3 September 2026

Outlook for Borrowers: Post September MPS

- **The RBNZ lifted the OCR by 25bp to 2.75%, as widely expected, and retained a data-dependent tightening bias.**
- **The modelled OCR track was little changed and implies another 25bp increase is likely before year-end.**
- **BNZ now expects the RBNZ to leave rates on hold at the October Review before resuming tightening in December.**
- **Market pricing implies an OCR near 3.0% by year-end, rising to around 3.6% by December 2027.**
- **Short-dated NZ rates are close to cycle highs, suggesting much of the expected tightening path is already priced. Look for dips to top up hedging.**
- **Long-end global yields have reached multi-decade highs reflecting higher expected policy rates and rising term premia.**
- **NZ 5-year rates have pushed above 4.0% and towards the top of their expected trading range, limiting the appeal of adding fixed-rate cover at current levels.**

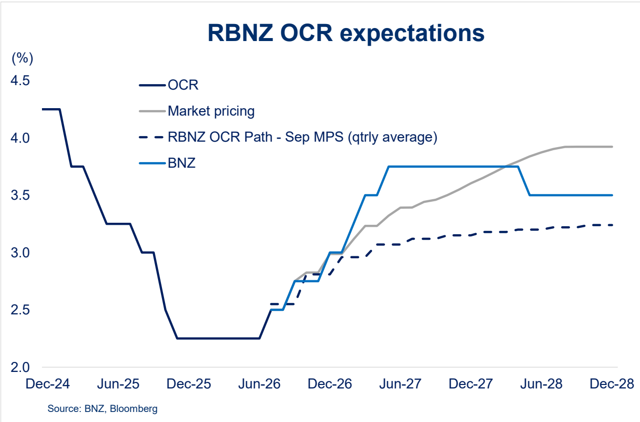
RBNZ Monetary Policy Statement

The RBNZ increased the Official Cash Rate by 25bp to 2.75% at Wednesday's Monetary Policy Statement, a consensus decision that was fully expected by economists and market pricing. The Committee remains focused on preventing temporary inflation shocks from becoming embedded in price and wage-setting behaviour. It retained a data-dependent tightening bias and judged that gradually removing monetary stimulus remains the best way to return inflation sustainably to the 2% target, while reducing the risk that a larger OCR increase is required later.

The RBNZ forecasts inflation will return to the target band by mid-2027 and reach the 2% midpoint by late 2027, supported by spare capacity, subdued wage growth and stable inflation expectations. Most Committee members see inflation risks skewed to the upside and growth risks to the downside. The updated modelled OCR track was little changed from May, implying one 25bp hike at the remaining two meetings this year, likely in December, with the endpoint broadly unchanged at 3.28%.

The tone of the statement and modelled OCR track contributed to a change in our forecasts. We now expect the RBNZ to leave rates unchanged at the October Review before resuming tightening in December, with the OCR ultimately peaking at 3.75% in May next year. Overnight index swap pricing implies around 8bp of tightening by October and close to 25bp cumulatively by December, broadly consistent with the RBNZ's modelled track.

Further hikes to come



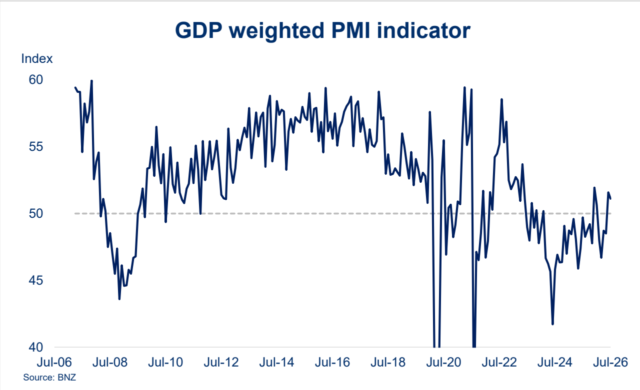
Economic overview

The economy is tracking in line with our calendar-year growth forecast of 1.6%. After an anticipated soft Q2, recent indicators point to a modest recovery in activity. The GDP-weighted combined PMI/PSI index remained above 50 in July for a second consecutive month, while consumer confidence has recovered most of its conflict-related dip. These developments suggest momentum is gradually rebuilding, although the recovery remains uneven and households remain sensitive to elevated living costs. House prices are tracking in line with our flat forecast for this year, but softer housing activity- including higher listings, longer selling times and weaker sales - may weigh on domestic demand and contribute to less inflationary pressure than otherwise.

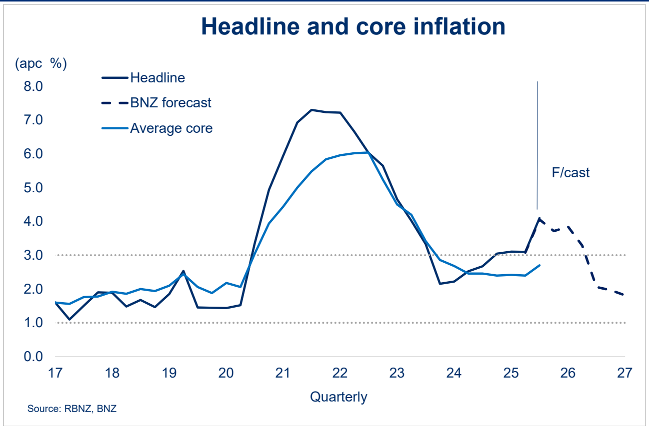
The labour market remains weak, with unemployment at an 11-year high of 5.6% and underutilisation up to 13.8%. Although employment growth was stronger than expected in Q2, elevated unemployment points to enough spare capacity to contain inflation pressure. Private-sector wage growth of 2.0% remains moderate and is consistent with the midpoint of the RBNZ's inflation target. Despite a dip in

July, job advertisements have been improving, and together with firmer hiring intentions suggest the labour market may be near a turning point. Any recovery is likely to be gradual, however, particularly as net migration continues to add to labour supply.

PMIs indicate activity recovering after conflict dip



Headline CPI forecast to retrace



Headline CPI rose to 4.1% y/y in Q2 and is likely to remain above the RBNZ's target band for the remainder of the year. However, Q2 probably marked the peak, with our forecast pointing to inflation easing to 3.7% in Q3. Core inflation is near the top end of the target band but, alongside spare economic capacity and contained wage growth, does not indicate a renewed build-up in persistent domestic price pressure. Closely watched two-year inflation expectations also eased to a more reassuring level, suggesting medium-term expectations remain anchored. Overall, the inflation backdrop supports a cautious and gradual approach to removing monetary stimulus.

The RBNZ's updated MPS projections provide the baseline against which incoming data will be assessed ahead of the 28 October Review. Q2 GDP, due mid-month, will be an important check on the Bank's activity assumptions, while the monthly PMI and PSI releases will offer more timely signals on momentum. The key domestic inputs ahead of the Review will be the Quarterly Survey of Business Opinion on 6 October and Q3 CPI on 22 October.

Short-Dated Wholesale Fixed Rates (1–3 years)

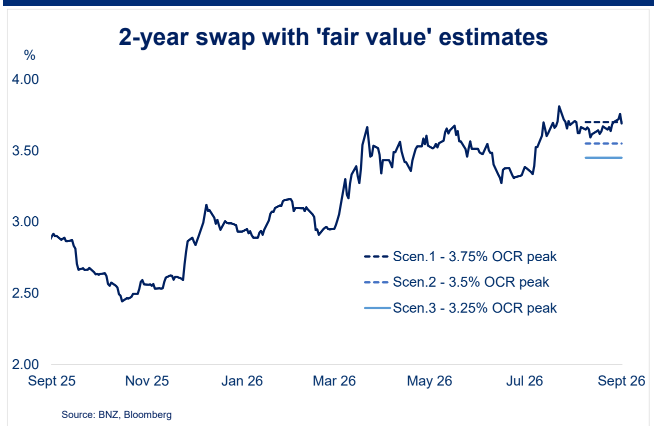
NZD IRS Scenario-implied fair value

Scenario	OCR Peak	Peak Timing	OCR Terminal	2Y scenario-implied fair value	5Y scenario-implied fair value
Scen. 1	3.75	May-27	3.50	3.70	3.75
Scen. 2	3.50	Mar-27	3.25	3.55	3.55
Scen. 3	3.25	Feb-27	3.25	3.45	3.45
Current	-	-	-	3.69	4.08

Fair value represents the fixed rate that would produce the same present value of interest payments as staying on floating under each OCR scenario. Floating rates are projected using the assumed OCR path plus a constant 25bp allowance for the bank-bill/OIS spread.

Two-year swap rates rebounded towards cycle highs near 3.80% ahead of the MPS, driven by higher oil prices and the broader rise in global rates, despite domestic data broadly tracking expectations. Even after the post-meeting retracement, much of the tightening cycle is likely already priced - risks are skewed towards the RBNZ delivering fewer hikes next year than the market currently discounts as the OCR moves into the estimated neutral range of 3.0–3.5%. The previous table sets out scenario-based estimates of fair value. For example, if the RBNZ hikes to 3.50% by March, we estimate fair value for the 2-year swap rate at around 3.55%. The analysis does not account for market supply-demand dynamics or term premia, which become increasingly important further along the curve. Moves back towards 3.50% would therefore offer more attractive levels to top up fixed-rate cover.

2-year swap rate back towards the July peak

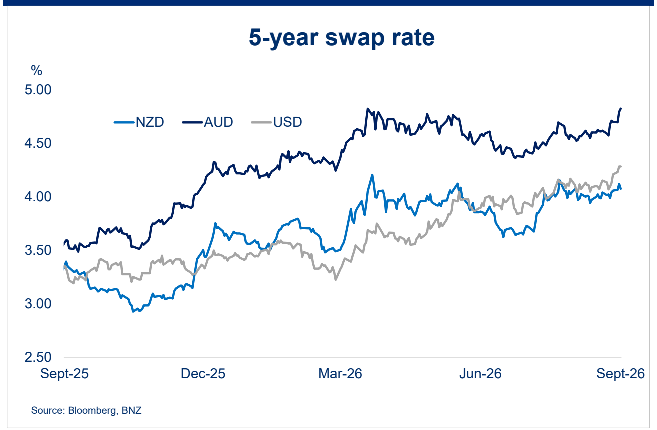


Long-Dated Wholesale Fixed Rates (5–10 years)

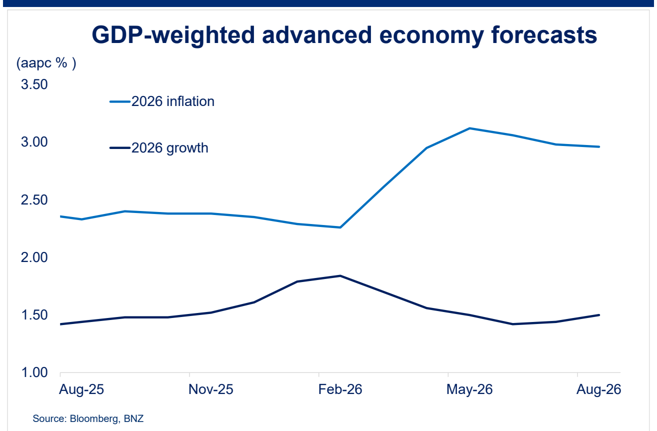
Long-end global bond yields have risen to their highest levels in almost two decades, reflecting a reassessment of the compensation investors require to hold longer-maturity debt. Concerns about elevated government spending in markets such as the US, the UK and Japan, heavier bond issuance, reduced central bank balance-sheet support and stronger competition for investor capital have all contributed to the move. Higher oil prices have also added to inflation concerns and reinforced expectations that major central banks may need to keep policy tighter for longer.

NZ 5-year swap rates have pushed higher alongside global rates and have again approached the 4.20% area that has capped moves in recent months. Based on our OCR projections, we think 5-year rates are close to their cycle peak, although longer maturities remain more exposed to global forces and changes in term premia. Recent price action has been contained within a broad 60bp range, from lows near 3.60% to the upper end now being tested, which we expect to mark the medium-term peak. With global term premia likely to keep longer-dated rates supported, and domestic policy expectations anchored, the NZ curve should remain relatively steep.

Upward pressure on global rates

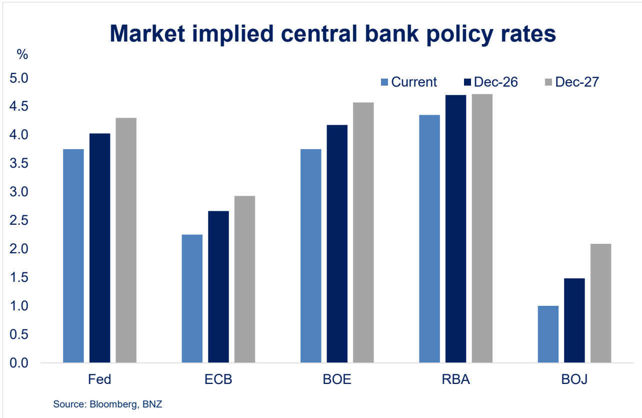


Global growth outlook resilient, inflation remains higher



Market pricing suggests global central banks retain a tightening bias amid still-elevated inflation pressure. Consensus 2026 growth forecasts for major economies remain resilient despite higher energy prices and elevated geopolitical uncertainty. Inflation forecasts have eased from their recent highs, though they remain above levels prevailing at the start of the year. Hawkish comments by US Federal Reserve Chair Warsh at Jackson Hole have increased expectations for a near-term Fed hike, with close to 60bp of tightening priced by the end of next year. This has added to upward pressure on longer-dated US yields as term premia increase.

Tightening bias for global central banks



As the key reference point for global interest rates, US Treasury yields remain an important influence on borrowing costs elsewhere, including New Zealand. With NZ-US spreads historically tight, there is limited scope for domestic rates to decouple from global moves. Even so, local factors should help limit the rise in NZ long rates. The fiscal outlook is projected to gradually improve, net government bond supply to the market is declining from the peak, and RBNZ quantitative tightening is expected to be completed by June next year. The result is a balanced outlook in which global term premia keep long rates supported, while domestic fundamentals argue against a sustained move materially higher.

For corporate borrowers, the resulting curve steepness makes forward-starting hedge structures less attractive from a pure economic perspective, as embedded forward rates sit above our central and probability-weighted OCR scenarios. That suggests paying a premium to hedge forward may not offer the best value at present. The trade-off is that hedging can still provide cashflow certainty, budget protection and risk reduction, so decisions should balance the economics against the value of certainty.

We expect NZ 5-year rates to remain range-bound. Current levels, near the upper end of the recent range, do not offer especially compelling value for hedgers. A lower geopolitical risk premium in oil prices - for example, Brent crude moving back towards US$70 per barrel - could provide a tactical opportunity to top up hedges. However, a move below 3.60% would likely require a more significant shift in growth and inflation fundamentals, enough to materially change RBNZ expectations.

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