

Reserve Bank of New Zealand preview: we expect a 50bp cut

We believe the Reserve Bank of New Zealand will follow the Fed on 9 October with a half-point cut, as a sluggish activity picture and lower inflation are adding pressure to bring real rates down at a faster pace. After that, 25bp reductions appear more likely, but markets may stay on the dovish side of pricing for longer, and NZD should struggle to recover



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

Negative growth in 2Q adds pressure to ease policy

The RBNZ meets on 9 October for the first time since the August 25bp surprise rate cut. Policymakers have not received any new information on inflation, as the CPI report is only published quarterly. The second quarter print, released in July, showed headline inflation slowing more than expected to 3.3%, while the non-tradable measure was a bit stickier than expected at 5.4%.

However, there has been some news on growth. New Zealand moved back into negative growth territory in 2Q, with quarterly activity down -0.2%, translating into -0.5% year-on-year. That was not as negative as expected by markets and the RBNZ's own projections, but the loss of economic momentum is still adding pressure to bring rates rapidly close to neutral now that inflation has slowed.

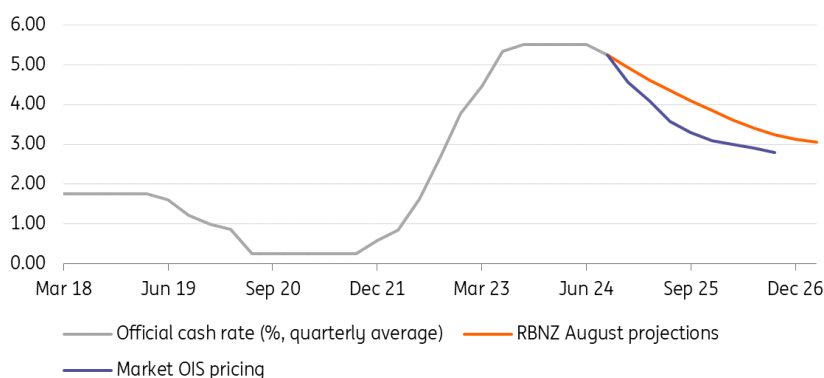
A 50bp cut on inflation optimism

We expect a 50bp cut to 4.75% at the October meeting, which is in line with consensus, but more dovish than the RBNZ projections, which included 50bp of total easing in 4Q24 (the next meeting is in November).

Markets are pricing in -44bp for October and another 50bp cut for November at the time of writing, although there is a risk of some moderate scaling back of those dovish bets after the [stronger-than-expected US payrolls](#). Still, it is likely the New Zealand dollar curve will embed a higher than 50% probability of a 50bp cut once we get to this October meeting, and policymakers may not have too much incentive to disappoint markets and the consensus.

Naturally, a 50bp cut requires an optimistic view on the disinflation path. The RBNZ's latest projections have headline CPI at 2.3% and non-tradeable CPI at 5.1% in the third quarter. We see a non-negligible risk of inflation having dropped below the 2% target range mid-point, but non-tradable CPI should continue to be stickier. Accordingly, this 50bp cut may be a one-off move, with the RBNZ defaulting back to 25bp gradual reductions into a terminal rate close to 3%.

Market pricing more dovish than RBNZ projections



Source: RBNZ, Refinitiv, ING

NZD to stay under pressure

From an FX perspective, we expect a negative impact on NZD from a 50bp RBNZ cut. Markets aren't fully pricing in such a move, and unless there is very strong wording against further half-point reductions ahead, the NZD OIS curve will probably price in a good probability of another 50bp for the 27 November meeting.

Ultimately, a slightly above consensus non-tradable CPI on 15 October might help some hawkish repricing and offer some relief to NZD, but the turbulent risk sentiment situation due to Middle East tensions, combined with some potential defensive pre-positioning ahead of US elections may cap NZD rebound attempts. NZD/USD could trade back close to 0.6100 before the US election.

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