

US inflation impacts NZ mortgage rates

- One look at the American economy gives the impression that everything is awesome. Inflation is coming down, with rapidly expanding industries, and strong economic growth. So what's happening with US (and global) rates? And why is there upward pressure on New Zealand mortgage rates.
- The labour market is showing signs of stabilisation with another rise in jobs. It's a positive sign amidst revised Treasury forecasts showing unemployment will stay higher for longer than expected in May.
- Manufacturing remains a hot spot amidst lukewarm business confidence data for September. Consumers do not share that optimism. Improved consumer sentiment is the crucial missing ingredient for New Zealand's economic recovery.

So how does a softer than expected inflation print in America affect mortgage rates in New Zealand. Well, wholesale interest rates tend to move together, around the world, especially out the long end of the curve (+5 years).

Looking over at the US economy, it really looks like everything is awesome. Their inflation rates are coming down, while real consumer spending is up. Core inflation is heading in the right direction, and the unemployment rate is still relatively low at 4.2%.

The US is experiencing some slight cooling in job creation, but their manufacturing and services sectors are in solid expansionary territory. Equity earnings are also surprising to the upside. Tech sector earnings are beating hyped expectations and elevating the S&P 500 and other indices.

What does this mean for mortgage rates in New Zealand? Strong American economic performance can make financial markets traders price in higher interest rates, with the Fed likely to hike again. And expectations are for higher for longer. Because New Zealand is a small fish in a massive pond, wholesale funding costs are always influenced by international developments. Higher US bond yields have pushed wholesale swap rates in New Zealand. And that can mean higher fixed mortgage rates. See our chart of the week for a deeper dive into wholesale rates.

Across the ditch, the Reserve Bank of Australia hiked interest rates by 25 basis points. No one was surprised. And the rate differentials with New Zealand remain wide... Because the RBA are poised to hike again at their next meeting. The



Kiwi (NZD) remains weak against the Aussie. Although the Aussie CPI came in softer than expectations, it will still represent a level high enough to keep the RBA uncomfortable. So a further RBA hike is on the cards.

Here at home, last week gave us lots of data to mull over.

The labour market is stabilising. Filled jobs rose again in September after a solid August. We were pleased to see that growth in jobs was relatively broad-based across all industries. Regional disparities remain stark. Canterbury punched above its weight, while Northland took a hit.

The Government pulled back the curtains on its financials with the Pre-election Economic and Fiscal Update (PREFU). The fiscal position slightly improved, while the economic outlook was a little softer. Unemployment and inflation will stay a little higher for a little longer. The Government still expects its books to return to surplus in 2029, but with a bit more wriggle room at \$4 billion versus \$2.6 billion forecast in May. The Government also expects to issue fewer bonds, down \$15 billion over the next four years. That's less debt... and it's a major priority of the National government.

[Check out our thoughts on PREFU for more detail.](#)

Manufacturing continues to do well. ANZ's Business Outlook showed a small decline in overall business confidence. But the manufacturing industry is bucking the trend. Manufacturers are far more confident, and far more upbeat about export intentions, profit expectations and employment intentions. This aligns with the recent PMI data, showing manufacturers are benefitting from strong offshore demand and a weak Kiwi dollar.

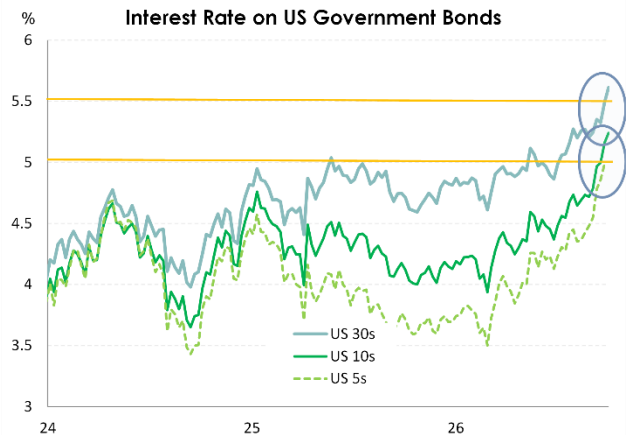


Consumers aren't sharing in manufacturers' optimism. And that's a worry. Consumer confidence was largely unchanged in September, remaining at subdued levels. Thankfully, two-year ahead inflation expectations eased off. But so did expectations of house price growth. We're still waiting for a meaningful recovery in consumer sentiment, which is a critical missing ingredient for stronger domestic demand.

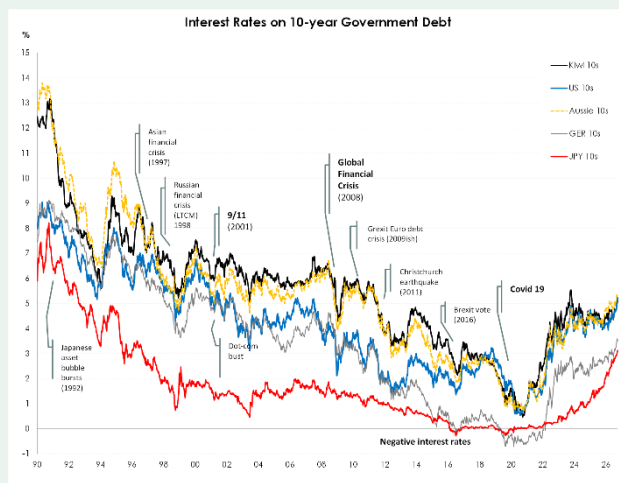


Chart of the Week: NZ dragged along for the global interest rate ride

- Today's charts of the week is four for the price of none! We unpack rising interest rates on US Treasury Bonds and the impact that has on Kiwi interest rates and currency.
- Interest rates are up all over the world. US rates are the highest in 25 years. There is a strong relationship between global interest rates and longer dated Kiwi rates. And we have been taken along for the ride.
- With this move higher, we've seen a very aggressive track for the RBNZ's implied cash rate. There are too many hikes priced, and well above the RBNZ's own track. But on the bright side, a weak Kiwi dollar is doing what we need.

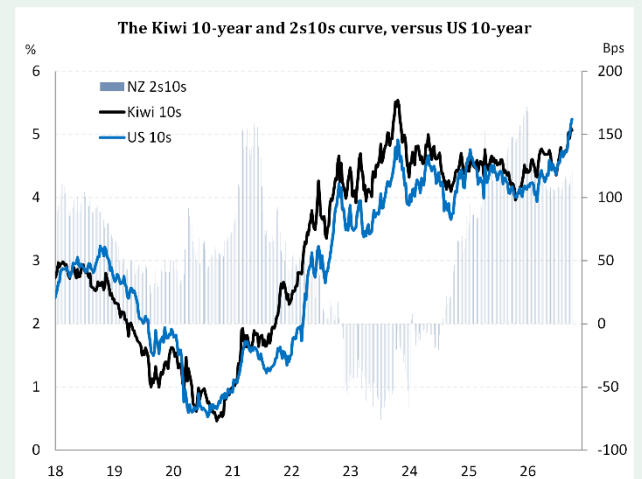


Interest rates have risen sharply around the world. Longer dated bond yields, 10 to 30 year Government debt, have lifted to levels not seen in a long time. US rates are the highest in 25 years. And it reflects some investor nerves and probably some diversion into AI investment (crowding out). Inflation expectations have played a role, and have been pushed around by the War in the Middle East. Japanese yields have screamed higher, as the Japanese economy faces something they haven't seen much of over the last 30 years, inflation. And that move has broadened into Europe, with borrowing costs across the Eurozone surging.



There are many drivers of interest rates, most are economic fundamentals, but it is the term premium that generates the most interest. In bond markets, there is always the fear of vigilantes dumping bonds altogether, driving interest rates higher... or simply demanding a much greater yield for the "risk" of default... too much Government debt. And debt heavy nations have been punished the most.

AND, AI investment may be playing a role. It's difficult to quantify, but money headed for AI is money that may have previously been parked in Government bonds.



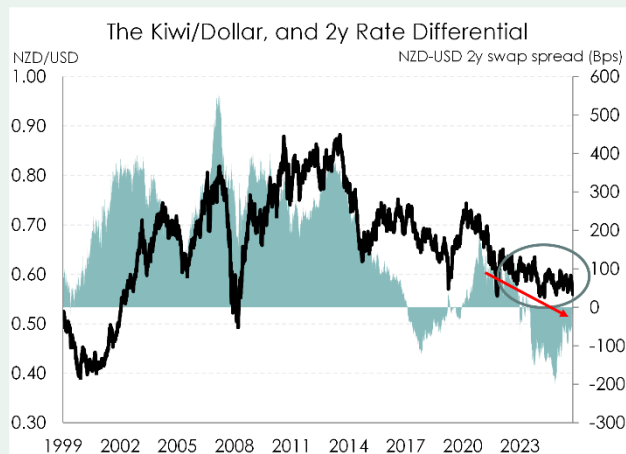
The relationship between global interest rates and longer dated Kiwi rates is strong. And when we see a push higher offshore, our rates rise with them... steepening the Kiwi curve. The difference between the 2-year bond rate and the 10-year bond rate has widened (steepened) from 100bps in May, to 120bps today. So the move in US and Global rates is lifting and twisting our curve.

Even though the entire Kiwi curve sits below the US, we have been moved by the US market. In the near term, the US Federal Reserve has set a higher cash rate, and is expected to hike by more. But Fed expectations have 'fed' into RBNZ expectations also.

With the move higher, we've seen a very aggressive track for the RBNZ's cash rate, implied in Overnight Index Swap rates.



We have a 3.1% cash rate implied by year end... so 10bps above what most analysts expect. But that's not the real signal. The cash rate is priced to go above 4% next year, with 4.1% priced by Dec'27. Ouch. We obviously disagree, but *"Markets can remain irrational longer than you can remain solvent."* - John Maynard Keynes.



The 'good' news, our Kiwi currency is working in the right direction. Lower interest rate differentials, which are negative as Kiwi rates remain below US, have caused the Kiwi to fall below 56c. The fall in the Kiwi, is a 'net' benefit for our economy... because it makes us cheaper for foreign investment and purchases. It's good for exports. Last week we were in Rotorua talking to many businesses, including tourism operators. They said tourist numbers have bounced to pre-Covid levels, although spending in total is still a little on the lighter side. They're not complaining at all, it has been a very long road back. The currency weakness is certainly noticeable, and welcomed.

But note we said "net benefit". Currency movements are a double edged sword. The weaker Kiwi is boosting our export earnings and at the same time reducing our purchasing power. The petrol and diesel price spike will be worse as a result. And imported inflation in general will be worse as a result. And yes, this complicates the RBNZ's view, again.



“You’re off mute!”

Markets, Mystics, & Mayhem

Ep 91: Witchcraft and crystal balls. 40 years of wisdom on currency moves.

We demystify what's happening with the Kiwi dollar, with a bit of help. We're joined by Hamish Wilkinson (Wilkie) and Adrian Lodge (Lodgey), who are two recurring guests on the podcast and both Senior Dealers in the Kiwibank Financial Markets Team. Between them, Adrian and Hamish have over 40 years of currency moves' wisdom to share.

Global interest rates are rising, and New Zealand is a small cork in a big ocean. We discuss how US and Australian central bank policy influences the Kiwi dollar.

The economic outlook is highly dependent on how well our importers and exporters can balance their books. A weak Kiwi currency is good news for tourism, but bad news for importers and for the fuel price.

We mention our latest FX Tactical, which Hamish and Adrian helped us write. Read all our insights, and theirs, [here](#).





Financial Markets

The comments below were provided by Kiwibank traders. Trader comments may not reflect the view of the research team.

In Markets – Offshore again...

US rates markets continued to largely drive movements in the early part of the week before Australian and to a smaller extent NZ releases wrestled some control ahead of Friday's key US employment data. The ongoing situation in the Gulf and elevated oil and refined product constraints are also contributing. For the week our implied cash rate path saw priced year-end and 1-year ahead OCR close at around 3.09% and 3.83%, some 5bp and 10bp lower respectively. The IRS curve was seen lower but steeper, with 2-year IRS at 4.02% (-10bp w/w), 5-year at 4.41% (-6bp), and 10-year at 4.77% (-2bp).

US bond markets continued their choppy trade at the start of the week. The prior Friday night gains our time reversed Monday, as rising oil saw early US trade resume the bond market selling that continued into their session, with a higher and steeper curve the result. Data flow did introduce cause for a pause with some mixed releases including consumer confidence posting a sharp fall, the PCE measure of inflation printing lower than expected, and the headline manufacturing ISM. Fed-speak also reintroduced some two-way risk into markets. While generally reiterating the inflation outlook and resilience of the economy, several speakers noted that there was no need for urgency on further raises noting that the Fed may need more time to assess the next move. Some indicated that they had assessed a likely lower number of additional moves than what was currently priced, or noted the current large gap between the assumed Fed path and the shorter end of the term curve. The build of data and comments did see a reasonable sized rally in rates ahead of payrolls led by the short-end. 2027 Fed Funds futures contracts shaved around 15bp of tightening off their curve and dragged shorter Treasuries along as their curve steepened, with 2-year notes down around 10bp and 10-year around 5bp on the day to around 5.24%. The implied year-ahead Fed Funds pricing around +74 to the current effective rate from low +90s previously, and October tightening chances cut to around 25%. This to a degree reset the likely headline print required on US payrolls data to further any rally, with the resultant weaker than expected print in both headline payrolls and the unemployment rate not resulting in a continuation of the prior days rally.

Australian markets also provided additional direction, with the RBA decision and following that, their CPI focus points. With a September hike essentially fully priced alongside additional moves along the curve, the statement was the focus particularly for any signs of moderation of the hawkish rhetoric given the recent softening in dataflow. Their curve had already started to show signs of resisting further selling in a minor de-coupling with that of the US with their cash

curve potentially viewed as stretched already with a terminal cash rate priced above 5%. The RBA raised the cash rate by 25-points to 4.60% with the accompanying statement acknowledging some of the slowing signs in the economy, with this perhaps more so than what the market is accustomed to of late. They also noted that the Board would continue to do what it considers is necessary to lower inflation including increasing the cash rate target further if needed. The RBA press conference saw further explanation of their assessment including that a pause was considered and that rates were considered restrictive. They also noted that despite their thinking that the labour market was still a bit tight, there was no wage-price spiral. This was enough to add to a rally that had already shaken off the prior days US market declines, with three-year bond futures rallying around 8bp post decision. Rate market gains were further compounded the following day after a lower than expected CPI where headline month on month and year on year were seen 0.1% below expectation at 0.4% and 4.0%, with the monthly core read at +0.2% also below expectation. RBA November rate hike probability halved after the release, from 12-points priced to 6 as the front of the curve lead the way.

For our market, we started to take a bit more of a lead from Australian moves, particularly given their curve starting to push back on adding to current priced tightening. Data flow did see business and consumer confidence print lower, with both reads not indicating a lift in inflation expectations. These alongside an Australian curve that was reassessing near-term tightening prospects did also result in a paring back across our curve, with October RBNZ pricing moving back closer to around half from three-quarters priced for a 25bp move, while one-year out shaved around 11bp off the peak priced over the week to finish at 3.83%. Looking ahead we would expect that international developments will continue to play on our curve, though there may be signs that the steepness up the front may be starting to provide a bit of an anchor for the shorter terms. For our market the Quarterly Survey of Business Opinion due Tuesday will provide another read on inflationary and business expectation and will see some attention, particularly as dataflow remains a little light ahead of SPI and CPI due 16 and 22 October. As noted last week, the pricing of the October and December meetings likely will be the key development at the front of our curve, particularly given the re-assessment of Australian pricing and the at least non-accelerating inflation expectations in the most recent surveys. Another point for consideration here may also be the composition of the MPC with the recent addition of an RBNZ internal to the committee. Overall, the path of rates is higher, though the RBNZ has shown through its actions a degree of caution around the



pace of the cycle, with this caution likely to start to play a little more on market pricing into the decision at the end of the month. All up, you would normally expect the resultant path to land somewhere between the decidedly cautious path as per the last MPS and the market, barring any other market moving development. Such a development, as we know in this current environment, could emerge at any time. **Graham Huges – Trader, Financial Markets**

In FX – the Kiwi extended its losses last week

The New Zealand dollar extended its losing streak this week and is on track for a sixth consecutive weekly decline, its longest run of losses since early 2025. NZD/USD traded between 0.5594 and 0.5641 during the week, remaining near its lowest levels since November after touching 0.5624 on 1 October.

The Kiwi continues to face a challenging backdrop, driven primarily by broad US dollar strength, higher global bond yields and an increasingly unfavourable interest rate differential. Market pricing remains considerably more hawkish than the RBNZ's own projections. OIS markets are pricing more than four additional rate hikes from current levels, implying a peak OCR near 3.75%-3.80%, compared with the RBNZ's projected path of around 3.00%-3.25% through 2027.

New Zealand rates have also been dragged higher by the broader global sell-off in bonds. However, the move higher in local yields is beginning to look somewhat stretched, with markets increasingly questioning whether current pricing is consistent with the RBNZ's outlook. Should NZ rates retrace some of their recent rise while US yields remain elevated, the NZ-US rate differential could widen further against New Zealand, creating an additional headwind for NZD/USD.

At the same time, US economic resilience continues to underpin the dollar. Markets have not entirely ruled out the possibility of US policy rates moving back towards 5%, supporting Treasury yields and further enhancing the attractiveness of the USD from a yield perspective. This has left the Kiwi increasingly vulnerable as widening NZ-US interest rate differentials continue to favour the greenback.

Broader macro factors have also weighed on sentiment. Oil prices surged above US\$107 per barrel as hopes faded for a deal to reopen the Strait of Hormuz, adding pressure to risk-sensitive currencies. Ongoing tensions in the Middle East, uncertainty surrounding New Zealand's November general election, and the prospect of a closely contested US election have all reinforced demand for the safe-haven US dollar.

Domestically, signs of a still-fragile New Zealand economy have further undermined confidence in the currency, with

investors remaining cautious about the growth outlook. Nevertheless, the Kiwi did find some relief late in the week after a significantly weaker-than-expected US non-farm payrolls report (29,000 versus 90,000 expected) prompted a pullback in the US dollar and reduced expectations for further Fed tightening.

From a technical perspective, NZD/USD remains firmly bearish after breaking below key support levels established earlier in the year. Attention is now focused on the November 2025 low near 0.5581 as the next major support level. Initial resistance is seen around 0.5750, with stronger resistance at 0.5843.

NZD/AUD has fared slightly better, gaining support after Australia's softer-than-expected CPI release earlier this week. However, the medium-term outlook for the cross remains challenging. Relative monetary policy expectations continue to favour Australia over New Zealand, suggesting interest rate differentials are likely to remain a persistent headwind for NZD/AUD despite the recent bounce from lows. **Mieneke Perniskie – Senior Dealer, Financial Markets.**



The Week's Key Events

- The big domestic datapoint this week will be the Quarterly Survey of Business Opinion (QSBO) for Q3. This will give us a much needed pulse-check of how businesses are feeling and performing after a rocky few months.
- Australian consumer inflation expectations and consumer confidence data will provide insight into how Aussie consumers are feeling.
- Eurozone PPI and retail sales data alongside US trade balance data will be other international datapoints to watch.