



PREVIEW: RBNZ Policy Announcement due on Wednesday 8th October at 02:00BST/21:00EDT

- RBNZ is expected to cut the OCR at its meeting on Wednesday, with mixed views between a 25bps and 50bps cut.
- RBNZ delivered a dovish cut at the last meeting in August and lowered OCR projections.
- A contraction in the New Zealand economy for Q2 spurred further rate cut calls.

OVERVIEW: The RBNZ is expected to lower the Official Cash Rate at its meeting on Wednesday though the scale of easing remains in debate as a recent Reuters poll found that 15 of 26 economists expect a 25bp cut to 2.75% from the current 3.00% level and 11 are calling for a larger 50bp move, while money market pricing leans towards a 50bps reduction with pricing currently placing a 45.9% chance of a 25bps cut and a 54.1% chance of a 50bps cut, whilst some 62bps worth of cuts are priced in for this year.

RBNZ DELIVERED A DOVISH CUT AT THE LAST MEETING IN AUGUST: The RBNZ cut rates by 25bps at the last meeting in August which was widely expected, while it reiterated that if medium-term inflation pressures continue to ease as expected, there is scope to lower the OCR further and noted that with spare capacity in the economy and declining domestic inflation pressure, headline inflation is expected to return to around the 2% target midpoint by mid-2026. The announcement by the central bank was very dovish as it also lowered its OCR projections, with the forecast for the OCR in December 2025 cut to 2.71% from 2.92% and the forecast for the OCR in September 2026 lowered to 2.59% from 2.90%. The minutes from the meeting revealed the decision was made by a majority of 4 votes to 2 and that the committee voted on the options of either reducing the OCR by 25bps or reducing the OCR by 50bps after having discussed three policy options which were keeping the OCR on hold at 3.25%, cutting the OCR by 25bps to 3% or cutting by 50bps to 2.75%. Furthermore, RBNZ Governor Hawkesby said during the post-meeting press conference that the next two meetings are live but no decisions have been made, as well as noted that the OCR projection troughs at 2.5% and is consistent with further cuts, while it is up to the data whether they go faster or slower on cuts.

A CONTRACTION IN THE ECONOMY FURTHER BOOSTED RATE CUT CALLS: The dovish language and projections from the prior meeting spurred wide consensus for the central bank to deliver an additional 50bps of cuts over the remaining two meetings this year. However, rate cut bets were further boosted after weaker-than-expected New Zealand GDP data for Q2, which showed the economy contracted with GDP Q/Q at -0.9% vs. Exp. -0.3% (Prev. 0.8%, Rev. 0.9%) and GDP Y/Y at -0.6% vs Exp. 0.0% (Prev. -0.7%, Rev. -0.6%). This spurred the likes of Westpac and ASB Bank to adjust their calls as they now see the RBNZ to deliver a 50bps rate cut in October and another 25bps cut in November. Furthermore, Westpac and Capital Economics suggested that the MPC should deliver a "circuit-breaking" move (via a 50bps cut) to a more stimulatory stance in order to support activity ahead of the Christmas and summer trading period, while Westpac also highlighted that the shift in the MPC composition, with the departure of its most hawkish member (Bob Buckle) potentially tilting the balance toward a bolder easing. Conversely, ANZ, BNZ and Nomura lean towards a 25bp move, citing the risk of overshooting late in the easing cycle, with ANZ arguing that "you don't normally speed up going into a turn", preferring a dovish 25bp cut now with scope to move further in November.

ANNOUNCEMENT: The announcement is due on Wednesday at 02:00BST/21:00EDT and will likely trigger a significant reaction in the currency given the split views on whether or not the central bank will revert to the jumbo cuts seen earlier in the current easing cycle. Participants will then eye the statement for any clues on policy and if the central bank will continue to lower rates to below its previously projected trough of around 2.50%. Furthermore, it is worth noting that the meeting is a Monetary Policy Review; therefore, it will not be followed by a post-meeting press conference. Note, two weeks ago, the Minister of Finance announced Dr Anna Breman as Governor of the RBNZ for a five-year term from December 1st 2025, Governor Hawkesby will remain in the Governor role until then.

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