Economic Alert

MONETARY POLICY STATEMENT — JULY 2025

Wednesday, 09 July 2025

"The Monetary Policy Committee today agreed to hold the Official Cash Rate at 3.25%."

The good news is:

"Elevated export prices and lower interest rates are supporting a recovery in the New Zealand economy."

The bad news is:

"Heightened global policy uncertainty and tariffs are expected to reduce global economic growth. This will likely slow the pace of New Zealand's economic recovery."

Unfortunately, CPI will likely rise ...

"Annual consumers price inflation will likely increase towards the top of the Monetary Policy Committee's 1 to 3 percent target band over mid-2025."

Before it falls ...

"However, with spare productive capacity in the economy and declining domestic inflation pressures, headline inflation is expected to remain in the band and return to around 2 percent by early 2026."

To sum it up ...

"If medium-term inflation pressures continue to ease as projected, the Committee expects to lower the OCR further."

Comment:

While most economists predicted the RBNZ would leave the OCR unchanged at this meeting, some may have expected a more dovish statement to follow. But having already cut the OCR by a cumulative 2.25% to date and with inflation likely to firm towards the top of its 1.00%-3.00% band over mid-2025 before settling back towards the mid-point of its range in early 2026, it is buying itself some time to see how things evolve. Uncertainties abound, both locally and offshore.

It was also noticeable that the RBNZ continued to align itself with the wider central bank community, highlighting the wait-and-see approach as, "*Some members emphasised that waiting would allow the committee to assess whether weakness in the domestic economy persists, and how inflation and inflation expectations evolve.*"

The fact the statement highlighted that the members are anticipating a near-term lift in inflation to some extent limits the Governor's ability to cut rates until later in 2025 as, "*The costs of trade could increase by more than assumed as global supply chains adapt to trade barriers, increasing inflationary pressure*". From here, policymakers will also be keeping a close eye on the June quarter inflation release (due 21 July) as "*The case for keeping the official cash rate on hold at this meeting highlighted the elevated level of uncertainty, and the benefits of waiting until August in light of near-term inflation risks.*"

Without a doubt, the RBNZ is hedging its bets with "*a fiver each way!*"

Market Implications:

The market reaction was initially quite violent with the NZD/USD spiking 25pips while swap prices gapped 5bps higher, but this proved brief, most of those moves reversing as the relevance of the "*... waiting until August ...*" comments caught the attention of traders - leaving the NZD back at pre-release levels while swap rates are flat in the shorter end and 3bps higher at the longer end amid a steepening curve.