WESTPAC RBNZ CLIENT PULSE SURVEY

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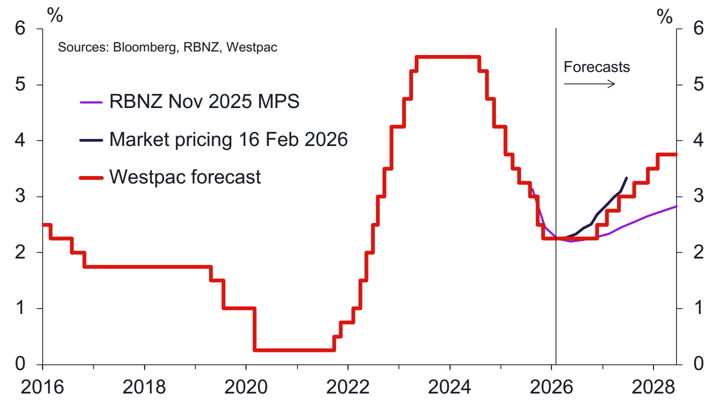
Westpac RBNZ client pulse survey

Key take-outs.

- Our February Westpac Client Pulse survey of 145 clients showed a strong consensus for no change at this week's RBNZ policy meeting.
- Looking to end-2026, clients seem slightly less hawkish than market pricing. Most clients expect one hike this year and 34% expect an OCR of 2.75% or higher by the end of 2026. Very few clients (5%) now see OCR cuts this year.
- Inflation is expected to remain above 2% over the coming years, and there is a decided upward skew in the distribution of expectations. Around 39% of respondents see inflation in excess of 2.5%, and 16% of respondents think inflation will be above 3% at the end of 2026. Expectations for inflation have shifted up over the past few months.
- Economic growth and labour market conditions are seen as the key factors that will shape the RBNZ's policy stance.
- Looking across central banks, respondents overwhelmingly expect the RBA to tighten the most in 2026, with the RBNZ, BOJ and Federal Reserve seen as the next most hawkish.
- At this stage, clients see the new RBNZ Governor Anna Breman as neutral to slightly dovish, although many clients understandably have not formed a view on the topic at this early stage.

Official Cash Rate forecasts



What will the RBNZ do at its February meeting?

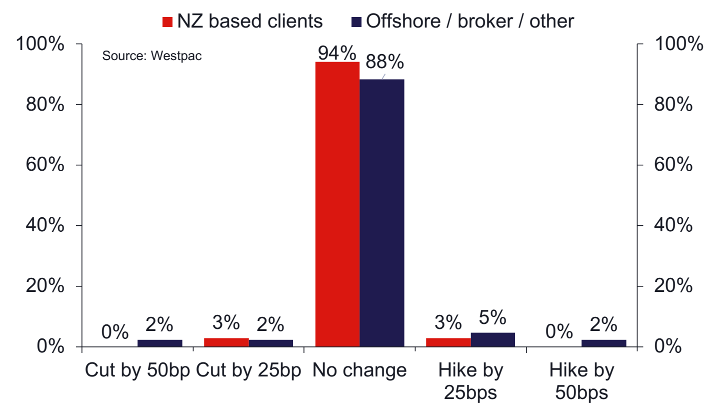
RBNZ expected to remain on hold this week.

- An overwhelming 92% of clients expect the RBNZ will leave the OCR on hold at this week's policy meeting.
- The remaining 8% of respondents were evenly split between a cut and hike. But these are very much marginal views which might not be held with conviction.
- Policy expectations are very similar across domestic and offshore clients. Perhaps offshore clients have a slightly more hawkish bent.

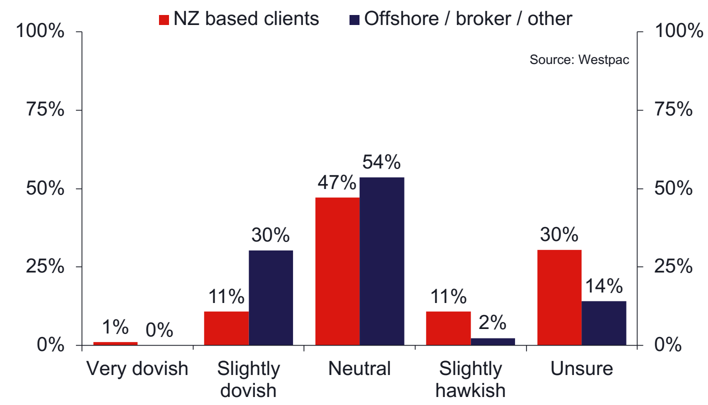
The new RBNZ Governor Breman is seen as neutral to slightly dovish.

- Clients currently see the new RBNZ Governor as neutral to slightly dovish. Though to be fair, many clients are yet to draw any conclusions.
- Offshore clients have more dovish perceptions – although most of them are neutral or unsure at this point.

What will the RBNZ do this week?



How do you perceive Governor Breman?

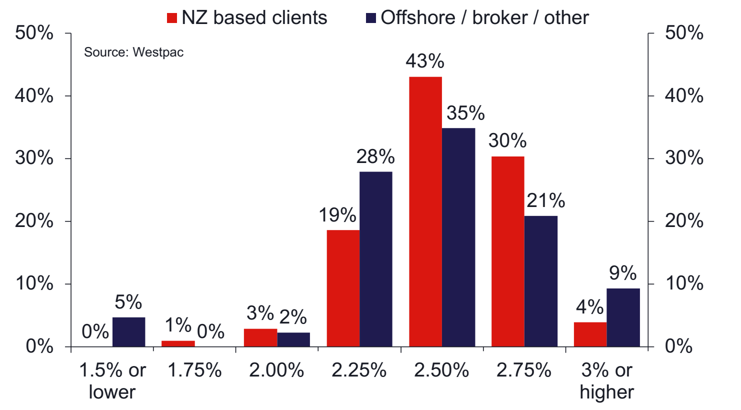


RBNZ policy projection, end of 2026.

Rate hike expectations pulled forward.

- Looking beyond this week's decision, most clients see the RBNZ projecting a 2.5% OCR as at end 2026. Of the rest, the bias is towards a higher OCR with 2.75% being the next favourite option.
- Compared to our last survey in November, clients have become much more hawkish regarding the outlook for monetary policy. Back in November they were evenly split on whether or not we would see any tightening from the RBNZ over 2026.
- The distribution of expectations is tilted towards the RBNZ showing a higher December quarter OCR. This skew seems fairly consistent across local and offshore clients.
- As we noted in **our Monetary Policy Statement preview**, the RBNZ likely won't project the December quarter OCR at 2.5%, as the December meeting is late in the quarter. If the RBNZ accounts for the timing of its meetings then the December quarter average OCR would be closer to 2.3% and be consistent with a 2.5% OCR at year-end.
- Clients should take care when interpreting the RBNZ forecast profile this time around. Examining the level of the surrounding quarterly average OCR projections will provide a better guide to the underlying OCR track, as will the RBNZ's messaging.

Where will the RBNZ project the OCR at end 2026?

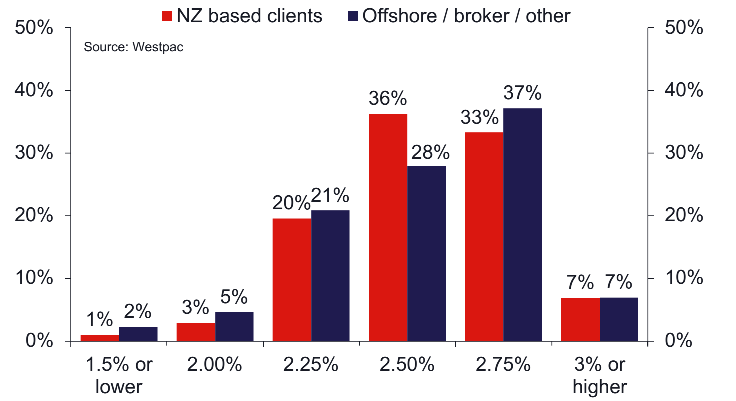


Where will the OCR actually be at the end of 2026?

RBNZ expected to more than follow through with the projected tightening.

- Clients expect that the RBNZ will follow through with projected rate hikes, with 75% expecting the OCR to end 2026 at 2.5% or higher.
- In fact, clients expect that the RBNZ will deliver faster interest rate hikes than the February MPS projection will signal. 32% of clients expect that the RBNZ's updated projections will show the OCR at 2.75% or higher at the end of 2026. However, a higher proportion (41%) expect the OCR will actually end 2026 at 2.75% or higher. Such views are in line with market pricing, which is consistent with a roughly 50% chance of the OCR ending 2026 above 2.50%.
- Offshore clients appear more hawkish than domestic clients as evidenced by the higher peak percentage on a 2.75% end 2026 OCR. Local clients seem happier with just a single OCR hike in 2026 at this stage.
- Around 20% of clients expect that the RBNZ will leave the OCR unchanged, and a further 5% expect the OCR will be cut over the coming year. Such views are evenly held across local and offshore clients.

Where will the OCR actually be at end 2026?

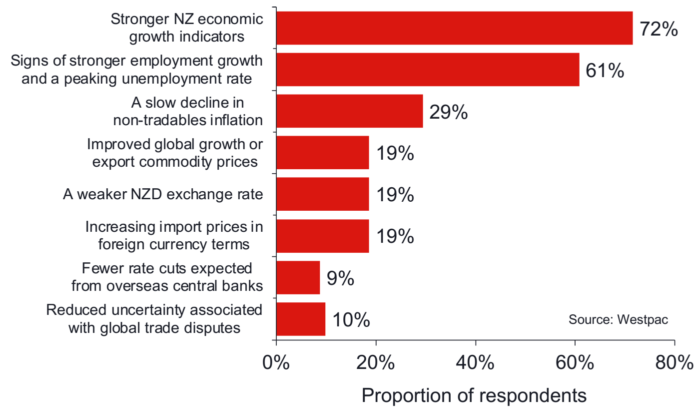


What factors could affect the RBNZ's policy stance?

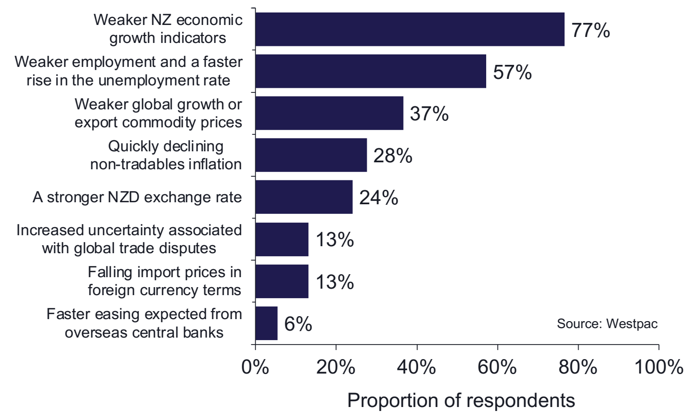
Economic growth and the labour market expected to be key considerations for the RBNZ.

- For these two questions we asked clients to choose up to three risk factors that could alter the RBNZ's tightening plans.
- Clients overwhelmingly saw domestic growth and the strength of the labour market as the biggest risks for the RBNZ in both directions.
- Among factors most likely to prompt a faster tightening by the RBNZ, domestic clients tended to put more emphasis on domestic non-tradables inflation pressures compared to offshore clients. In contrast, offshore clients viewed developments in commodity prices and the exchange rate as the third or fourth most important considerations.
- Among factors most likely to prompt delayed RBNZ policy tightening, beyond domestic growth and labour market developments, all client groups thought that challenging global conditions or a rapid decline in non-tradables inflation would be influential on the RBNZ's thinking. At the margin the exchange rate rated a bit more importantly for offshore based clients.
- Offshore clients tended to put more weight on foreign central bank interest rate developments than local clients. But this factor was quite some way down the list of considerations and not a prominent consideration.

Which factors are most likely to prompt faster RBNZ tightening?



Which factors are most likely to prompt delayed RBNZ tightening?

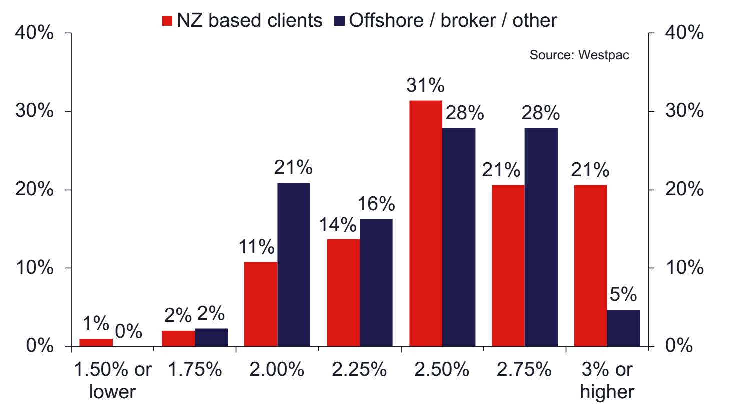


Where will inflation be in two years' time?

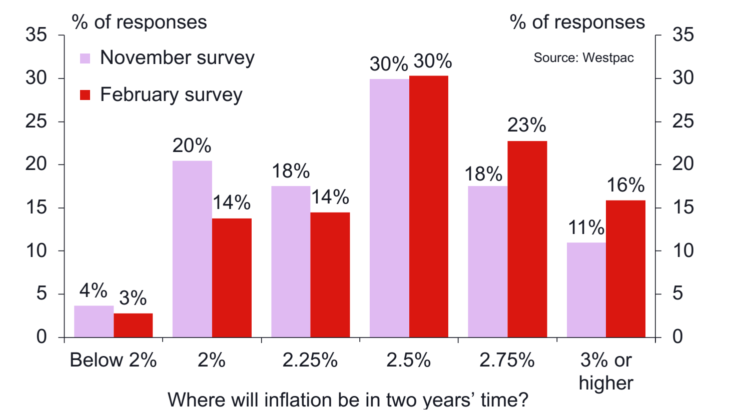
Inflation expectations have taken a step higher.

- 83% of clients expect inflation will remain above 2% in two years' time, up from 76% at the time of our previous survey.
- Notably, 30% of clients now expect inflation will be 2.75% in two years' time, and a further 21% expect it will be 3% or higher. Both of those proportions are up noticeably from our last survey.
- Just 14% of clients expect that inflation in two years' time will be 2% or lower, down from 20% at the time of our previous survey.
- That uptick in inflation expectations has also been seen in other surveys, including the RBNZ's own measures. That follows stronger than expected inflation of 3.1% in the year to December. While December's lift in inflation was in part related to increases in food and fuel prices that are expected to moderate, underlying inflation pressures have also been firmer than expected, with the various measures of core inflation lingering near the top of the RBNZ's target band. That firmness in core inflation has in part been due to the rolling-maul of price increases we've seen in non-discretionary areas in recent years, like council rates, insurance and utilities. We expect to see further large increases in those and other areas over the coming year, limiting the downside for overall inflation.
- Expectations for inflation are similar across domestic and offshore clients.

Where will inflation be in two years' time?



Inflation expectation creeping higher



NZD/USD exchange rate and election risks

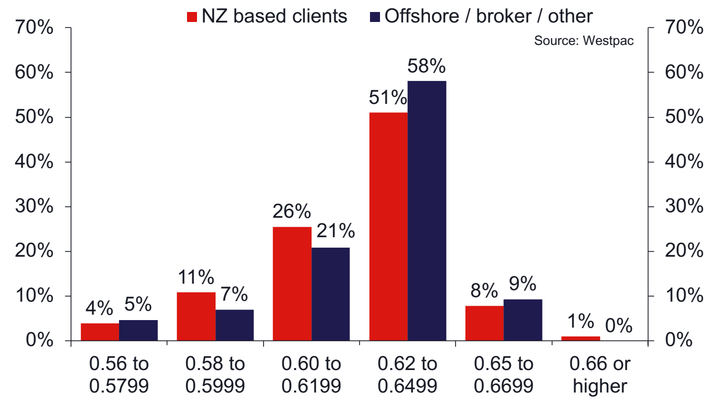
The NZD/USD is expected to rise modestly over 2026.

- Clients see some modest upside pressure on the NZD/USD over 2026. Expectations are heavily clustered between 0.6050 (the current spot rate) and 0.65. There is a modest downside skew to the median expectation of 0.62-0.6499.
- Westpac's forecast is for the exchange rate to rise to around 64c by the end of 2026, reflecting some further weakness in the USD combined with the strengthening New Zealand economy.

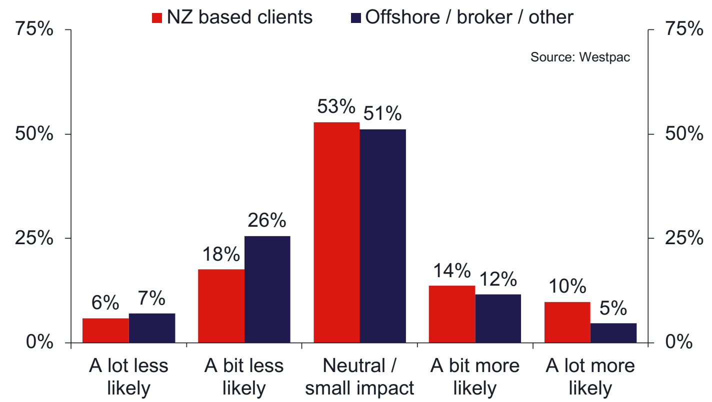
Only a small economic impact from the General Election is seen.

- Most clients think the election will have a small impact on how the economy fares in 2026.
- Interestingly, more clients see the election as making it less likely the RBNZ tightens this year – but it's a close run thing, with a number of clients seeing things the other way.
- Overall the election is not seen as the great monetary policy boogeyman.

Where will the NZD/USD end 2026?



Impact of the General Election on the likelihood of tightening?



Which central bank will tighten the most in 2026?

The RBA to take the lead on rate hikes.

- Clients uniformly expect the RBA to tighten policy the most in 2026.
- The recent strong inflation and employment data combined with the RBA's hawkish rhetoric makes the RBA the clear favourite.

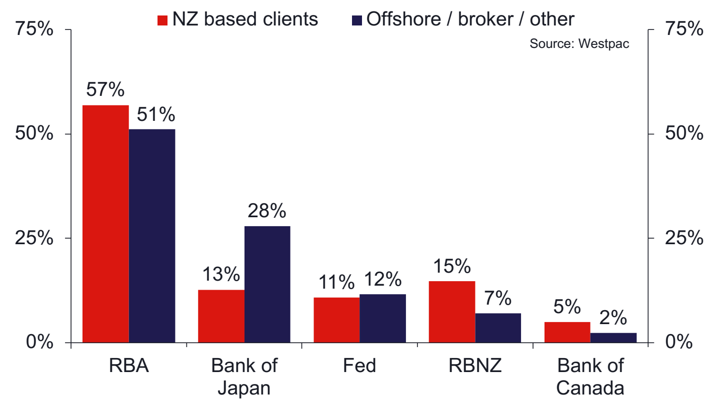
Global clients have a lot of attention on the Bank of Japan.

- New Zealand clients don't have a firm favourite among the other runners in this race.
- However, global clients see the BOJ continuing to tighten this year. This aligns with the recent rise in Japanese bond yields relative to their global peers.

Domestic clients have half an eye on the RBNZ MPC hawks.

- Interestingly, the RBNZ is seen as being relatively hawkish by New Zealand based clients. Although even there the RBA is seen as moving rates up more aggressively, at least in terms of the probability of movement.

Which central bank is likely to tighten policy the most in 2026?



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