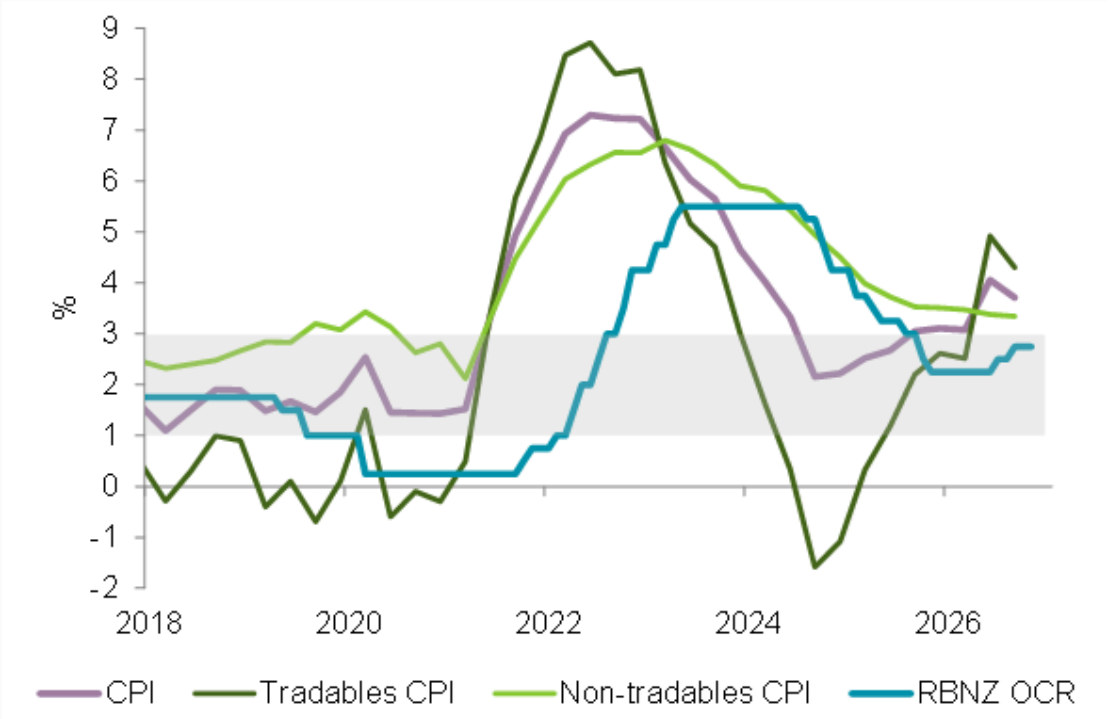
28 October 2026

RBNZ Pauses Hikes, Grounding the Kiwi

Reserve Bank of New Zealand (RBNZ) surprised the market by keeping the policy rate at 2.75%. Yet, the inflation target demands a return to tightening by December. A reluctant RBNZ forces a re-assessment of our NZD/USD yearend target of 0.58. Current market pricing for RBNZ is overstretched relative to what the fundamentals can bear. With the RBA ready to fly and the RBNZ clipping its own wings, expectations of rate convergence will fade. We expect AUD/NZD to find fresh buyers on any dip around 1.248.

Reserve Bank of New Zealand (RBNZ) surprised the market by keeping the policy rate steady at 2.75%. In a 4-3 vote split, the Monetary Policy Committee left the market wrong-footed as market consensus virtually guaranteed a 25bps hike. Governor Breman and three fellow committee members preferred to pause and assess the lagged impact of earlier back-to-back rate increases since July. Since New Zealand pioneered formal inflation targeting in 1990, price stability has been the central bank's North Star. The current remit specifies an inflation target range of 1-3% (Chart 1).

Chart 1: RBNZ surprises with unchanged policy rate despite elevated inflation

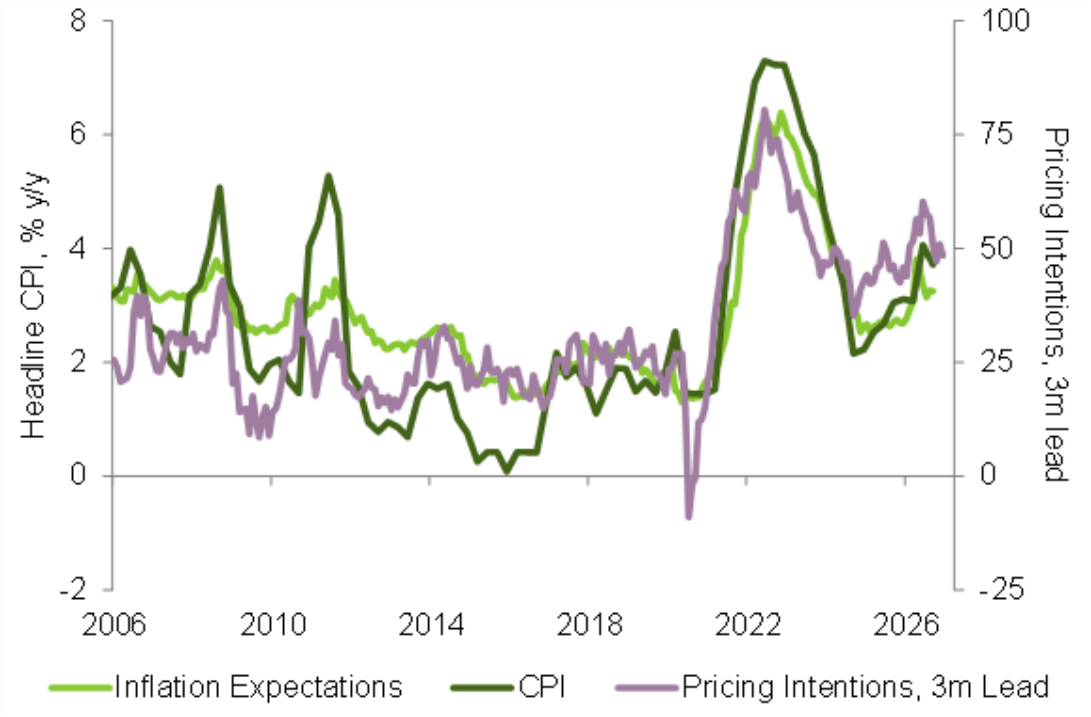


Source: CEIC, SEB

RBNZ may be taking a tactical breather, but the inflation target demands a return to tightening by December. The undeniable surge in tradables inflation is compounded by sticky non-tradables prices running above the 3% threshold. Broadening price pressures, sticky inflation expectations and elevated

business pricing intentions leave little margin for comfort (Chart 2). Persistent global energy market disruptions mean that enterprises can no longer delay passing on higher input costs to consumers. Overall, there is little room for RBNZ to prolong the pause, in our view.

Chart 2: Inflation expectations and pricing intentions point to price pressures



Source: CEIC, SEB

Although RBNZ is signalling tighter policy looms in the near term, it has attached a heavy leash to its hawkishness. During the press conference, Governor Breman has reiterated that rate hikes are "conditional" on the data. While every committee member concurs that higher rates loom, the majority felt constrained by the mixed growth outlook. Although business surveys point to continued growth, caution reigned supreme today. Household consumption is weak and saving rates are well above historic norms.

A reluctant RBNZ forces a re-assessment of our NZD/USD yearend target of 0.58. The Kiwi took a beating after traders found themselves on the wrong side of the trade. The pair plunged more than 1% to a low of 0.5590 immediately after the announcement. Historically, the RBNZ's single-minded focus on inflation led markets to price in an aggressive tightening path. We reiterate our view that the central bank has space to hike 50bps through Q1 2027. Conversely, market is still pricing in over 100 bps in hikes over the next 12 months even after the unchanged policy stance today. Yet, the RBNZ's hesitation today proves that market has sprinted ahead of economic reality. Higher rates may be looming. Yet, Governor Breman has already indicated that conditions are good for inflation to slow down in 2027. Overall, **current market pricing for RBNZ is overstretched relative to what the fundamentals can bear.**

The RBNZ's hesitation removed a near term speed limit to AUD/NZD. While the cross is still trading above market implied policy rate differential (Chart 3). Today's pause forces a reality check. A stark contrast in policy bias between the Antipodean central banks has been highlighted. RBA stands ready to

act after the hotter-than-expected Q3 CPI print prompted RBA Governor Bullock to question if policy is tight enough. With the RBA ready to fly and the RBNZ clipping its own wings, expectations of rate convergence will fade. **We expect AUD/NZD to find fresh buyers on any dip around 1.248.**

Chart 3: Hopes of rate convergence will fade, lifting the cap on AUD/NZD



Source: Bloomberg, SEB

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