Macro & Strategy Research

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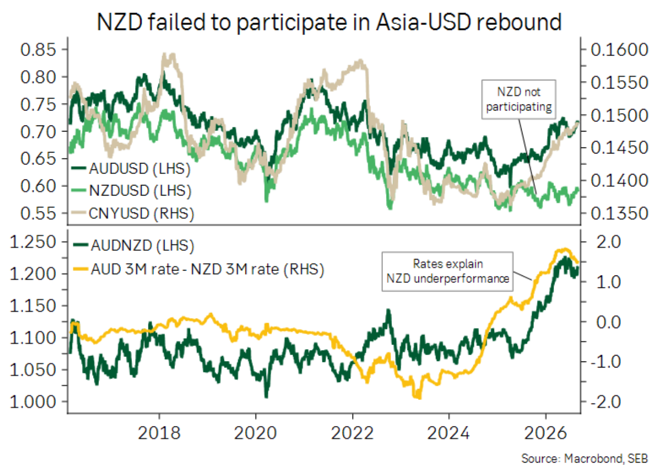
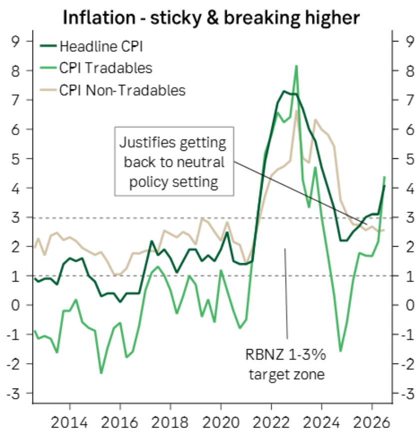
NZD: Neutral is not enough

NZD has lagged the Asia-USD rebound, but the RBNZ's shift towards tightening has at the same time supported a rotation away from NZD as a funding currency, helping NZD strengthen against lower-yielding currencies such as SEK. With the market pricing a hiking cycle beyond neutral, the RBNZ is likely to struggle to live up to expectations, leaving limited scope for further NZD upside.

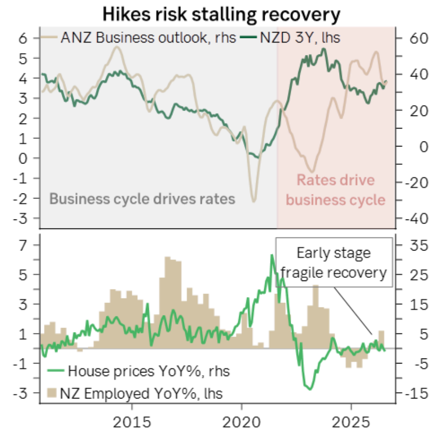
- **NZD has lagged the Asia-USD rebound** in 2026, while peers such as AUD and CNY have strengthened. The underperformance can largely be explained by **local rates and a cautious RBNZ** (left chart).
- As we argued in [FX Pilot in May](), **a credible RBNZ tightening cycle** emerging over the summer had the potential to trigger a narrative shift: NZD would become less attractive as a funding currency and strengthen into H2.



- **The market is pricing that the hiking cycle has only begun – starting to look too optimistic.** A 25bp hike to 2.75% is fully priced for tomorrow, with more than two additional hikes priced by end-Q1 2027. The RBNZ therefore needs to deliver to sustain the shift away from NZD as a funding currency.
- **The macro backdrop remains mixed.** The RBNZ appears comfortable taking rates to around neutral at 3.0%, but the hurdle for further hikes looks higher. The labor market and recovery remain weak, while inflation has surprised on the downside – although it is still too high.
- Governor Breman said in July that **two further hikes before year-end were "not realistic"**, highlighting the risk that the market is getting ahead of the RBNZ.

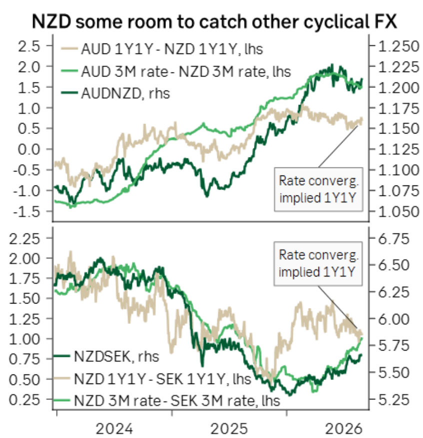


Source: Bloomberg, Macrobond, SEB



Source: Bloomberg, Macrobond, SEB

- **Further upside in NZD therefore looks limited.** The funder rotation from NZD to SEK, highlighted in our last FX Pilot, has played out. With the RBNZ hiking cycle looking overpriced, **NZDSEK upside should be more limited**.



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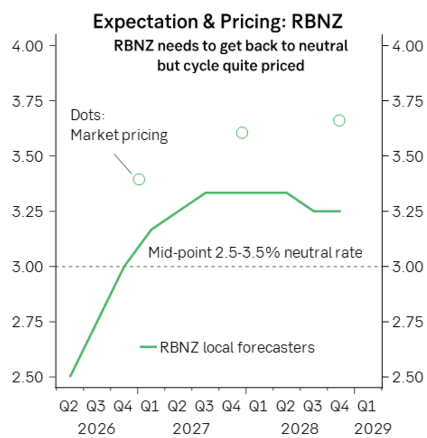

Source: Bloomberg, Macrobond, SEB

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