

# Economic Alert

MONETARY POLICY REVIEW — OCTOBER 2025

Wednesday, 8 October 2025

***"The Monetary Policy Committee today agreed to reduce the Official Cash Rate by 50bps to 2.50%."***

## **Because ...**

*"The case for reducing the OCR by 50 basis points emphasised prolonged spare capacity and the associated downside risk to medium-term activity and inflation."*

## **The good news is ...**

*"Annual CPI inflation is expected to converge to the mid-point of the target range in the first half of next year as tradables inflation pressures dissipate and spare capacity continues to moderate domestically generated inflation."*

## **There continues to be a definitive downward bias as ...**

*"Domestic inflationary pressures have continued to moderate as projected, giving the Committee more confidence that inflationary pressures are contained."*

## **But wait a minute ... this doesn't make sense ...**

*"The Committee discussed the contraction in GDP in Q2 2025, which was considerably larger than expected. The Committee noted that an unusually large seasonal balancing item contributed to the weakness in the headline figure. This is expected to be reversed during the remainder of the year and is not assumed to have material implications for monetary policy."*

## **Finally ...**

*"The Committee remains open to further reductions in the OCR as required for inflation to settle sustainably near the 2.0% target mid-point in the medium term."*

## **Comment:**

Having suddenly been thrust into the role of acting-Governor in March, Christian Hawkesby is now in the 'dead-man-walking' category as he waits out his tenure in advance of Dr. Breman assuming full control on the 1st December. Given that Mr. Hawkesby will be leaving office imminently, did it perhaps tip him over the edge into being more aggressive? Regardless, there was a consensus amongst the voting members this time around that a 50 basis point cut was needed.

The key take out from the statement was the various references that inflation is expected to return to its range despite the anticipated brief Q3 bounce towards 3.0%. It would appear that this was enough to tip the balance in favour of a 50bps cut rather than a more typical 25bps cut. Interestingly, after referencing the poor data in Q2, which led to talk of a 50bps cut in August, the Committee this time referenced, *"an unusually large seasonal balancing"* that will be reversed in the remainder of the year, suggesting a rebound in GDP in the coming quarters.

## **Market Implications:**

Immediately after the announcement the NZD/USD fell from the 0.5800 level to 0.5750, while the NZD/AUD fell 65 pips to 0.8750. The NZD/EUR eased back below 0.4950, the NZD/GBP fell through the 0.4300 level, while the NZD/JPY plummeted from 88.25 to 87.60! With the NZD weaker across the board, the question now is how much further downside momentum will be generated on the Northern Hemisphere openings tonight? This is most relevant for the NZD/USD, which is currently sitting just above key support levels at 0.5738 and 0.5710.

The swaps market had been extremely quiet ahead of the announcement, although it then sprang into action with a vengeance after the announcement. Currently, swap rates are 5bps-6bps lower across the curve, although the full brunt has been felt by the 1-year swap, which has fallen 12bps to 2.40%. The market is still fully pricing in another 25bps at the next meeting on the 26-November, with a 55% possibility of a further OCR cut to 2.00% in Q2 2026.



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