THURSDAY 27 AUGUST, 2026

Our Take
Kiwibank economics.

Another RBNZ rate hike is expected, as the committee rolls on towards 3%.

The RBNZ is expected to hike the cash rate from 2.50% to 2.75% next week. It's the second in a likely 3-step move to 3%. They want to remove stimulatory settings to ensure inflation settles back down near 2%.

We remain of the view that interest rates should remain stimulatory for now, to encourage investment and hiring. The economy needs support, and inflation pressures should ease from here. Everything shows up in the un(der)employment rates, which are rising. And wage pressures are subdued at 2%. There is little sign of a wage price spiral. The weakness of the housing market, especially across the North Island, is doing little to entice development or consumption… the so-called wealth effect.

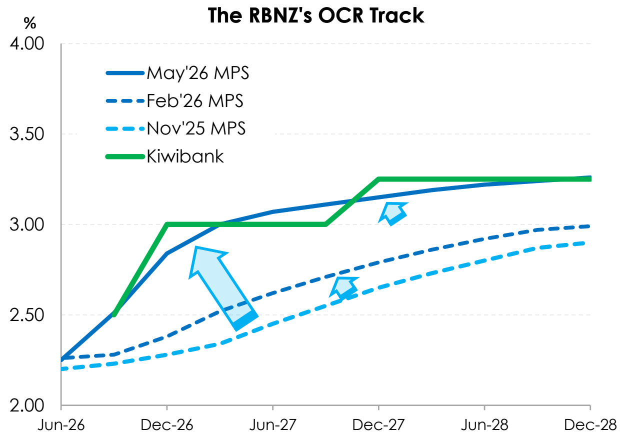
But the RBNZ have their reasons, and they've told us as much. The RBNZ's path has been well telegraphed, with wholesale rates market pricing in a near-100% probability of a move to 2.75% next week. A 3% cash rate is fully priced by year-end. Hikes are thought to continue next year, with an implied cash rate of 3.65% to end 2027. We disagree.

The RBNZ is expected to continue hiking the cash rate from 2.50% to 2.75% next week. We expect the RBNZ's committee to reach a full consensus. We believe their last move from 2.25% to 2.5% was the first in a 3-step push to 3%. Their decision was to remove stimulatory settings and put interest rates in neutral. Neutral is around 3%. It doesn't help the recovery. But it doesn't hinder it (much) either.

The last paragraph for their last statement lays out their intent, with optionality:

"With inflation still above target and economic activity expected to strengthen, some further reduction in monetary stimulus is likely to be required to return inflation to the 2 percent target mid-point. Future OCR decisions will depend on how incoming data, price-setting behaviour, and the strength of economic activity affect medium-term inflation pressures." (RBNZ media release, July 2026)

Inflation remains a problem, for now, and they will pivot if the economy fails to recover (again). Even the best laid plans... need a back-up. Such optionality to pause and assess (or even reverse course) may come into play as we head into 2027. But for now, we expect the RBNZ playbook OCR track to remain largely unchanged. They hike to 3%, and will likely hike again to 3.25% in time. See chart above.



We remain of the view that interest rates should remain stimulatory for now, to entice and encourage investment and hiring. The economy needs support, and inflation pressures should ease from here. If it were up to us, we would have left the cash rate at 2.25%, and look to commence tightening after the election. Here's why…

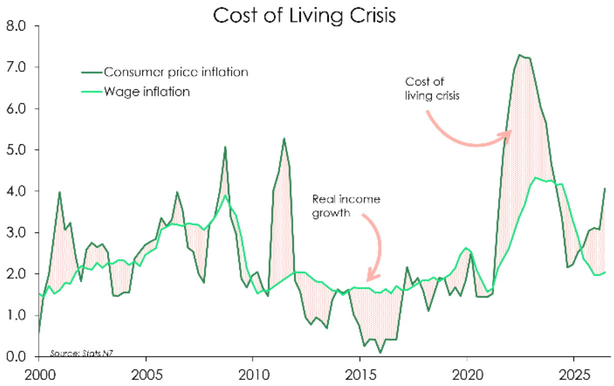
Uncertainty kills growth. And the heightened uncertainty from the war in the Middle East is causing many businesses to delay or cancel projects, and households to adjust spending patterns. Delayed spending may have caused a contraction in activity over 2Q 2026. And 3Q is not looking much better. It reminds us of 2024 and 2025. The economic recovery has hit yet another speed bump.

This is a supply shock, that is causing demand destruction.

At this stage, oil inventories are being drawn down slowly. But the price is having an impact. There has been significant demand destruction in poorer Asian countries, and across Africa. The poor demand less, as the rich pay the higher price. That theme is playing out within Aotearoa as well. Poorer households suffer more.

The so-called cost-of-living crisis (following food, rates, insurance and many other price hikes) continues to frustrate businesses (unable to pass it on) and restrain households (unable to keep up). **It is simply too early to assess the inflationary pulse, and the likely unwind. It is too early to gauge the impact on demand. And it is too early to**

see the adverse effects in the labour market. Therefore, it's too early for the RBNZ to hike.



Wholesale rates are on another level.

The market is right, for now, but overly eager later on.

There are 24bps priced in for next week, that's roughly a 96% probability. Fair enough. The RBNZ has been pretty explicit.

Traders are then torn between another hike in October or December, with 13bps and 17bp priced, respectively. We believe the RBNZ won't muck around, and deliver their third move in October, and pause thereafter. Either way, a hike to 3% by year end is more than fully priced (with 3.04% in December OIS). We may disagree with the need to hike, but we agree that this is what the RBNZ have signalled.

Things get a little too aggressive beyond this year. Market traders have priced in another 65bps of hikes over 2027. Say it ain't so.

Only the most hawkish commentators and economists have hikes to 3.5% or beyond. We believe they will get to 3.25% next year. The Kiwi OIS rates market has 3.65% by December 2027, and a continuation to 3.75% by mid-2028.

That's well above the consensus. If the hawks are right, and they hike to 3.5%, short dated rates are overcooked. If we're right, short dated rates are a long way from home.