

Reserve Bank of New Zealand: One cut this week, one more to go

The Reserve Bank of New Zealand (RBNZ) is widely expected to cut rates by 25bp to 3.0% on 20 August. We expect to see indications that one final cut will follow, in line with market expectations and our own call. We retain a constructive view on NZD/USD, primarily on the back of expected USD weakness as the Fed restarts cutting



Wellington, New Zealand

The Reserve Bank of New Zealand will meet on 20 August for the first time since 8 July, when it decided to hold the official cash rate (OCR) at 3.25%. We expect a 25bp cut to 3.0%, in line with pricing, consensus and the RBNZ's own rate projections.

Market focus will therefore be on new economic and rate projections alongside any updated forward guidance. In May, the RBNZ had signalled a roughly 60% probability of one final cut to 2.75%. We think there is a decent possibility the new rate path will fully incorporate that extra cut, but since markets are fully pricing in 2.75% as a terminal rate, we don't expect that to be read as particularly dovish.

Our RBNZ call remains unchanged: one cut in August, one cut in November, and that to be the end of the easing cycle.

Inflation has moved as expected

The acceleration from 2.5% to 2.6% in the second-quarter headline CPI was close to the RBNZ's May projection of 2.6%. What probably matters most for policymakers is the slowdown from 4.0% to 3.7% in non-tradable CPI, which perfectly matched the Bank's projection.

The RBNZ is forecasting non-tradable inflation to moderate to 3.4% by year-end and to just below 3.0% by 4Q26. As new economic projections are released today, any revisions to that will be closely watched. While service prices have been stickier than expected in previous quarters, we broadly agree with the RBNZ's projections and think that would be consistent with a terminal rate of 2.75%.

Growth outlook still subdued

Second-quarter growth data will only be published in September, but the 0.8% quarter-on-quarter first-quarter print exceeded both the market and RBNZ forecasts. Uncertainty remains elevated, but PMIs and other business surveys have shown improving sentiment in the summer.

New Zealand has been hit by a 15% reciprocal tariff on exports to the US, which are worth around 2% of GDP and 12% of total exports. Meat and dairy are the main components and are not expected to be subject to additional sectoral tariffs.

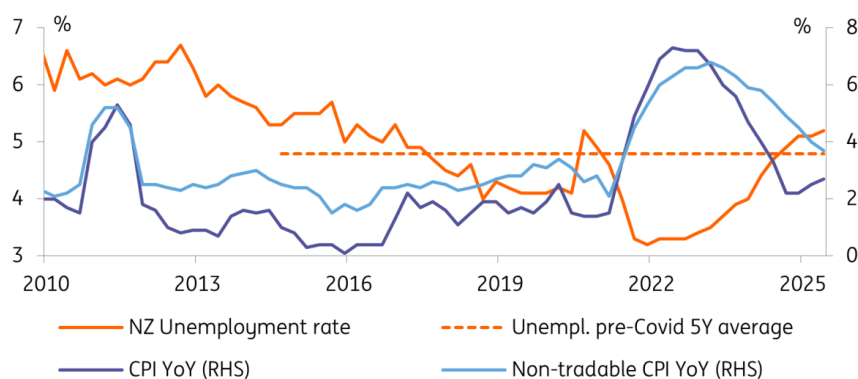
Based on current information, growth probably moderated in the second quarter, but should still come in positive quarter-on-quarter, possibly in the 0.1-0.4% region. That should be roughly in line with the RBNZ expectations, leaving most of the attention on inflation and the jobs market, rather than growth.

Labour market softening supports ongoing easing

Despite the growth surprise, the labour market continues to show signs of cooling. The unemployment rate ticked up to 5.2% from 5.1% in 2Q, remaining elevated compared to pre-Covid levels and marking the highest rate since September 2020. This softening is in line with the RBNZ's expectations and supports the case for easing.

Additionally, annual wage inflation has slowed to 2.4%, down from 4.3% a year earlier, suggesting reduced pressure on employers to retain or hire at previous wage levels.

Unemployment rising, inflation slowing



Source: ING, Macrobond

NZD/USD remains primarily a US story

Since markets are almost fully aligned with our call for two more RBNZ cuts this year, we do not see much room for idiosyncratic weakness of the Kiwi dollar. Our economic view for New Zealand is largely aligned with that of the RBNZ, which is consistent with a 2.75% terminal rate.

The primary direction of travel for NZD/USD will continue to be set by US events. Our call is for 75bp of Fed easing by year-end, which can favour some rotation into commodity currencies like NZD. A major risk remains the re-ignition of the US-China trade spat, although the latest extension of the tariff pause suggests a de-escalation.

We have recently [updated our FX forecasts](#). We now expect NZD/USD to move back to 0.60 by the end of this quarter and rise to 0.61 by year-end.

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