

Economic Alert

MONETARY POLICY REVIEW – NOVEMBER 2025

Wednesday, 26 November 2025

“The Committee voted 5 to 1 to reduce the OCR by 25 bps to 2.25%.”

And ...

“Future moves in the OCR will depend on how the outlook for medium-term inflation and the economy evolve.”

The good news is that ...

“Economic activity was weak over mid-2025 but is picking up. Lower interest rates are encouraging household spending, and the labour market is stabilising. The exchange rate has fallen, supporting exporters’ incomes.”

Internationally:

“Global economic growth has benefited from strong AI-related investment but is expected to slow in 2026 as trade barriers weigh on activity.”

But ... risks remain ...

“Risks to the inflation outlook are balanced. Greater caution on the part of households and businesses could slow the pace of New Zealand’s economic recovery.”

But ... on the other side of the ledger ...

“The recovery could be faster and stronger than expected if domestic demand proves more responsive to lower interest rates.”

Interestingly ...

“The Committee discussed the options of holding the OCR at 2.50% percent and lowering the OCR to 2.25%, noting low tolerance for prolonging the return of inflation to the target mid-point.”

Comment:

Summing up the statement, it appears one consideration was to hold the OCR at 2.50% given the “considerable reduction in

the OCR to date, which is still working its way through the economy” and because the “Economic indicators are recovering, and economic activity is expected to strengthen through 2026.”

But despite this, the justification for the rate cut was simple ... “There is significant spare capacity in the economy, which has opened up since mid-2024.”

With Dr. Breman assuming full control as Governor from Monday, the key take-out from the statement is that the central bank’s outlook is a lot more balanced than many had anticipated, and any future OCR moves will depend on how medium-term inflation and the economy evolve from here.

Market Implications:

The balanced statement, and the fact that one of the MPC members voted to hold the OCR at 2.50%, saw the NZD/USD surge 0.8% in the immediate aftermath of the announcement, rallying from 0.5625 to 0.5670. The NZD was also stronger on the crosses with NZD/JPY surging over 1% to 88.75, while NZD/AUD spiked to a 3-week high at 0.8750. NZD/EUR reclaimed the 0.4900 level, NZD/GBP is back above 0.4300, while NZD/CNH has firmed from 3.9850 to 4.0215.

The RBNZ’s OCR track implying a reduced chance of a further rate cut than what the markets had been implying, with the RBNZ’s base at 2.20% against the markets 2.10%, swap rates have moved higher, essentially locking in the recent gains from last month’s lows with the short-end of the curve 5bps-6bps higher while the longer end is 4bps-5bps higher. This has seen the 2-year vs. 10-year spread compress to 115bps. It should also be noted the RBNZ’s OCR projections are pricing in a rate hike in Q2 2027.

While many will debate the merits, the price action suggests that the bottom has now been established. If that is indeed the case ... there’s only one way to go ...



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