

## July RBNZ preview: Data drought discourages dovish shifts

The Reserve Bank of New Zealand is lacking evidence from data to tweak its hawkish guidance as it is set to keep rates on hold on 10 July. Looking ahead, we suspect non-tradable inflation won't slow as much as the RBNZ estimates in the second quarter, which should delay any dovish turn till at least the autumn



Source: Shutterstock

The RBNZ announces monetary policy on 10 July, and we expect rates to be held at 5.50% in line with consensus and market expectations. We also think it is unlikely to see major changes in the macro assessment and forward guidance. This meeting does not include an update of economic projections (the Monetary Policy Statement), which will instead be published with the 14 August policy announcement.

### Lack of evidence to tweak communication

The most important data release since the 22 May RBNZ meeting was the first quarter GDP report, which showed slightly stronger than expected growth at 0.2% quarter-on-quarter, marking the end of recession in New Zealand. That was perfectly in line with the Bank's May projections and is

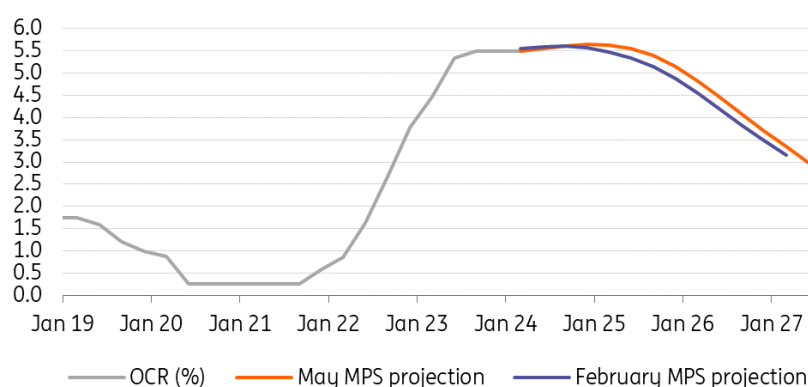
an inherently backward-looking indicator, so it does not argue for any change in communication per se.

The focus for RBNZ remains on inflation – especially the sticky non-tradeable component – and labour market dynamics. On those two themes, the RBNZ is still waiting for second quarter data, which is due on 16 July (CPI) and 6 August (jobs report).

## Reiterating two-sided risks

At the May meeting, the RBNZ revised its rate projections slightly higher, reaffirming its position as one of the most hawkish developed central banks. The new OCR path moderately raised the implied probability of a rate hike, having the average 4Q24 forecast at 5.65% against the current 5.50%. Even more importantly, the OCR is not expected to be cut below 5.50% before 3Q25.

## RBNZ recently revised rate path projections higher



Source: RBNZ, ING

The May minutes show that the RBNZ discussed the possibility of raising rates but concluded that: “while the near-term balance of risks around inflation are skewed to the upside, there is more confidence that inflation will decline to within the target range over the medium term.”. We’ll be looking closely at whether that sentence is tweaked in July. It is possible that the RBNZ won’t discuss hiking this time, but expect many mentions of lingering upside risks to prices and concerns about non-tradeable inflation stickiness.

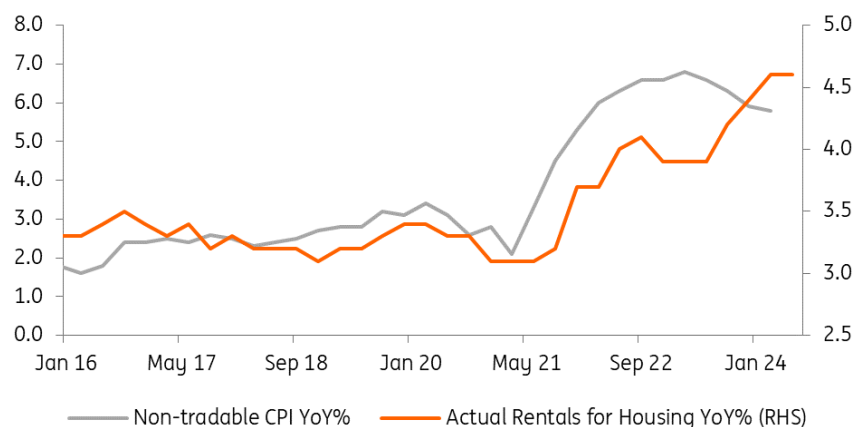
All in all, we doubt the message will be tweaked substantially at this meeting, primarily given the lack of key data for 2Q. Even looking at the global environment, while some central banks have already moved on monetary easing (European Central Bank, Bank of Canada, Swiss National Bank, Riksbank), the RBNZ’s closest peers – the Reserve Bank of Australia and the Federal Reserve – have recently surprised on the hawkish side with their communication. [As we discuss in this note](#), the chances of another rate hike in Australia have risen after consistently higher CPI prints. That is a development that the RBNZ cannot ignore and may contribute to keeping the overall policy message hawkish.

## Good disinflation news may not come before 3Q

We currently estimate New Zealand headline inflation declined from 4.0% to 3.5% YoY in 2Q, marginally below the 3.6% RBNZ projections. Our forecasts may change slightly once June food

prices are published a few hours before the RBNZ announcement, but it's been clear from recent communication that the Bank is much more focused of non-tradeable CPI inflation, which has proven to be quite sticky and triggered the hawkish rate path revision in May.

## Rents hindering non-tradeable disinflation



Source: Macrobond, ING

The RBNZ's 5.3% estimate for 2Q non-tradeable inflation is too optimistic in our view. Rents – which have the largest weight in the index – have ticked higher from 4.5% to 4.6% since February, likely due to the recent rise in migration.

With this in mind, we doubt the RBNZ will be in a position to turn materially dovish at the August meeting either. However, we are more optimistic on disinflation in the second half of this year thanks to the continuous effect of tight monetary conditions and the impact of high migration on rents fading, while the jobs market should continue to loosen on the back of improved labour supply. When adding external pressure from the Fed easing cycle (which we expect to start in September), we retain our view that the RBNZ will cut rates before the end of this year, probably in November.

## NZD: Good fundamentals, but watch the Trump threat

A hawkish RBNZ remains a key argument in favour of a rally in the New Zealand dollar this summer. Indeed, the high-beta character of the currency means that improvement in global risk conditions in the FX market is also necessary. We see softer US macro data providing a good environment for those procyclical currencies that can rely on hawkish central banks and do not face idiosyncratic risks – e.g. politically related.

The Kiwi dollar ticks the first box, but while it can benefit from its distance from EU political turmoil, it is sensitive to rising bets on Donald Trump winning the presidency in November, due to its correlation with China-related sentiment. Still, we can see that NZD/USD has risen despite the two positive events for Trump of the past 10 days (the TV debate and the US Supreme Court ruling), which is a signal that US macro and Fed policy expectations remain a bigger driver than US elections in G10 FX.

We expect NZD/USD to break above the 0.6200 June highs and potentially rally as far as 0.6300

this summer on the back of the aforementioned factors. Depending on the developments in the US presidential campaign, we might revise our short-term target slightly lower. In the fourth quarter, given the chances of an RBNZ cut and the US election event risk, downside risks will be bigger for NZD: our year-end estimate is currently 0.62.

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