Research

# Currency Research

8 June 2026

## NZD/AUD: Has the turning point been reached?

In our regular reports, we have been musing whether the turning point in the NZD/AUD cross rate has been reached. Lower NZ-Australia rate spreads, particularly over the past year, have been a key driver of the cross rate falling to a 13-year low of just below 0.8140 in late-May.

The RBNZ's policy message in the May MPS increased confidence that the Bank was about to embark on a significant tightening cycle, at a time when the RBA's mini-tightening cycle was likely close to complete. A few months ago, the market began to push NZ-Australia 2-year swap rate spreads modestly higher in anticipation of this evolving monetary policy outlook.

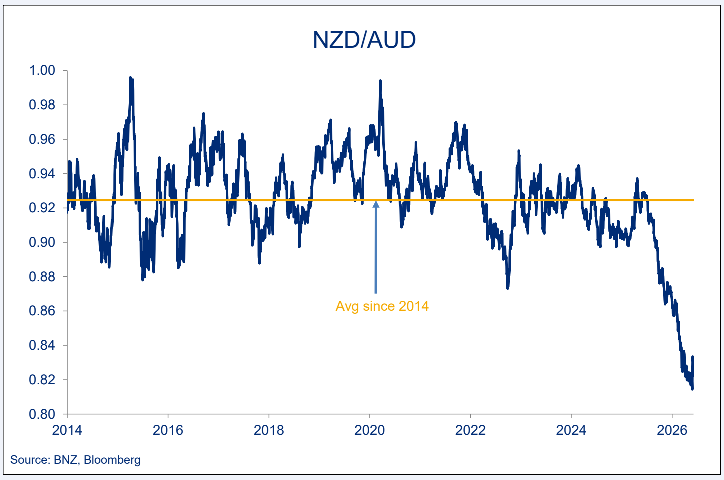
While one can never be certain, we think the low in the cross rate has probably been reached in this cycle. The following charts highlight expectations of converging macroeconomic forces, after a couple of years in which the NZ economy has underperformed Australia. These forces support the case for a stronger cross rate over the forecast period ahead, consistent with our prevailing projections.

Even with tighter policy, NZ rates will remain below those in Australia for some time, which will be a persistent headwind for the cross rate. Despite that, we still see a pathway to a modestly stronger cross rate over the year ahead. Our year-end target is 0.86, well below the average of the past decade, and consistent with a gradual climb ahead.

**NZD/AUD turning point reached?**

After spending more than a decade, since 2014, in a well-defined trading range, NZD/AUD broke below the bottom of the range of 0.87 in the final quarter last year in the wake of the RBNZ's late-cycle 50bps cut in October, followed by another 25bps cut in November. These cuts took the OCR down to 2.25%, well below policy rates of peer countries like Australia, US and UK.

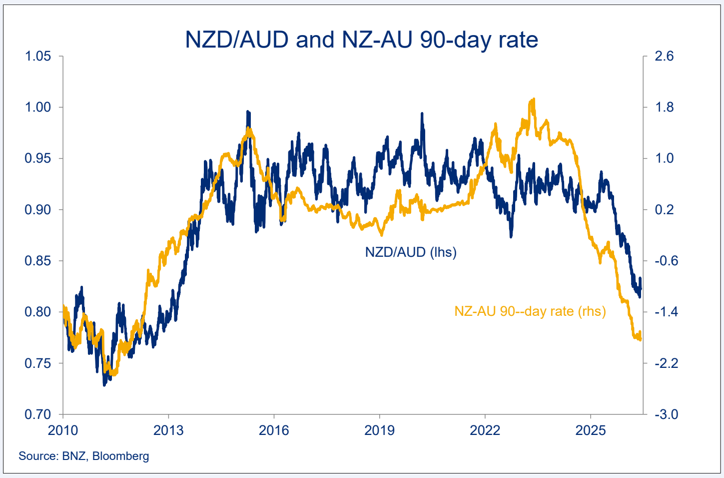
Three RBA hikes in 2026 drove the cross rate on a steady downward path to a 13-year low of 0.8138 reached in late-May. A more hawkish RBNZ update at the May MPS temporarily drove the cross rate 2 cents high as short NZD/AUD positions got squeezed, before that move faded. Has the cycle low been reached?



**Lower NZ-AU rate spreads have been a driving force**

The RBNZ's easing cycle through 2024/25 was more aggressive than any G10 central bank and the RBA. NZ's OCR of 2.25% currently sits 210bps below Australia's cash rate of 4.35%. Relative policy moves have seen the NZ-Australia 90-day bank bill spread collapse from a peak of plus 190bps in May 2023 to recent levels around minus 185bps.

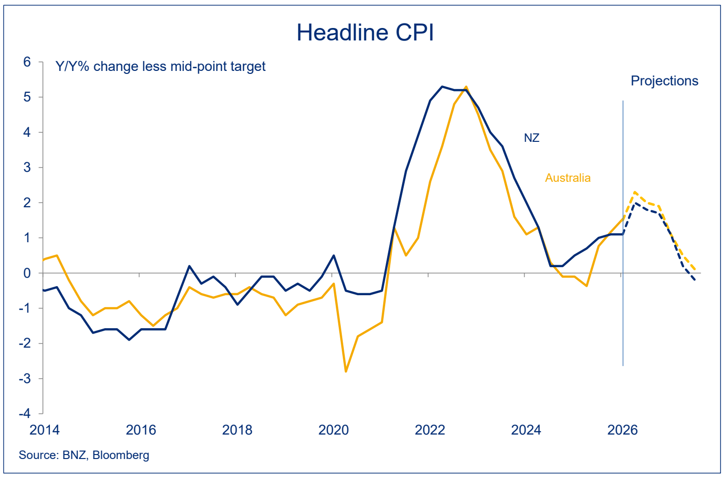
With the RBA's mini tightening cycle likely almost complete – the market almost fully prices a final 25bps hike – and the RBNZ's tightening cycle yet to begin, the short-rate spread has likely bottomed for the cycle.




**NZ and Australian inflation running above target**

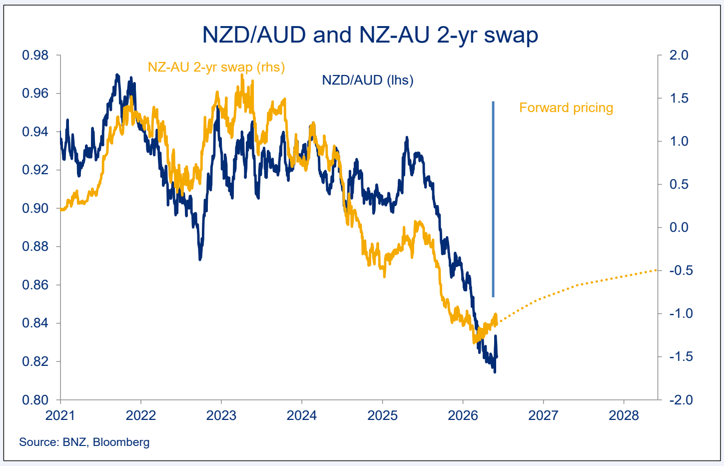
In the post-COVID world, inflation challenges have remained for both the RBNZ and the RBA, with annual headline CPI inflation sitting almost entirely above the midpoint of their target ranges, particularly in NZ relative to Australia. Consensus forecasts for inflation over the next year or so suggest more of the same, with inflation not returning to target until the September 2027 quarter.

Australia's cash rate is widely seen as restrictive, which should help bring inflation lower. NZ's cash rate remains well below neutral and needs to lift to be a downward force on inflation to drive it back to target, with an assumed decline in fuel prices and the estimated but unobservable negative output gap doing a lot of the heavy lifting.




**Forward NZ-AU swap rates imply a higher spread**

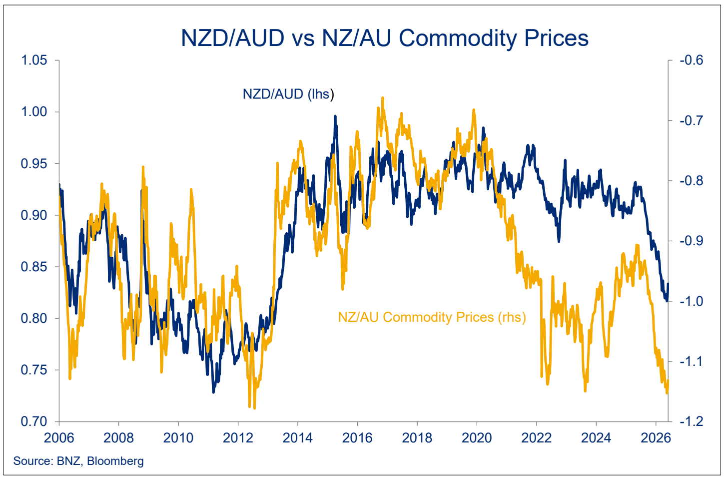
Market pricing for future interest rates implies the gap between NZ's and Australia's interest rates will close. NZ's 2-year swap rate is currently 3.47%, or 113bps below Australia's 2-year rate. Forward rates suggest a closing of the gap to about 50bps two years ahead. If policy rates follow market expectations, then that should be supportive for a higher NZD/AUD cross rate.



**NZ commodity prices relatively weaker versus Australia**

Comparing commodity price indices between NZ and Australia, while both countries are experiencing strong prices relative to history, Australia's industrial-type products have outperformed NZ's agricultural-type products since 2020. The relationship between relative commodity prices and the cross rate broke down somewhat from 2020. Had the relationship closely held, then the cross rate would be much weaker.

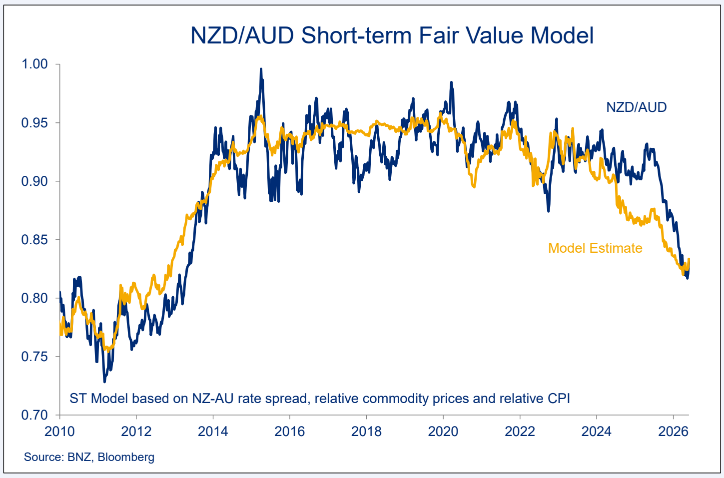
NZ-Australia rate spreads haven't been the only negative force for the cross rate. It is fair to say that relatively commodity prices movements have also likely played a role.




**NZD/AUD close to fair value**

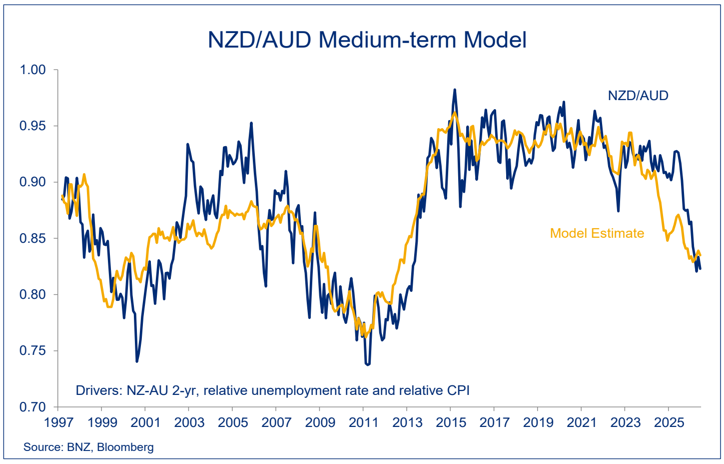
Our short-term fair value model estimate fell notably from mid-2024. The cross rate was slow to move lower and in fact moved inexplicably higher in early 2025 just ahead, and following, Trump's Liberation Day tariff announcement. Through the second half of 2025, the cross rate played catch-up to the falling model estimate, which was driven by lower NZ-AU rate spreads and relative commodity price movements.

The valuation gap has now fully closed. For the first time in nearly two years, we can say that the cross rate is now fairly priced.




**NZD/AUD close to fair value**

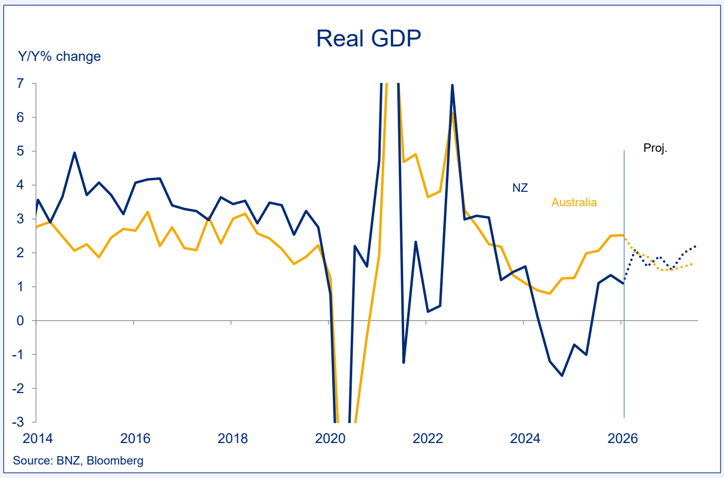
It's a similar story when we swap out commodity prices with relative unemployment rates in a separate model. This model showed a similar mis-pricing of the cross rate from mid-2024 through 2025. The valuation gap is now closed and corroborates the message of the previous model. NZD/AUD is essentially now fairly priced.



## NZ/Australia growth gap to close

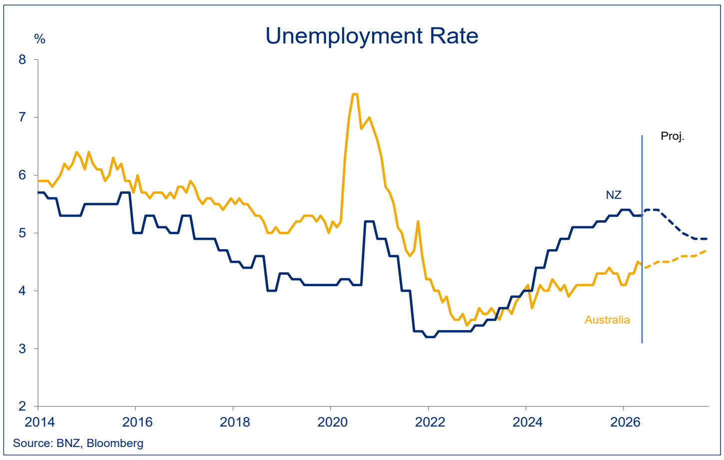
After a poor economic growth performance over the past couple of years, there's a low hurdle for NZ to post much stronger growth outcomes. Consensus forecasts for GDP growth in Australia and NZ suggest growth between the two countries is converging on an annual basis. It might have already converged on a timelier basis. NZ growth could well overtake Australia in the not-too-distant future.

If this forward growth profile prevails, then that would support a view that the cross rate is near a turning point and there's a pathway ahead for recovery from a 13-year low.



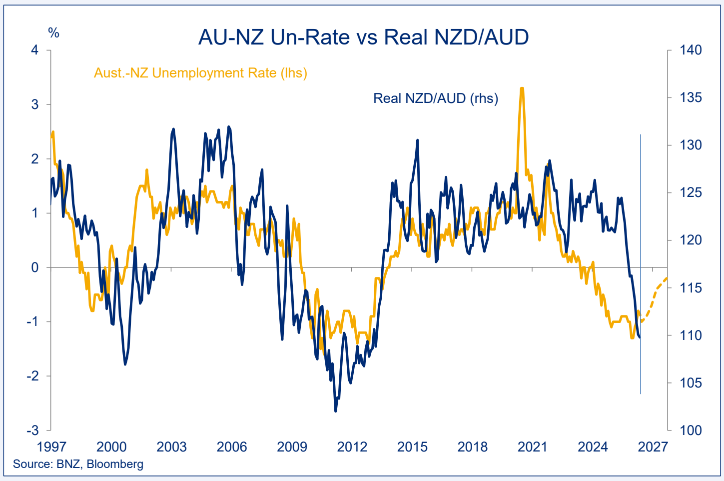

## Unemployment rate gap to close

The converging growth projection is also evident in consensus forecasts for unemployment rates. The consensus sees Australia's unemployment rate grinding higher as growth runs below potential. Near term, NZ's unemployment rate is expected to nudge higher, but this is seen as temporary, with a falling rate from a high base from later this year, which ultimately sees unemployment rates back to near even.



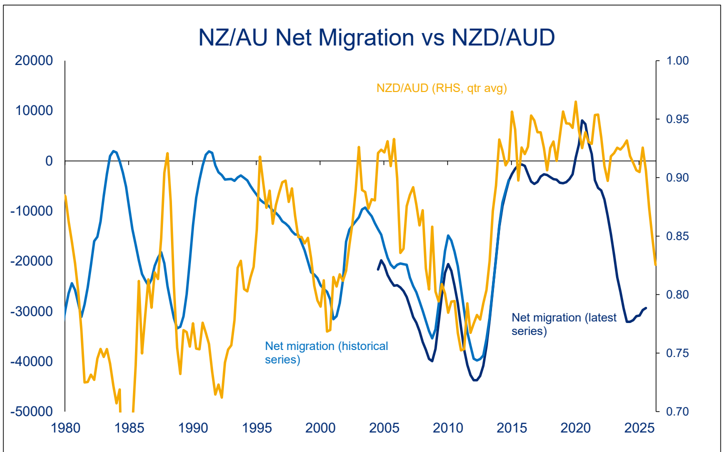

## Closing unemployment gap to support the cross rate

A convergence of unemployment rates, with NZ's rate ultimately heading lower to meet Australia's rising rate, should be reflected in relative monetary policy settings, as noted earlier. And a rising rate differential in NZ's favour would be supportive of a stronger cross rate.



**Net migration on the turn**

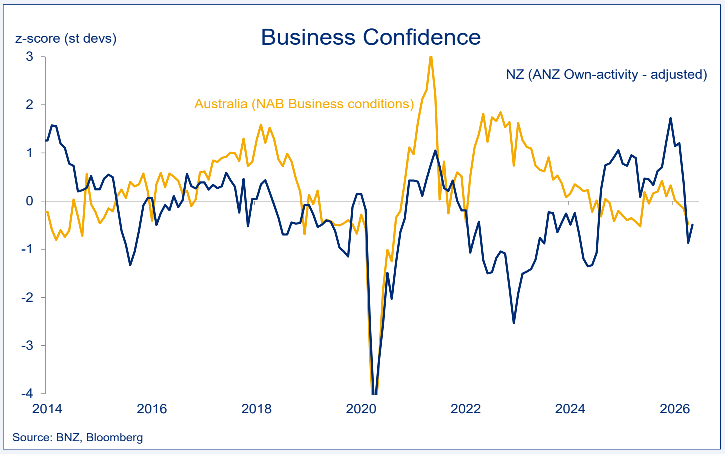
NZ’s weak economic performance relative to Australia’s drove a stronger net outflow of migrants. The data are very much lagged, but the latest figures for the year to September 2025 showed net long-term migration from NZ to Australia of about 29,000, below the peak rate of 32,000 in 2024. The trend looks to have turned and the closing in relative performance of labour markets supports a further reduction in the net outflow. At times, there is a positive association of net migration flows and the cross rate. An improving net migration picture would normally be associated with a stronger cross rate.



Source: BNZ, Stats NZ

**Business confidence at similar levels**

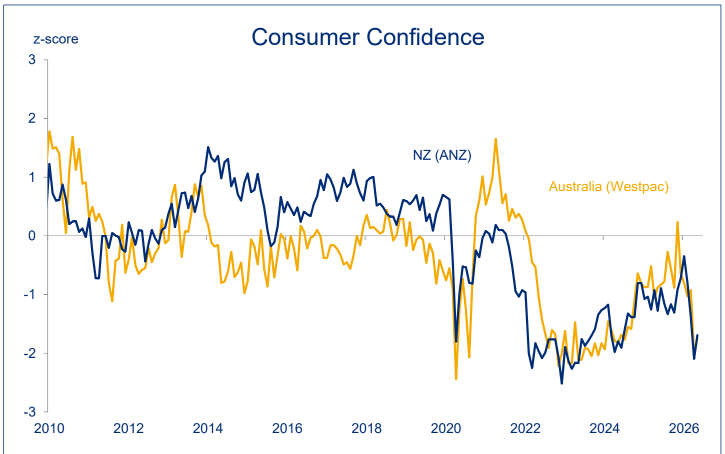
Standardised NZ and Australia business confidence levels are even, with ANZ’s own-activity index (adjusted for political bias) and NAB’s business conditions index both running moderately below average.



Source: BNZ, Bloomberg

**Consumer confidence at similar levels**

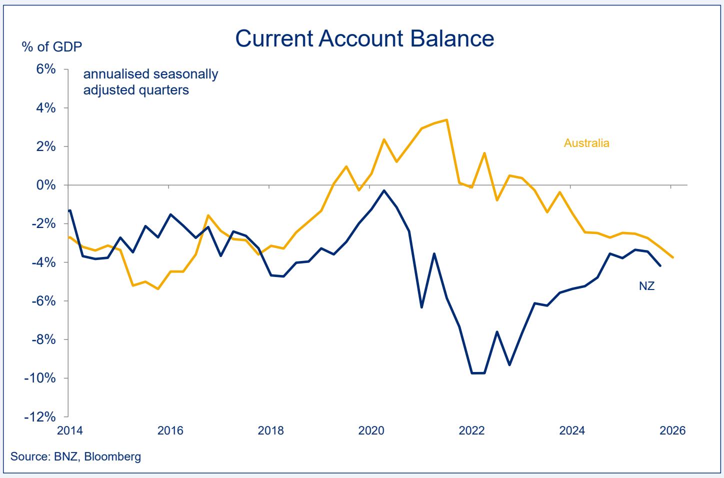
Consumer confidence in both countries is also similar, both running well below average and not far off historical lows. Cost of living pressures are probably the common theme. In NZ, low consumer confidence correlates well with high household inflation expectations.



Source: BNZ, Bloomberg

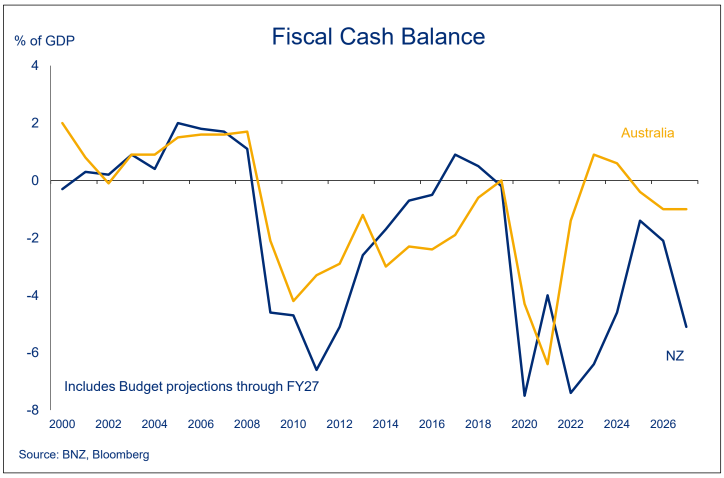
**Current account convergence**

NZ and Australia's current account balances as a percent of GDP have been on a converging trend. A weak domestic economy, strong commodity prices, growing tourism and cheap NZD have supported a significant improvement in NZ's current account balance. Australia's deteriorating trend over recent years, reflects a pullback in Australia's exceptional terms of trade of 2022 driving a weaker trade balance.



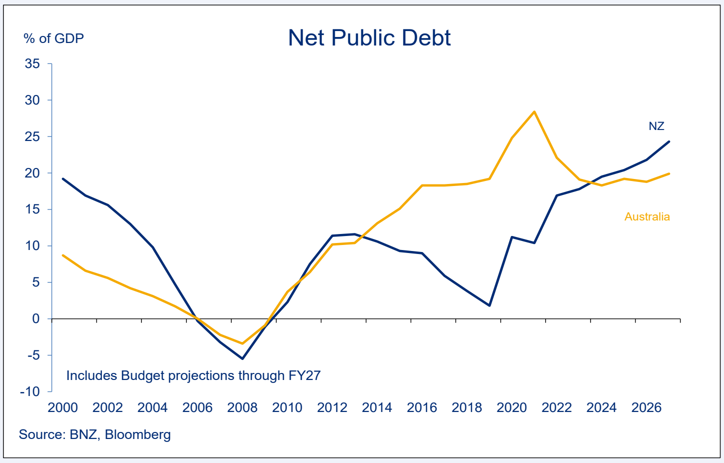

**NZ's fiscal deficit larger than Australia's**

NZ has had much easier fiscal policy than Australia in the post-COVID era. While Australia reined in spending after the COVID spurt, this has not occurred in NZ. NZ has a structural operating deficit running around 1½% of GDP. Add in a step up in capital spending, and NZ's fiscal cash deficit is projected to be over 5% of GDP in FY27, considerably more than Australia's modest cash deficit.



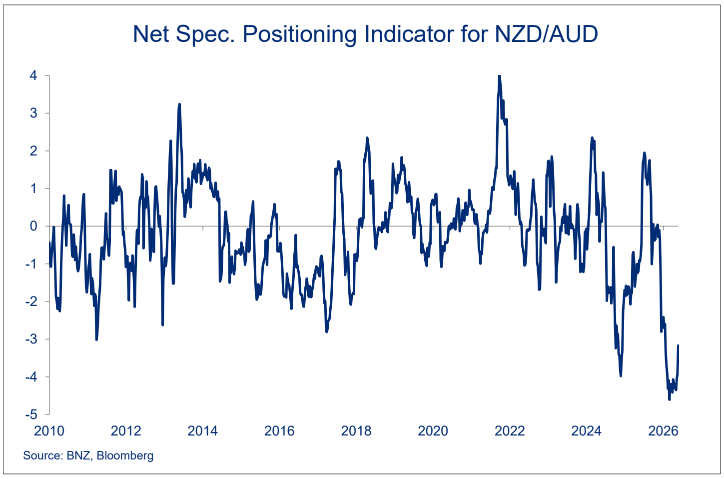

**NZ public debt on a rising trend**

NZ's fiscal deficits see net public debt on a rising trend, overtaking Australia. Earlier this year, NZ received a negative ratings outlook from Moody's and Fitch with repeated delays in fiscal consolidation cited as one reason. The recent NZ Budget projection that the fiscal accounts will improve, but just not until after the next fiscal year, might be just enough to prevent an imminent ratings downgrade.



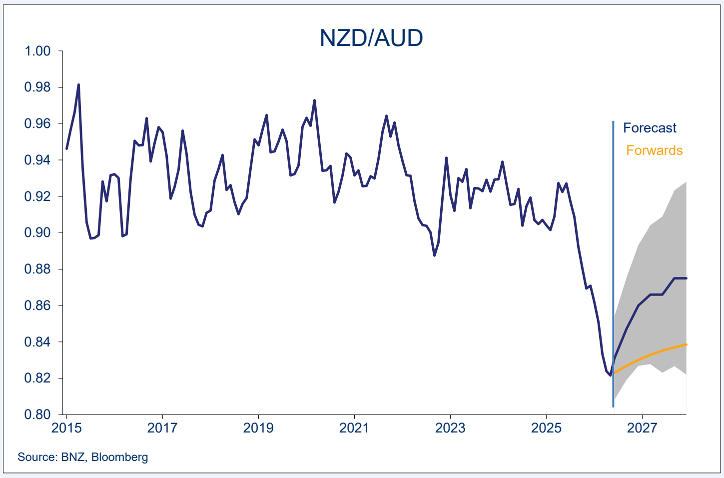
**Short NZD/AUD positioning**

Calculating a positioning indicator proxy based on weekly CFTC data seems to match anecdotal evidence of significant prevailing short NZD/AUD positions, which seems natural given the large negative interest rate spread between NZ and Australian short-term interest rates. We likely saw some position clearing after the RBNZ May MPS. Positioning suggests skewed upside risk on any news that would be positive for the cross rate. But until NZ rates move significantly higher, the positive carry of running short NZD/AUD will be an ongoing temptation for traders to err towards maintaining short positions.




**NZD/AUD projected higher**

Our projections are consistent with a view that the low point in the cross rate has finally been reached, and macroeconomic forces drive a stronger cross rate from here. Uncertainty lies in the steepness of the forecast profile. On our projections only a modest recovery ensues that leaves the cross rate still near the bottom of the range of the period 2014-2025 when it was locked into a well-defined trading range.



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