

19 February 2026

## Outlook for Borrowers: Post February MPS

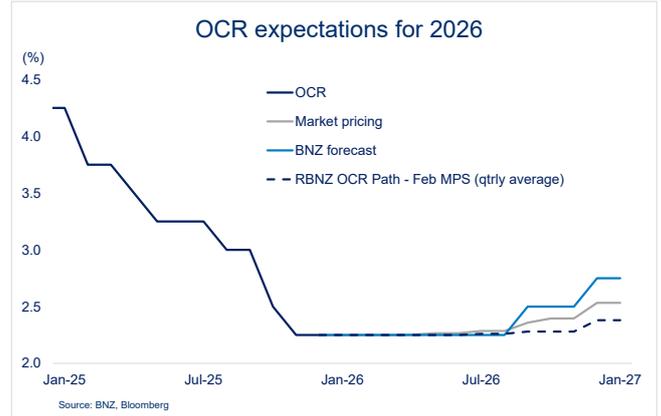
- The RBNZ left the OCR unchanged at 2.25% which was unanimously expected by economists and reflected in market pricing.
- The Bank indicated the risks to the inflation outlook are balanced and that policy is likely to remain accommodative for some time if the economy evolves as expected.
- The updated modelled OCR track removed the marginal easing bias and implied an increased probability of a hike later this year.
- Our forecasts are unchanged. We expect the RBNZ will begin the hiking cycle in September.
- The RBNZ indicated a data dependent approach and that monetary settings will gradually normalise.
- NZ fixed rates will likely move higher through the year as the tightening cycle approaches, with the yield curve expected to flatten.
- Borrowers should take advantage of the dip to increase fixed rate hedging.

### RBNZ Monetary Policy Statement

The Reserve Bank of New Zealand (RBNZ) held the Official Cash Rate (OCR) steady at 2.25% at the Monetary Policy Statement (MPS) on Wednesday. This outcome was expected by economists and fully reflected in market pricing. The decision was reached by consensus. The updated modelled OCR track has a low point of 2.25% removing the marginal easing bias from November. The December quarter average was increased by 10bp to 2.38%, implying a greater chance of a rate hike towards the end of this year. The projected track for next year was also revised higher and the OCR reaches the Bank’s 3% long term neutral estimate by late 2028.

The RBNZ noted the economy is in the early stages of recovery. The Committee is confident that inflation will fall towards the 2% midpoint of the target range over the next 12 months due to significant spare capacity in the economy and modest wage growth. Risks to the inflation outlook were characterised as balanced and an accommodative policy stance can be maintained for some time if the economy evolves in line with its expectations. As confidence in the recovery increases, the Bank expects monetary policy settings will gradually normalise, with timing conditional on the incoming data.

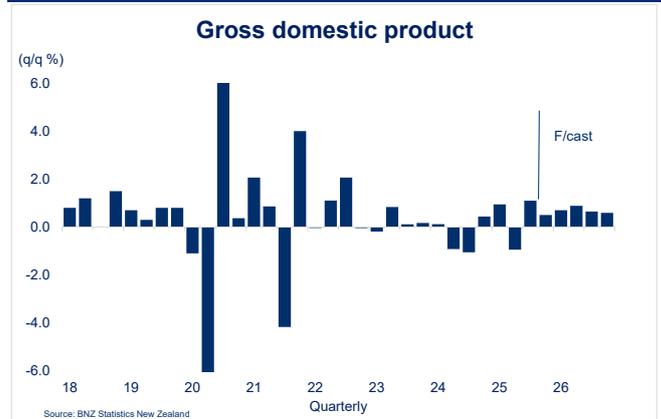
### First OCR hike expected later this year



### Economic overview

The economy has shown clear signs of renewed momentum. Key high-frequency indicators have accelerated sharply after a prolonged soft patch. The manufacturing PMI for January was 55.2 – close to the highest level in four years – indicating a robust expansion in manufacturing activity. Likewise, the services PMI remained in expansion for the second consecutive month, after a record 21-month stretch of contraction ended in December.

### Recovery underway

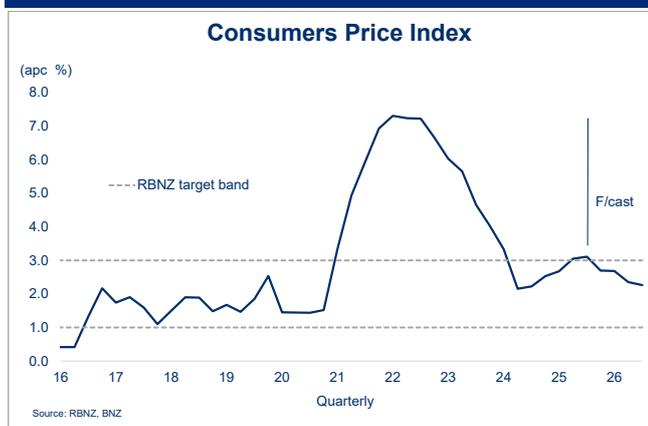


Reinforcing these signals, the Quarterly Survey of Business Opinion (QSBO) suggested the economic recovery is gaining momentum with firms’ own-activity expectations turning up strongly. We forecast the economy will expand 0.5% q/q in the December quarter, with solid growth anticipated

through 2026. Although there are broad based signs the economy is recovering, there are still several indicators that suggest caution. Firstly, house prices continue to flatline which could impact the consumption outlook. Net migration remains below the long-term mean and government consumption growth is forecast to remain restrained.

The labour market, which lags the business cycle, is at the early stages of recovery. Although the unemployment rate increased to a ten year high of 5.4% in the December quarter, this reflected a lift in labour force participation. Employment rose by 0.5% – the first quarterly employment growth in 18 months – and annual job growth turned positive, signalling an end to the net job losses that marked the first half of 2025. The labour cost index increased at a 2.0% annual rate and the elevated unemployment rate is expected to restrain wage growth.

#### CPI forecast to retrace from 3.1% in Q4



Inflation has been more persistent than anticipated. Headline CPI increased by 0.6% q/q in the December quarter, lifting annual inflation to 3.1% – marginally above the topside of the RBNZ's 1 to 3% target band. Core measures edged higher and the move lower in domestically driven non-tradable inflation stalled at 3.5% in Q4. We expect 3.1% will mark the near-term peak for headline CPI inflation and forecast a 2.7% annual rate in Q1, before a gradual move towards the target midpoint through the remainder of the year.

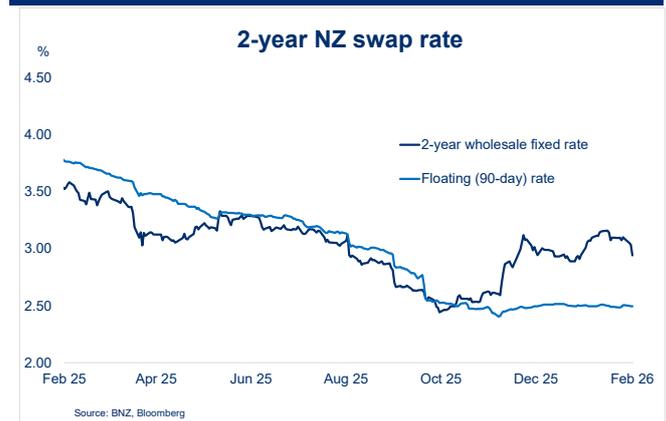
#### OCR forecast

We continue to forecast the first rate hike in September with a follow up move in December. The overnight index swap market is pricing 10bp of tightening by the September meeting and a cumulative 28bp by the end of the year. The negative output gap is expected to take some time to close and financial conditions have already tightened. Wholesale and mortgage rates have increased alongside an appreciation for the trade-weighted NZ dollar since late November.

The RBNZ's updated economic projections form the baseline from which to judge incoming data ahead of the Monetary Policy Review (MPR) on 8 April. Q4 GDP is released mid-March although indicators like the monthly PMIs will provide timelier gauges of activity. In addition, monthly inflation partials, covering around half of the CPI basket, will be closely monitored. Key data like the next QSBO and Q1 CPI will be released after the MPR in April.

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

##### 2-year fixed rates back at the 2026 lows



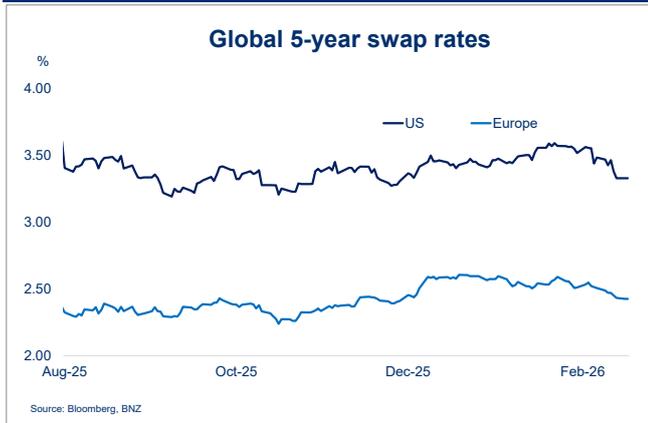
2-year NZ fixed rates have traded sideways in 2026, with the market consolidating after the sharp sell-off in the final months of last year. Short end rates declined immediately after the MPS and are towards the lower end of the range for this year. Although the RBNZ expects to maintain an accommodative policy stance for some time, it also signalled an increased chance of tightening later this year. An accommodative stance doesn't preclude rate hikes with the OCR currently below estimates of neutral. The expected normalisation in policy settings will limit the downside for short end rates from here.

We don't expect a rapid move higher. 2-year fixed rates are likely to be confined to the recent 2.90% to 3.15% range in the near-term. However, short end rates will move higher as the tightening cycle approaches later this year. Some of the flows that pushed short end rates sharply higher at the end of last year are more balanced. Speculative market positioning is likely clearer, and mortgage-related hedging flows in the swap market have also eased, after the large migration by households towards longer fixed rate terms in December.

We think the move back to the lower end of the 2026 range represents an attractive opportunity for borrowers to top up short-dated fixed rate hedging.

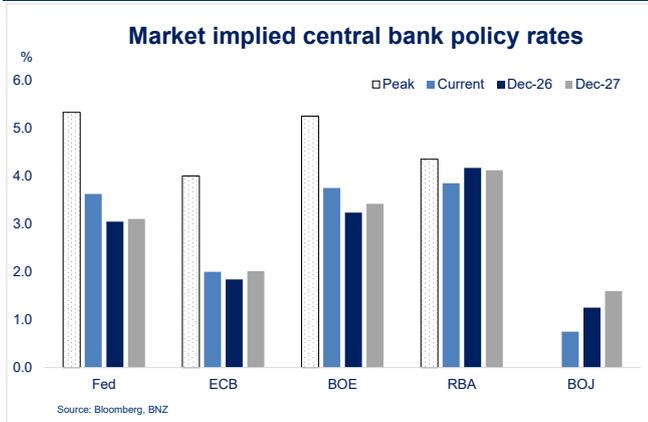
**Long-Dated Wholesale Fixed Rates (5-10 yr)**

**Global 5-year rates rangebound over past six months**



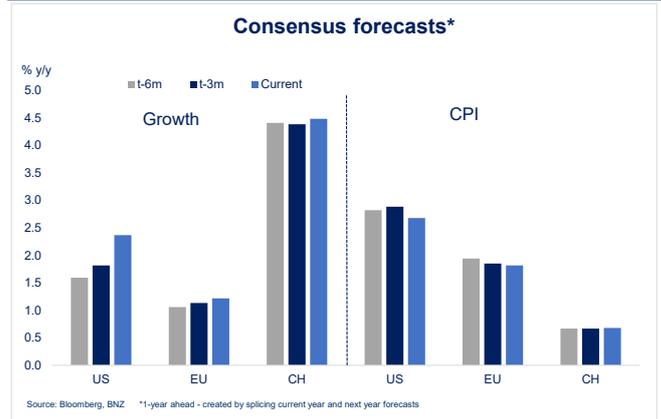
The longer end of the NZ curve is impacted by the global macro backdrop as well as domestic monetary policy. The synchronised easing cycle by global central banks during the 2024-2025 period is largely complete, which is likely to extend the rangebound regime for global interest rates. The US Federal Reserve is expected to gradually reduce its policy rate, consistent with ongoing labour-market slack, moderating wages, and continued services-sector disinflation. However, this is already fully discounted with the market at a near 3.0% terminal Fed Funds Rate.

**Synchronised easing cycle complete**

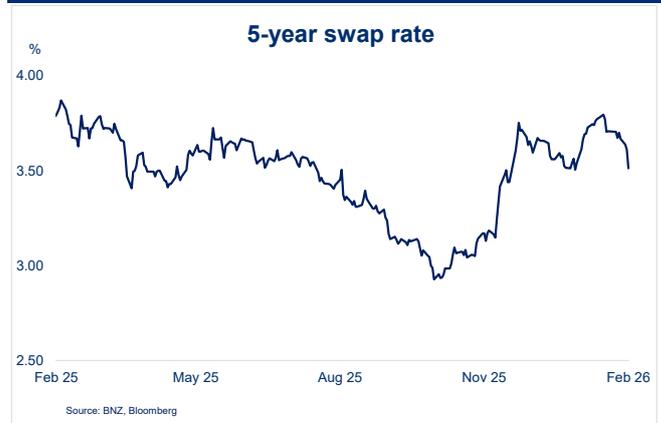


The global economy has proven more resilient than expected. Despite ongoing trade tensions and elevated US tariff rates, the negative impact on global activity has been smaller than previously assumed. Consensus growth forecasts have been revised higher compared with 3- and 6-months ago. The global economy has demonstrated a capacity to absorb US economic policy uncertainty. Consensus estimates continue to assume a gradual moderation in inflation, though the recent resilience in global demand risks slowing the disinflationary process.

**2026 global growth forecasts revised higher**



**5-year fixed rates are at the lows for 2026**



NZ 5-year fixed rates have retraced close to 30bp from the 3.80% high at the beginning of February to levels that prevailed in early January. It would take a less aggressive RBNZ tightening cycle than we anticipate, or a weaker global macro backdrop, for 5-year fixed rates to trade materially lower from here. We think current levels are attractive to top up hedging. 5-year rates are expected to trade in a higher 3.5%- 4.0% trading range as we move through 2026.

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