



# ECONOMIC BULLETIN

## Westpac New Zealand RBNZ pulse client survey.



20 May 2024 | **Kelly Eckhold**, Chief Economist | +64 21 786 758 | [kelly.eckhold@westpac.co.nz](mailto:kelly.eckhold@westpac.co.nz) | X: @kellyenz

- Market participants see an earlier start to RBNZ easing than RBNZ and Westpac forecasts.
- Survey participants are less dovish than market pricing.
- Offshore market participants are more dovish than New Zealand-based clients.
- Participants see the path of non-tradable and headline inflation as key risk factors.
- Offshore market participants see potential labour market weakness as being more important compared to New Zealand-based clients.
- There is a significant gulf between the RBNZ’s stance and the hopes of offshore market participants, which raises the stakes of the May Monetary Policy Statement and June quarter CPI.

### Survey results.

Westpac New Zealand’s inaugural survey of global client views on the outlook for RBNZ policy was conducted over the week of 14-17 May. The survey was well supported – particularly from the New Zealand and Asia-Pacific customer base. Thanks so much for your efforts in contributing.

The table below summarises the participants in the survey.

On the following pages we look at what different client groups expect for the RBNZ’s policy stance over the coming years.

#### Survey participation

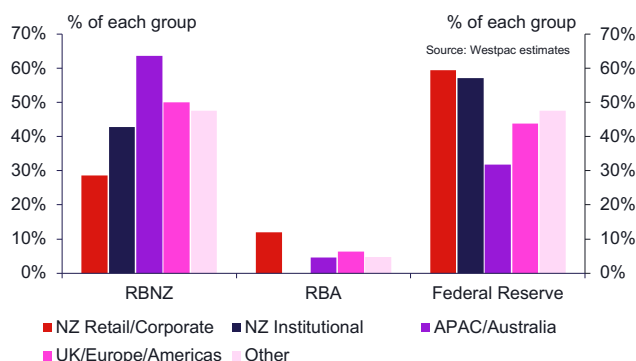
	Number of responses	% total
NZ based retail	4	3%
NZ based corporate	38	27%
NZ based institutional/government	42	29%
Australian based institutional	7	5%
Asia/Pacific (ex-Australia) institutional	15	10%
Americas institutional	4	3%
European institutional	4	3%
UK institutional	8	6%
Other	21	15%
<b>Total</b>	<b>143</b>	<b>-</b>

## Which central bank will ease first?

	RBNZ	RBA	Federal Reserve
NZ Retail/Corporate	29%	12%	60%
NZ Institutional	43%	0%	57%
APAC/Australia	64%	5%	32%
UK/Europe/Americas	50%	6%	44%
Other	48%	5%	48%

This has been a question of intense debate. Survey participants almost uniformly see this as a horse race between the RBNZ and Federal Reserve. NZ-based participants believe more strongly the Federal Reserve will ease first, whereas offshore customers see the RBNZ moving first.

Offshore customers think the RBNZ will ease first – Percent of each group who think the central bank will ease first

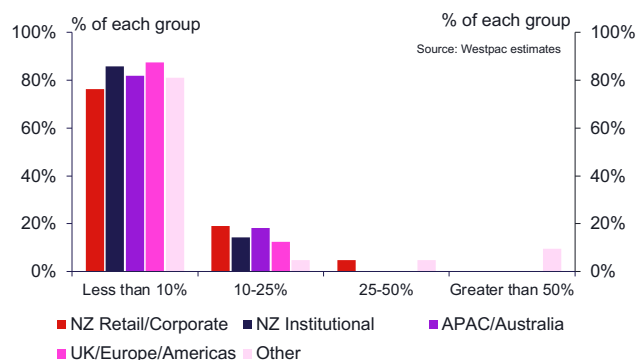


## What are the chances of further RBNZ tightening?

	Less than 10%	10-25%	25-50%	Greater than 50%
NZ Retail/Corporate	76%	19%	5%	0%
NZ Institutional	86%	14%	0%	0%
APAC/Australia	82%	18%	0%	0%
UK/Europe/Americas	88%	13%	0%	0%
Other	81%	5%	5%	10%

Most customers see the chance of a further RBNZ tightening as being remote. Offshore customers are the most confident in that view but the differences across customer groups seem small.

Most customers see a very low chance of further RBNZ tightening

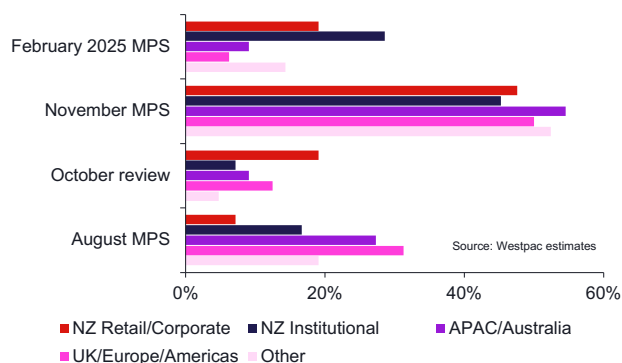


## When will the first RBNZ easing come?

	NZ Retail/Corporate	NZ Institutional	APAC/Australia	UK/Europe/Americas	Other
May MPS	0%	0%	0%	0%	0%
July review	0%	0%	0%	0%	0%
August MPS	7%	17%	27%	31%	19%
October review	19%	7%	9%	13%	5%
November MPS	48%	45%	55%	50%	52%
February 2025 MPS	19%	29%	9%	6%	14%
April 2025 review	5%	2%	0%	0%	0%
May 2025 MPS	0%	0%	0%	0%	0%
Later in 2025	2%	0%	0%	0%	5%
2026 or beyond	0%	0%	0%	0%	5%

Customers generally see the RBNZ easing some time before the RBNZ's current forecast profile suggests (Q2 2025). The most favoured meeting is the November *Monetary Policy Statement*. Offshore customers favour a more aggressive easing schedule and place relatively higher weight on the chances of easing in the *August Statement*.

When will the first RBNZ easing come? (% of each group)

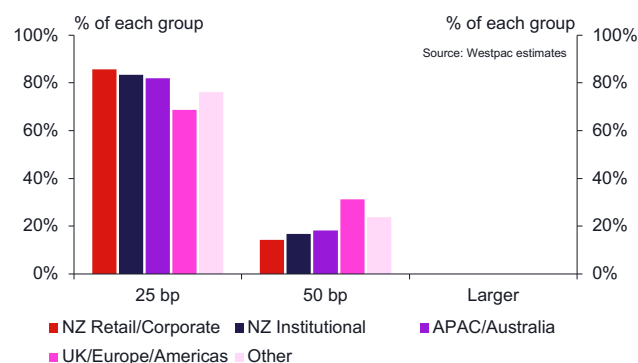


## How large will the first RBNZ easing be?

	25bp	50bp	Larger
NZ Retail/Corporate	86%	14%	0%
NZ Institutional	83%	17%	0%
APAC/Australia	82%	18%	0%
UK/Europe/Americas	69%	31%	0%
Other	76%	24%	0%

Customers largely agree that the RBNZ will begin with a 25bp move. Some offshore traders and in the more disparate "Other" category see a chance of an initial 50bp move.

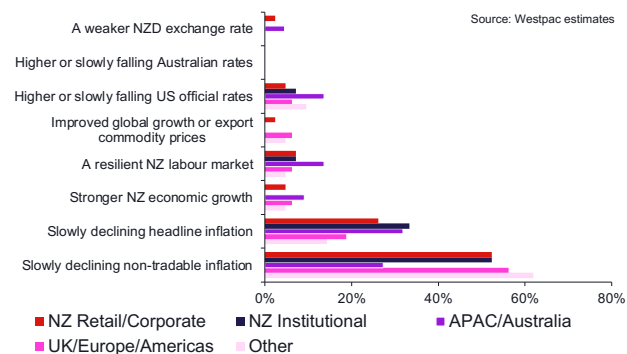
How large will the first easing be?



## What might prompt a scaling back of policy easing or RBNZ tightening?

Inflation, especially non-tradable inflation trends are recognised as the key risk factor that might push back the easing timetable or even bring hikes back into the equation. This seems sensible given the RBNZ has a sole mandate to control inflation. This result would seem to put a lot of focus on the Q2 2024 CPI report in July and the Q3 2024 report in October (after the October review) in driving customer expectations.

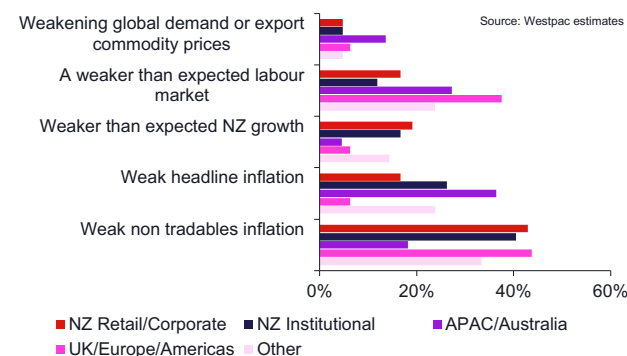
Factor seen as most likely to push back easing (% of each group)



## What might accelerate the easing profile?

Inflation trends are the key factor identified but the fortunes of the labour market are identified as another important factor – especially in the eyes of the offshore customer base. Labour market data are due immediately ahead of the August and November *Statements*.

What factor might accelerate the easing profile? (% of each group)

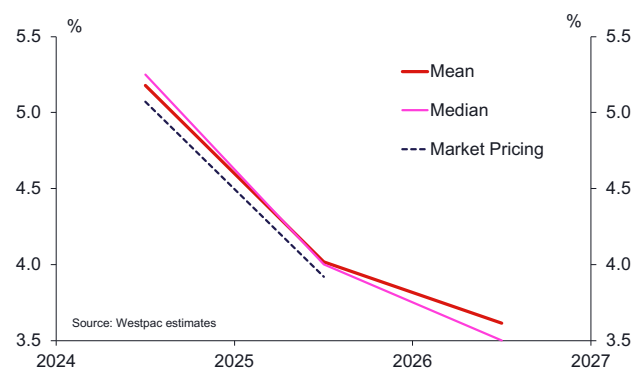


## Where do customers see the OCR at year end 2024, 2025 and 2026?

	2024	2025	2026
<b>Mean</b>	5.18	4.02	3.61
<b>Max</b>	5.75	6.5	6.5
<b>Min</b>	3.5	2	2
<b>Median</b>	5.25	4	3.5
<b>Market pricing</b>	5.07	3.92	-

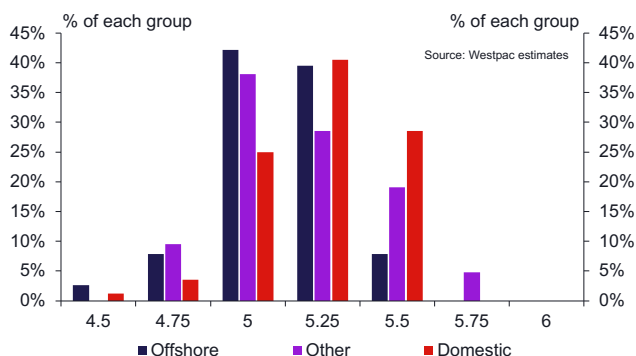
Customers see a less aggressive easing profile than market pricing. The terminal OCR (the level expected at the end of 2026) looks to be seen in the 3.5% to 4% range. There are outliers in both directions, which might reflect views that the economy and inflation won't have returned to “steady state” by the end of this period.

Survey respondents are less dovish than market pricing – Mean and median responses for OCR at year ends 2024-26



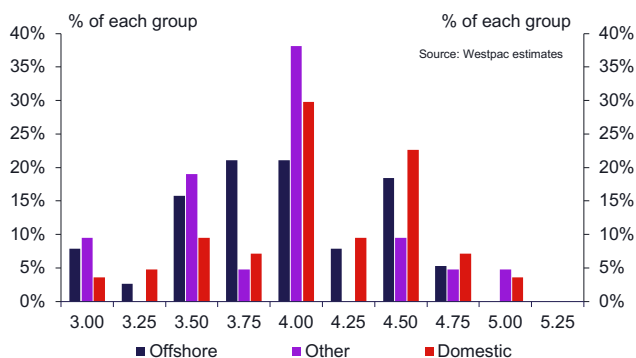
## The distribution of expectations.

### Distribution of expected year end 2024 OCR levels



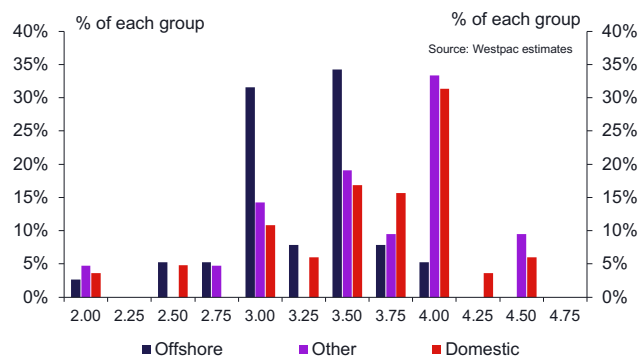
The relatively aggressive easing expectations of offshore customers is very evident as this group sees a high chance of two 25bp easings by the end of 2024. Domestic customers are more circumspect with a sizeable minority seeing no change in the OCR in 2024 (as Westpac forecasts).

### Distribution of expected year end 2025 OCR levels



The pace of easing is expected to pick up in 2025. 100-150bps of easing is expected with domestic customers seeing a higher OCR compared to offshore customers. The starting point for the OCR in early 2025 looks like it explains much of the difference in year-end 2025 expectations.

### Distribution of expected year end 2026 OCR levels



The pace of easing slows markedly for most in 2026. It appears that most implicitly have a view that a terminal OCR of 3.5% to 4% is likely with offshore customers favouring a lower end point. In general, it looks like most the RBNZ easing action is expected to occur in 2025 as opposed to 2026.

## Kelly's view.

These expectations look aggressive – mainly in terms of timing rather than magnitude. Our own forecasts envisage a terminal OCR of 3.75% which is not dissimilar to the expectations of many in the survey. However, there is a large gulf between the views in this survey and the forward profile of the RBNZ in February. The RBNZ delivered a very short statement in April which is generally central bank code for “not much has changed”. Much must occur to validate these expectations and soon given the views in favour of an August 2024 easing. The tone of the *May Statement* and the outcome of the June quarter CPI in July will be key in driving the risk profile around the start of the easing cycle. Market pricing seems to more than fully incorporate these expectations. Care seems appropriate.

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