following year.

The US Federal Reserve cut the Fed Funds Rate by 25bp in October predicated on its assessment of risks around the labour market. A further 25bp cut appears likely next month and the market is pricing a 2.90% terminal rate. However, the Fed is the exception amongst major central banks, and the easing is mature for most. The European Central Bank has outlined its policy rate is close to neutral. Easing cycles in Australia, Canada and Scandinavian countries are widely thought to be complete.

The easing cycle by global central banks has been associated with smaller fall in longer-term interest rates than would be typical. Yield curves were already inverted, at the peak in policy rates, limiting the downside from easier policy settings. In addition, term premium - the compensation required by investors, above the expected path of short-term rates, to invest in longer tenor securities - has normalised as pandemic-era policies have been unwound and central banks reduced their holdings of government bonds. Elevated supply from fiscal deficits,

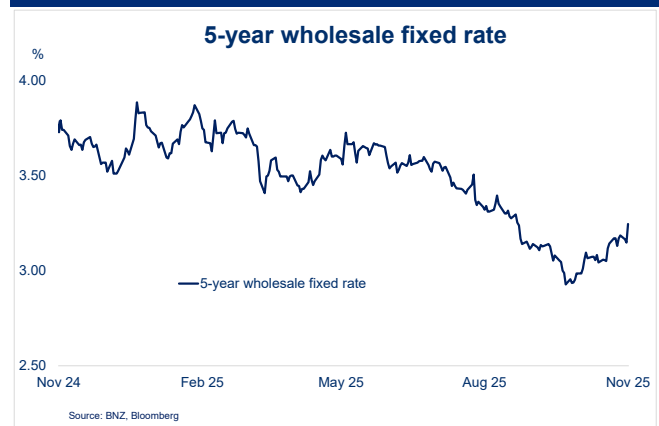
economic policy uncertainty and concerns about central bank independence in the US will underpin term premia.

Outside of the Fed, easing cycle mature for central banks



NZ 5-year fixed rates have rebounded close to 35bp off the low near 2.90% in mid-October. NZ spreads to comparison markets like Australia and the US are at tight levels from a historic perspective, and this could limit the downside for NZ longer term rates, given the requirement to keep non-resident investors engaged to absorb elevated NZ government bond supply. The spread between 2-and 5-year NZ fixed rates is steep from a global perspective reflecting this dynamic.

5-year fixed rates have rebounded off the lows



The selloff in NZ 5-year fixed is likely to run out of momentum near current levels. However, we think dips will be shallow. We anticipate 5-year fixed rates settling in a 3.10% - 3.40% range in coming months. Moves towards the lower end of the range would provide attractive levels to top up fixed rate exposure. It would likely require a scenario with a more pronounced slowdown in global growth and inflation to see materially lower 5-year rates and a flatter NZ curve.

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