Preview: RBNZ Announcement due Wednesday, 27th May at 03:00BST/22:00EDT

- **RBNZ is expected to keep the OCR unchanged at 2.25% for a third straight meeting.**
- **RBNZ language was hawkish-leaning at the last meeting.**
- **Geopolitical uncertainty and mixed data support the case for a pause.**

OVERVIEW: The RBNZ will decide on rates at its meeting on Wednesday, with the central bank widely expected to keep the OCR unchanged at 2.25% for a third straight pause. A recent Reuters poll showed 28 of 29 economists surveyed expected no change, while money markets priced about a 70% chance of a hold and a 30% chance of a 25bps hike.

RBNZ RHETORIC AT THE LAST MEETING WAS HAWKISH-LEANING: The RBNZ maintained rates as expected at its April meeting, though its language was hawkish-leaning as it said inflation was expected to rise and the economic recovery to weaken in the near term. The Committee said it was focused on ensuring inflation returns to the 2% target midpoint over the medium term. The RBNZ said this requires core inflation and wage growth to remain contained and medium- and long-term inflation expectations to stay around 2%. It said decisive and timely increases in the OCR would be required if these conditions were not met. Minutes showed the Committee was alert to any generalised inflationary pressure and stood ready to act to return inflation to target. It said any signs of significant second-round inflation effects or increases in medium-term inflation expectations would require decisive and timely OCR increases to re-anchor inflation expectations. RBNZ Governor Breman said in the online post-meeting press conference that the decision to hold was by consensus and that officials discussed raising rates, but were not close to hiking and there were no strong advocates for a hike. She also said the frequency of rate hikes could be every meeting or every second meeting.

GEOPOLITICAL UNCERTAINTY AND MIXED DATA SUPPORT THE ARGUMENT FOR A WAIT-AND-SEE APPROACH: Despite the central bank's hawkish rhetoric, an immediate rate hike is viewed as unlikely, particularly given global economic uncertainty stemming from the Iran conflict. ASB Bank now forecasts the RBNZ will raise rates in September and December this year, versus its previous forecast for a December hike only, while the NZIER Shadow Board recommends the RBNZ keep the OCR unchanged at 2.25% at this week's meeting. Furthermore, New Zealand's latest key economic data have been mixed, supporting the case for a wait-and-see approach. Employment Change Q/Q for Q1 came in weaker than expected at 0.2% versus an expected 0.3% and the previous 0.5%, although the Unemployment Rate unexpectedly fell to 5.3% versus expectations and the prior reading of 5.4%. Annual inflation in Q1 remained above the central bank's 1%-3% medium-term target range at 3.1% versus expectations of 2.9% and unchanged from the prior reading, increasing pressure for a hike, although the RBNZ's Sectoral Factor Model Inflation Index eased to 2.7% from 2.8%.

ANNOUNCEMENT: The rate decision is scheduled for Wednesday at 03:00BST/22:00EDT, after which attention will turn to the statement for clues on future policy and the central bank's latest rate projections. The last forecasts in February anticipated the OCR at 2.26% by June 2026 and 2.38% by December 2026. RBNZ Governor Breman will also lead a post-meeting press conference, which will begin an hour after the initial rate announcement.