



Preview: RBNZ Rate Decision Scheduled on Wednesday 25th May at 03:00BST/22:00EDT

- The Reserve Bank of New Zealand is expected to raise the OCR by 50bps to 2.00% with OIS fully pricing a 50bps hike.
- RBNZ have delivered four consecutive rate hikes and even surprised markets with a larger than expected 50bps increase last month.
- Front-loading of tightening is expected to continue with inflation at a 32-year high.

OVERVIEW: RBNZ will announce its rate decision in which the central bank is expected to continue its hiking cycle as most analysts anticipate a 50bps increase in the Official Cash Rate to 2.00% and with OIS fully pricing in a 50 bps hike.

PRIOR HIKES: The RBNZ have hiked rates for the past four consecutive meetings and even surprised markets in April with a larger than expected increase of 50bps (exp. 25bps), while it stated at the past meeting that it will remain focused on ensuring current high consumer price inflation does not become embedded into longer-term inflation expectations and that monetary tightening was brought forward, but noted it remains comfortable with the outlook on the OCR as outlined in the February MPS. This suggests the central bank's more aggressive move in April was just front-loading and its view for the actual destination of rates remains unchanged in which it had previously forecast the OCR at 2.84% in June 2023 and at 3.35% in March 2025.

HIGH INFLATION REINFORCES THE TIGHTENING VIEW: The RBNZ is likely to continue the front-loading with Westpac expecting three more 50bp rate hikes from the RBNZ, while ASB Bank, Kiwibank and a majority on the NZIER RBNZ shadow board are all calling for a 50bp hike at the upcoming meeting. The wide consensus for tighter policy is supported by inflation data after New Zealand CPI for Q1 rose by its fastest pace in 32 years at 6.9% vs. Exp. 7.1% (Prev. 5.9%), while the 1yr Inflation Expectations in Q2 also increased to its highest in more than three decades at 4.88% vs prev. 4.40% although the RBNZ stated that longer-term inflation expectations remained anchored close to or within the 1%-3% target.

ANNOUNCEMENT: The announcement is set for Wednesday at 03:00BST/22:00EDT in which the focus will initially be on the decision on rates. Attention will then turn to the policy statement for the central bank's latest OCR projections and any clues on whether it will maintain an aggressive pace of 50bps increments in its hiking cycle which would be supportive for NZD. Conversely, any hints of policymakers slowing down on tightening will likely pressure the currency, while participants will also get to tune in to the MPS livestream which begins an hour after the rate announcement.

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