Economic Alert

MONETARY POLICY REVIEW — MAY 2026

Wednesday, 27 May 2026

"The Committee agreed to hold the OCR at 2.25%"

Noting that …

"Annual inflation was 3.1% in the March quarter. The Middle East conflict is increasing near-term inflation and weakening economic activity. Inflation is expected to peak at 4.3% in the September quarter."

The good news is that …

"Currently, core inflation, wage growth, and medium- to long-term inflation expectations remain consistent with inflation returning to the 2.0% target mid-point over the medium term."

The risk is that while …

"Three members (Anna Breman, Karen Silk, Paul Conway) judged that holding the OCR at 2.25% was appropriate " … "Three members (Carl Hansen, Hayley Gourley, Prasanna Gai) preferred to increase the OCR by 25 bps, to 2.50%"

With the vote at 3-3, the chairperson had the deciding vote!

Meaning …

"All Committee members agreed that increasing the OCR at upcoming meetings would likely be necessary to ensure higher near-term inflation does not feed through to higher medium-term inflation."

With the risk being …

"On balance, the OCR will most likely need to increase sooner and by more than envisaged in the February Monetary Policy Statement."

Ultimately …

"The pace of OCR increases will depend on the relative influence of persistent wage and price-setting behaviour versus weaker economic activity on medium-term inflation pressures."

Comment:

While the RBNZ met market expectations by keeping the OCR unchanged at 2.25%, the policy meeting delivered a hawkish surprise for complacent observers: three committee members voted for a rate hike. Notably, a clear split emerged along internal lines. All three central bank staff members voted for the status quo, whereas the three external, independent members voted to hike. The fact it was the external members who voted for a 25bps hike highlights the deep institutional nuance. Ultimately, Governor Breman had to use her chairperson casting vote to break the 3–3 tie to maintain the OCR at 2.25%. The split underscores a looming hawkish shift indicating that rate hikes may be imminent.

The statement explicitly blamed the Middle East conflict for driving a near-term inflation spike and clouding the medium-term economic outlook, with the RBNZ now explicitly expecting annual headline inflation to peak at 4.3% in the September quarter, before trending back down toward its 2.0% target mid-point by mid-2027.

Market Implications:

The NZD has firmed a little against the USD, from 0.5840 to 0.5870. More significantly, the RBNZ's hawkish undertones—combined with a weaker-than-expected Australian CPI print—pushed NZD/AUD up from a morning low of 0.8136 to 0.8210. On the major crosses, the NZD is currently trading slightly higher.

The short end of the NZ swap curve also adjusted upward. The 1-year swap rate is up 5bps to 3.17% (55bps above the current floating rate), while 2-year and 3-year yields firmed by 4bps and 3bps, respectively. Markets are implying an 80% chance of an OCR hike at the next meeting on 8 July, and a total of three hikes by the end of the year.

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