

## May RBNZ preview: Not enough reasons to turn dovish

The Reserve Bank of New Zealand has little room to shift to a less hawkish stance as non-tradeable inflation remained too hot in the first quarter, despite a domestic recession and loosening jobs market. We think rate projections will still signal no rate cuts in 2024, but we don't rule out some easing in the fourth quarter



We expect a 50bp rate cut by the RBNZ on 9 October

The Reserve Bank of New Zealand is widely expected to maintain the official cash rate (OCR) at 5.50% at the upcoming 22 May meeting, so the focus will be on new economic projections and forward-looking language.

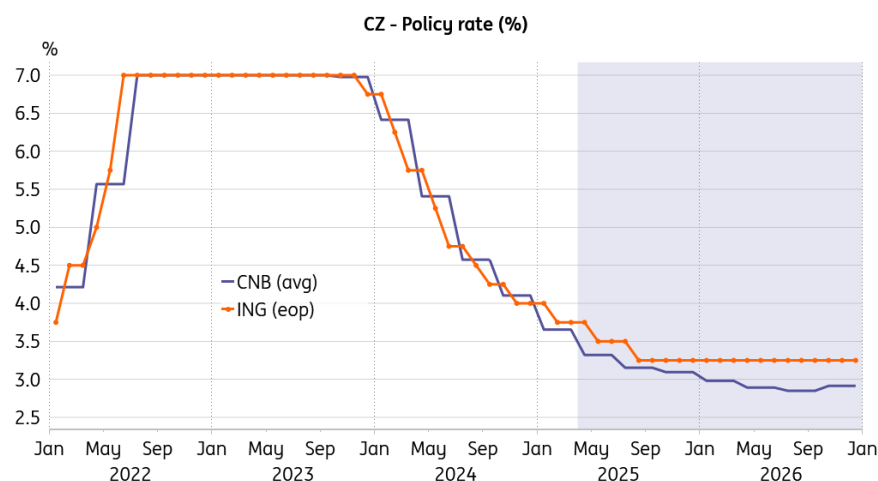
The RBNZ differs from other developed central banks in that it announces policy less frequently and can only rely on quarterly inflation and jobs data, which can ultimately lead to rapid changes in policy direction from the RBNZ. However, the latest indications from the New Zealand economy and modest expectations for Fed easing (50bp by year-end) suggest the RBNZ should be in no rush to pivot to dovish communication.

### Inflation remains too hot despite a slowing economy

The resilience in non-tradeable inflation remains a key concern for the RBNZ: in the first quarter, it

came in at 5.8% versus the RBNZ forecast of 5.3%. The headline rate was 4.0%, only slightly above the Bank's 3.8% projections. Going forward, as the labour market starts to loosen, we expect headline inflation to fall in the second quarter to around 3.6% year-on-year. However, policymakers will watch the developments in non-tradeable inflation more closely, where there remain some upside risks.

## Non-tradeable inflation overshooting projections



Source: Macrobond, RBNZ, ING

One key factor slowing the price deceleration could be incoming migration. Net immigration has risen substantially in NZ over the past couple of years, and while the RBNZ is still uncertain on its impact (upside pressure on demand and rents versus easing labour supply), we [argued here](#) that the risks may be skewed to the inflationary side. However, there are signs migration flows have slowed since the start of 2024.

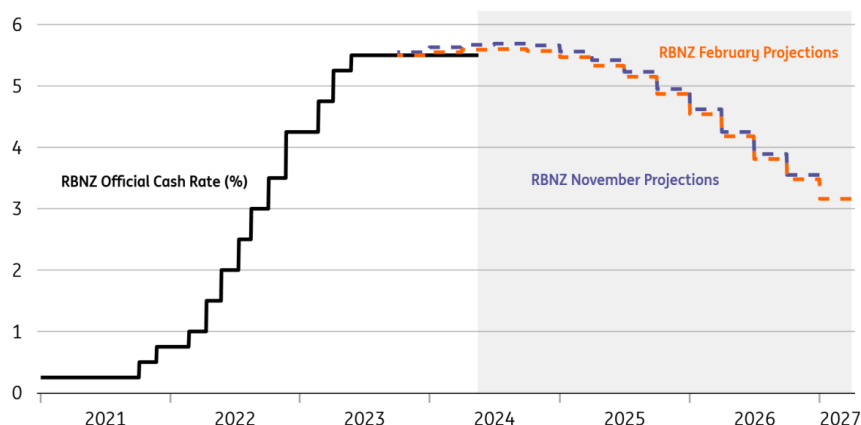
While inflation remains too hot, growth and the jobs market have moved in the other direction. In the first quarter, the unemployment rate climbed to 4.3%, private wage growth slowed from 1.0% to 0.8% quarter-on-quarter, and the economy was in recession after GDP disappointed with a -0.1% QoQ. These economic developments do point to some disinflation ahead, but do not directly impact the RBNZ decisions after its remit was changed in December to only target inflation.

## RBNZ should keep rate projections unchanged

We think the RBNZ will remain hawkish in May, and leave the rate projection profile broadly unchanged. That would mean no rate cuts and a small chance of another hike in 2024, plus around 75bp of easing in 2025. In terms of forward guidance, we think the Bank will reiterate that "interest rates need to remain at a restrictive level for a sustained period to ensure annual consumer price inflation returns to the 1 to 3 percent target range".

Looking ahead, we believe the RBNZ's hope to see inflation back in the target range by year-end are justified, but given data lag and non-tradeable inflation risks, the chances of any cuts before the fourth quarter are slim. If we are right with our Fed call (75bp of easing in 2024), then one or two cuts by the RBNZ in 4Q (October and November meetings) are still a possibility.

## Latest RBNZ rate projections point to no 2024 cuts



Source: RBNZ, ING

## NZD may have jumped the gun, but RBNZ remains supportive

We do not expect a substantial market impact from the RBNZ May decision. The Kiwi dollar is the best performing currency since the start of May (+3.7%) thanks to its high sensitivity to lower USD yields and better risk sentiment, along with a domestic monetary policy outlook that still grants attractive carry.

If anything, a reiteration of a hawkish stance by the RBNZ can prompt some hawkish repricing in domestic rate expectations (47bp of easing priced in by November) and help NZD reinforce its strong position. The NZD curve should, however, remain highly influenced by Fed pricing in the foreseeable future, and crucially until new key data in New Zealand are released on 16 July (CPI) and 6 August (jobs report). There is another RBNZ meeting (10 July) before then.

The NZD/USD rally may have occurred a bit too early in our view, and there are risks that US data will not endorse another leg higher in high-beta currencies in the near term. However, the summer months remain a good window for NZD/USD to stage a new rally to 0.63 before the US election risk kicks.

### Author

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s),

as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).