

# Interest Rate Research

9 April 2026

## Outlook for Borrowers: Post April MPR

- **The RBNZ left the OCR unchanged at 2.25%, as unanimously expected by economists and fully reflected in market pricing.**
- **The Bank signalled a clear tightening bias, noting that “decisive and timely increases in the OCR would be required” if the 2% medium-term inflation target is threatened.**
- **We continue to expect the RBNZ will begin the hiking cycle in September, with the OCR ending the year at 2.75% which largely aligns with market pricing.**
- **The geopolitical backdrop is contributing to volatility across financial markets, and forecasts should incorporate a wider-than-usual confidence interval.**
- **NZ fixed rates are expected to move higher through the year, led by the front end as the tightening cycle approaches. The yield curve is expected to flatten.**
- **Market volatility could create opportunities. Borrowers should use any dips in rates to increase fixed-rate hedging.**

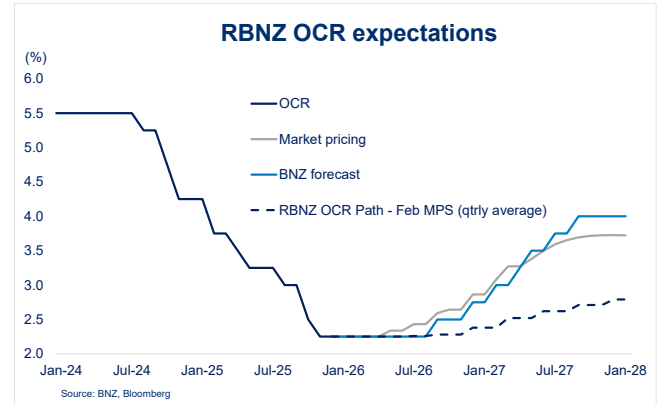
### RBNZ Monetary Policy Review

The Reserve Bank of New Zealand (RBNZ) maintained the Official Cash Rate (OCR) at 2.25% at its latest Monetary Policy Review (MPR). Although committee members reportedly expressed a range of views, the decision was ultimately reached by consensus. The outcome was unanimously anticipated by economists and was consistent with market implied expectations that the policy rate would remain unchanged. As the announcement occurred at a policy review, the Bank did not publish a complete set of updated forecasts. However, it provided a partial assessment of the potential effects of the Middle East conflict on inflation.

The Monetary Policy Committee stated that maintaining the OCR reflected a trade-off between the potential benefits of a pre-emptive response to heightened medium-term inflation risks and the possible costs of unduly constraining the economic recovery. In addition, the Bank communicated a clear tightening bias, noting that the Committee would remain “vigilant” to any generalised inflationary pressures and that “decisive and timely increases in the OCR would be required” if core inflation, inflation expectations, or wage growth were inconsistent with its 2% medium-term target.

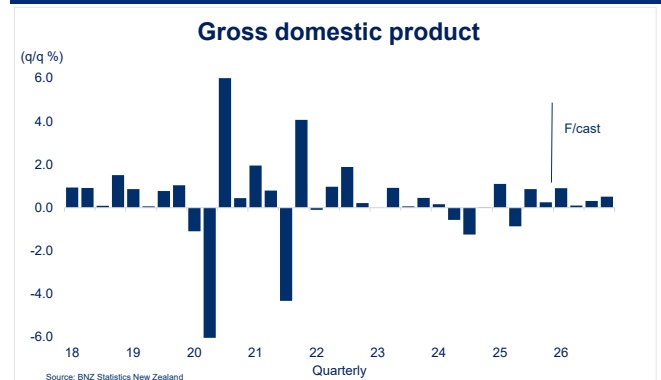
In the accompanying press conference, a newly introduced feature of the MPR, Governor Breman said that the Committee had discussed an increase in the policy rate but were not close to making this decision. The meeting occurred against a backdrop of pronounced financial market volatility. Although oil prices fell sharply in the hours preceding the decision, this decline would not have been reflected in the statement’s tone or accompanying analysis.

### RBNZ hiking cycle well discounted by market pricing



### Economic overview

#### Recovery delayed

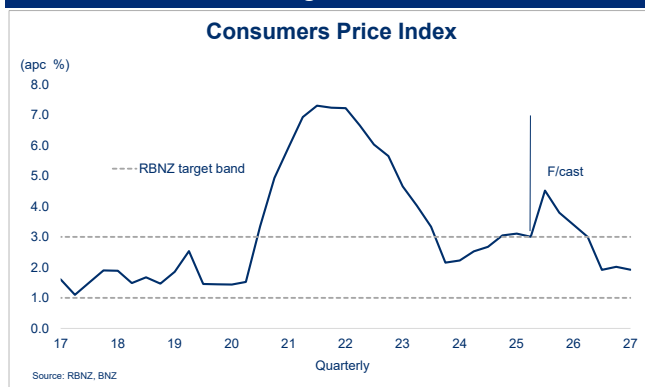


The evolving situation in the Middle East materially complicates the outlook for the New Zealand economy which, prior to the conflict, was in the early stages of recovery and experiencing headline inflation near the upper end of the RBNZ’s target range. Forecast uncertainty

is unusually elevated, and projections should be interpreted with wider-than-normal confidence intervals. Our assumptions incorporate an oil futures curve that remains heavily backwarddated (spot and near-dated prices exceed longer-dated contracts).

We have downgraded calendar-year 2026 GDP growth to 1.7% (from 2.3%) and revised the inflation track higher. Annual CPI inflation is now expected to peak at around 4.5% and remain at or above 3.0% through end-2026. Labour-market improvement is also likely to be delayed. While we continue to assume the unemployment rate has broadly peaked, we now expect it to hold around 5.4% for much of the year. If the Pakistan-mediated US-Iran ceasefire holds, the retracement in oil prices could deliver lower inflation and firmer activity than in our central scenario.

### CPI forecast outside the target band for 2026



### OCR forecast

The OCR is likely to be held steady for several months as the RBNZ assesses the macroeconomic effects of the energy-driven supply shock. We continue to forecast that the RBNZ will begin a tightening cycle in September, delivering a total of 50bp of hikes by year-end, while noting the highly uncertain geopolitical backdrop. The overnight index swap market is pricing around a 35% chance of a 25bp hike at the May Monetary Policy Statement (MPS). Cumulative hikes total 60bp by December which is broadly aligned with our forecast.

Alongside geopolitical developments, key near-term domestic economic data ahead of the May 27 MPS include Q1 CPI (21 April) and labour market indicators (6 May), which will help establish the baseline before conflict-related effects are fully observed. The Quarterly Survey of Business Opinion (21 April) should provide timely signals on activity and pricing pressures. The RBNZ will also assess two PMI releases and monthly inflation partials to gauge the conflict impact before the next meeting, alongside inflation expectations (13 May).

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

#### Limited downside for 2-year fixed rates as hiking nears



New Zealand two-year fixed rates rose sharply during March, peaking at approximately 3.70% before retracing. This repricing mirrored developments at the front end of global interest rate curves, as markets assigned higher probabilities to more restrictive central bank policy in response to energy-driven inflation. The increase in New Zealand rates was amplified by the unwinding of speculative positioning and was characterised by pronounced intraday volatility amid an uncertain geopolitical environment.

Current pricing (3.40%) for two-year fixed rates is broadly consistent with our projected path for the OCR. Market pricing implies an earlier onset of tightening but a lower peak policy rate. In our assessment, these effects largely offset, leaving our estimate of two-year 'fair value' little changed. Elevated volatility in interest rate markets may create tactical opportunities, and we would view declines towards 3.20% as an attractive level at which to increase 2-year hedging.

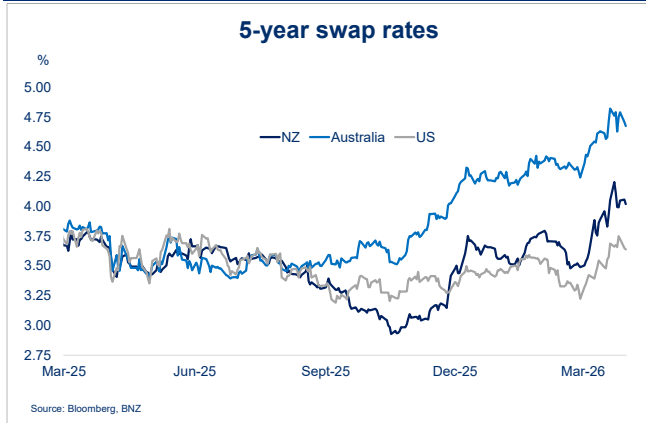
The expected normalisation of policy settings over the remainder of the year should limit the scope for an extended decline in short-end rates. A sustained move back below 3.00% for the 2-year - towards levels prevailing prior to the conflict - would require the RBNZ to defer the tightening cycle beyond September and to deliver a lower terminal policy rate than the 4.0% peak we forecast. This would seem unlikely given the Bank's hawkish tone at the MPR.

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

Yields at the long end of global rates curves have risen sharply since the onset of the Middle East conflict. While curves have flattened, long end yields have broadly matched the increase in short rates. Consistent with our earlier analysis, movements in New Zealand's longer dated rates are more tightly linked to global drivers than the short end. The outlook for major economies has also

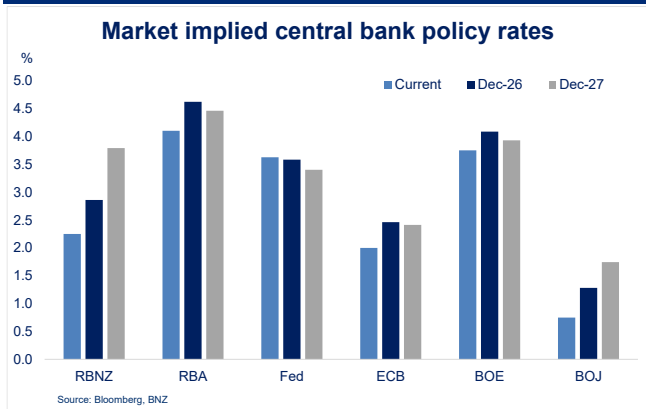
become more uncertain amid renewed energy price volatility. Although consensus forecasts typically adjust only gradually, revisions are skewed towards higher inflation and weaker growth.

**Global 5-year rates extend higher in the conflict period**



Markets have rapidly repriced for additional policy tightening across advanced economy central banks. The European Central Bank (ECB) is viewed as having low tolerance for renewed upside inflation risk, with many markets pricing around 60bp of tightening for 2026. However, we think the shock differs from 2022. Energy systems are more resilient, inflation had already moderated, labour markets have softened, and policy rates are closer to neutral implying a smaller energy-to-core inflation pass-through than previously.

**Market pricing for global central banks**



In contrast, markets now expect the Federal Reserve to keep rates steady, after pricing cuts ahead of the conflict. Inflation remains elevated and there has not yet been a material weakening in the labour market. The United States’ net energy-exporter status hasn’t prevented the transmission of higher oil prices. Looking ahead, an anticipated leadership transition to Kevin Warsh is expected to be associated with continued caution and data dependence.

Global long end rates peaked in late March and have since retraced, with momentum building amid increased hopes of conflict de-escalation. If the ceasefire holds, there is scope for further declines in long-end rates aligned with a further paring in tightening expectations for global central banks. This would require policymakers to look through an expected temporary spike in inflation. That assessment will be conditioned on inflation persistence, second-order effects, and the evolution of inflation expectations.

**NZ 5-year fixed rates retrace from above 4.0%**



We noted after the February MPS that the New Zealand 5-year fixed rate was likely to trade in a 3.5% to 4.0% range this year. After peaking near 4.20%, 5-year rates have returned to that range, retracing towards 3.90%. As outlined above, current momentum could extend if geopolitical risks subside, presenting an opportunity to top up longer-dated hedging towards 3.75%. 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 sustainably below 3.50%.

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