



ECONOMIC BULLETIN

Westpac New Zealand RBNZ pulse client survey.



25 Nov 2024 | **Michael Gordon**, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Offshore views on the RBNZ remain more dovish

- There is a strong view among our customers towards a 50bp cut by the RBNZ this week.
- Customers expect a modest downgrade to the RBNZ's OCR projections for the end of 2025, although many think they will move faster than what they signal.
- Offshore clients remain more inclined towards a faster and deeper easing cycle than what locals are expecting.
- However, international factors, especially the US election, are seen as more likely to prompt the RBNZ to scale back its easing.
- Expectations for inflation two years from now are skewed towards the upper half of the target range.

Survey results.

Westpac New Zealand's third survey of global client views on the outlook for RBNZ policy was conducted over the week of 18-22 November. We received 149 responses to the survey, of which around two-thirds were New Zealand-based businesses or institutions. Thanks so much for your efforts in contributing.

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

Kelly's take.

The results of this survey accord well with the themes encountered on my recent discussions with clients in the UK and Europe. Customers appear primed for further OCR reductions, although in the main there is only a modest difference between our own OCR trough of 3.5% and the roughly 3% level in the minds of most of the more dovish offshore customers. Growth and unemployment indicators will be key in determining whether the cuts in 2025 will be realised.

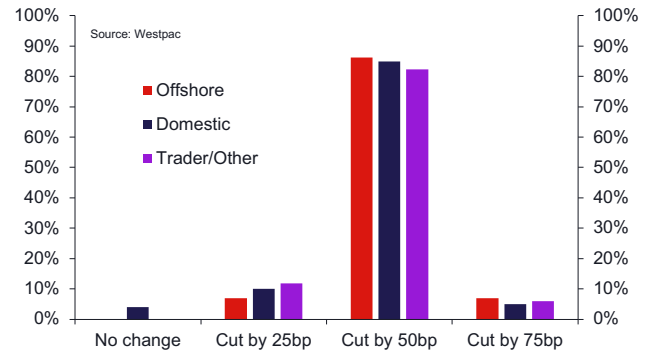
We will issue a note on Tuesday providing more detail on the themes of the discussions we held. But it's fair to say that the market seems primed for an asymmetric reaction should the RBNZ not deliver on participants' most dovish hopes – either at this meeting or as data comes available between now and February.

What will the RBNZ do at the November Monetary Policy Statement?

There is a strong consensus towards a 50bp cut at this Wednesday's review, which would take the OCR down to 4.25%. In terms of the range of views, there was a slight tilt among our clients towards a smaller cut rather than a larger one, with a small number of locals even predicting no change.

Interest rate market pricing is also fairly balanced around a 50bp cut this week. Market opinion had previously been leaning towards the risk of a larger move, though that was seen as highly contingent on the Q3 labour market surveys, which ultimately did not show the marked deterioration that some were hoping for.

What will the RBNZ do this week?



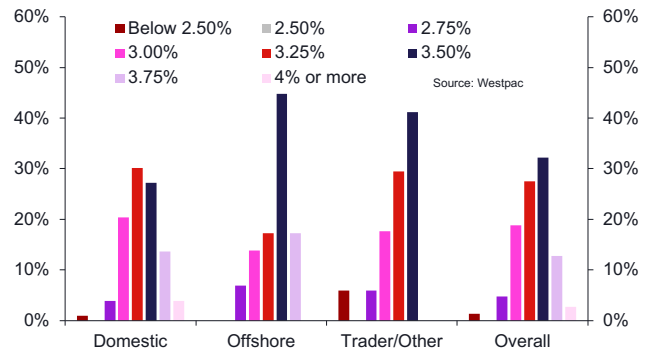
Where will the RBNZ project the OCR to be at the end of 2025?

The August MPS projections saw the OCR reaching 3.85% at the end of next year. However, the RBNZ has already proceeded further with rate cuts than the August track implied (even more so if they deliver another 50bp cut this week), so the updated November projection will be a crucial part of their messaging.

Customers expressed a range of views on where the projected track will be at the end of 2025, with the modal forecast sitting at 3.5% (the median was slightly in favour of 3.25%). Few thought that the projection would reach less than 3% by the end of next year, which would put it below the RBNZ's estimates of the 'neutral' policy rate.

There were some notable differences by location. Domestic responses were fairly evenly spread around a median of 3.25%, while overseas clients more strongly favoured 3.5%.

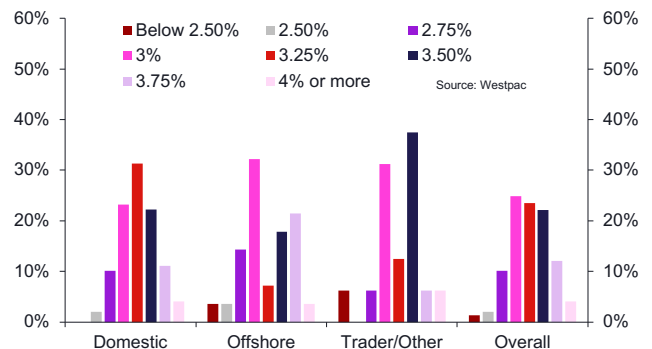
RBNZ's projected OCR at the end of 2025



Where will the OCR actually be at the end of 2025?

As for where the OCR will *actually* be at the end of 2025, the distribution of responses was more to the downside of the previous question, with a modal answer of 3%. In other words, our clients expect the RBNZ to continue to move faster than it signals. The difference between the responses was more pronounced for offshore clients.

Client's expected OCR at the end of 2025

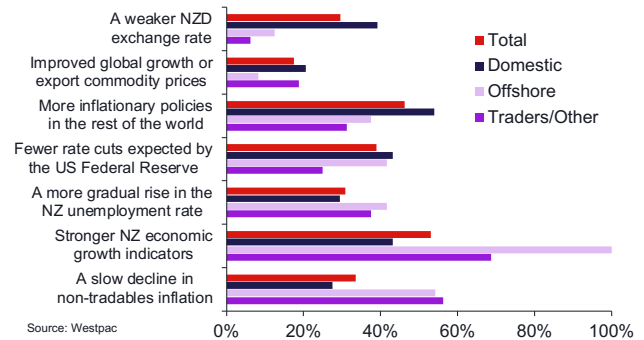


What factors could affect the extent of easing?

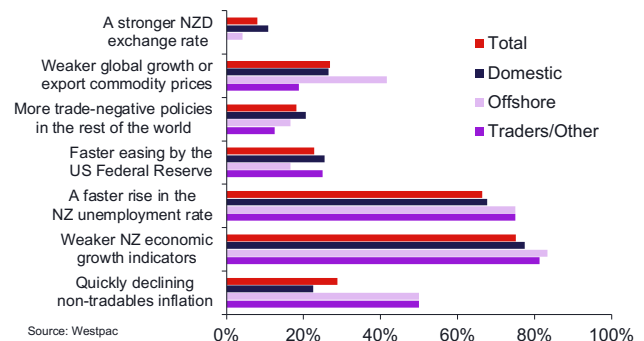
For these two questions we asked people to choose up to three risk factors that could alter the RBNZ’s easing plans. Respondents felt that signs of a pickup in economic activity in New Zealand was the most likely to prompt the RBNZ to slow the pace of easing, followed by a turn to more inflationary policies in other parts of the world or a slower pace of easing by the US central bank. Notably, domestic clients see more risk from international factors, while offshore clients are firmly focused on conditions within the New Zealand economy.

In contrast, there was much more agreement that domestic factors were more likely to prompt the RBNZ into easing faster and further. In other words, global factors were seen as having much more sway with the RBNZ on the upside than on the downside, while domestic factors would have more sway if they were to turn out weaker.

What is most likely to result in scaled back easing?



What is most likely to result in greater easing?



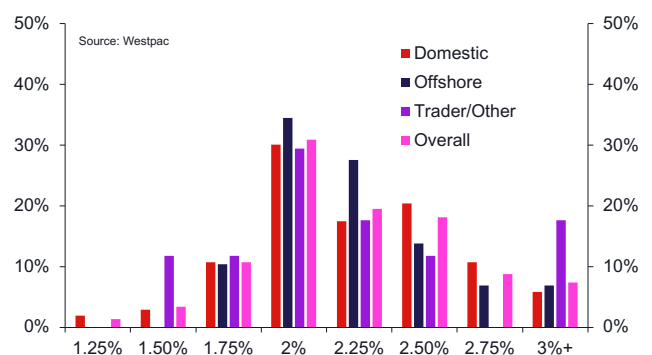
Where do you expect NZ inflation to be in two years’ time?

There was a wide range of views as to where people saw the annual inflation rate two years from now, with the modal response being the 2% midpoint of the RBNZ’s target range, but with a noticeable skew towards higher outcomes. Only a small share of respondents thought that inflation would be in the lower half of the target range by then, and none expected an undershoot.

This is a similar result to the RBNZ’s own survey, where expectations of inflation in two years’ time actually rose from 2.03% to 2.12% in the latest survey, taking them above the 2% target midpoint. (The two-year ahead horizon is significant because this is when policy actions taken in the next 6-12 months are likely to have their greatest influence on the inflation rate.)

It’s interesting to compare these responses with the earlier questions on the extent of OCR cuts. Together they suggest a view that the RBNZ’s easing could be more effective in re-stimulating activity and inflation pressures than intended, which would be consistent with the ‘neutral’ OCR being higher than the RBNZ’s estimates.

Expected inflation rate in two years’ time



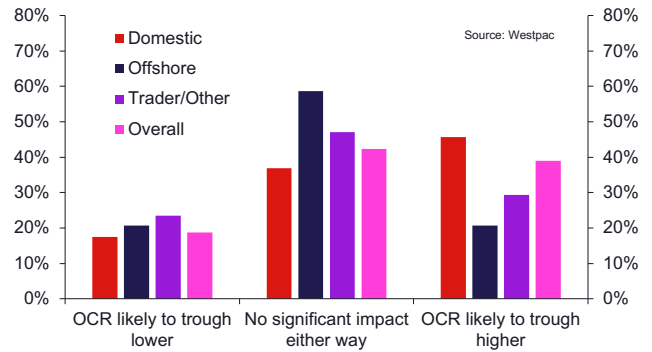
Impact of the US election results.

Customers were mixed as to whether the US election results would affect the path of monetary policy in New Zealand. While many thought there were no significant implications for the RBNZ either way, there was a greater skew towards less rather than more easing, all else equal.

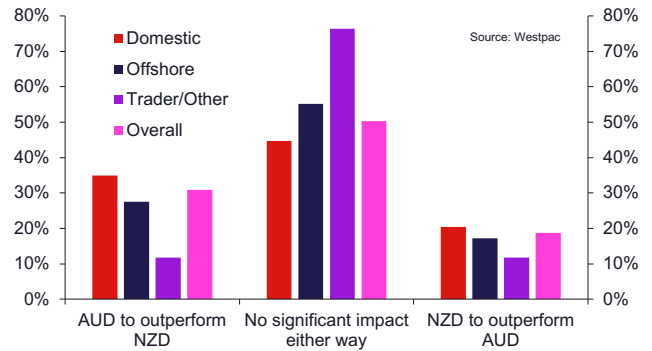
The new Trump administration's policies remain unclear, but tariffs are set to be high on the agenda. These would be a negative for exporters to the US, while lifting the level of prices within the US. However, what this would actually mean for activity and inflation elsewhere would also depend on other factors, such as how exchange rates respond.

On that front, our customers expect Trump's policies to be more negative for the NZ dollar than for the Australian dollar (relative to what was already expected for the two currencies). A weaker NZ dollar would help to soften the blow of a global trade war, but would also add to imported inflation pressures here, potentially limiting the extent of the RBNZ easing cycle.

Net impact of the US election for NZ monetary policy



Net impact of the US election for exchange rates

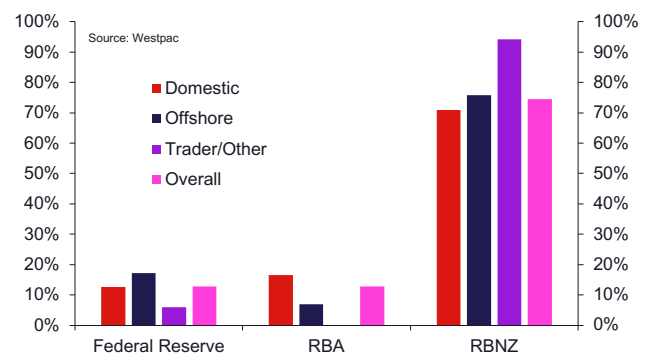


Which central bank will ease the most in 2025?

Customers are strongly of the view that the RBNZ will ease rates by more in 2025 than its peers in the US and Australia – after having almost certainly done more easing than them in 2024 as well.

While this ranking is in line with financial market pricing, we take the opposite view. If the RBNZ delivers a 50bp cut this week, it will have eased by 125bp this year. We're expecting another 75bp of cuts over the first half of 2025. In contrast, the Fed has eased by 75bp so far, and another 25bp cut in December is likely but not certain; we expect another 100bps of easing by them next year. As for the RBA, which has yet to begin its easing cycle, we also expect a total of 100bp of cuts over next year.

Which central bank will ease the most in 2025?



CONTACT

Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Kelly Eckhold, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

Michael Gordon, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

DISCLAIMER

Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ('Westpac').

Disclaimer.

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures.

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Conduct Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment recommendations disclosure.

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a “need to know” policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (“FINRA”). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

