

# New Zealand Fixed Income Monthly June 2025

Inflation and global tensions seen providing food for thought on interest rates

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## May's non-consensus interest rate decision seen pointing to inflection point

With uncertainty over tariffs, geopolitical disruption and the paths taken by central banks continuing to impact global markets, it may be instructive to look back at the Reserve Bank of New Zealand (RBNZ)'s last monetary policy decision as we try to determine the future direction of interest rates. In our view, one of the key aspects of the RBNZ's Monetary Policy Statement (MPS) on 28 May was the revelation that, following a discussion on whether to keep interest rates on hold or reduce them further, one member of the bank's Monetary Policy Committee (MPC) voted against a cut<sup>1</sup>. The MPC subsequently decided to lower New Zealand's Official Cash Rate (OCR) by 25 basis points to 3.25%. However, we feel it is significant that the last time the committee had a non-consensus decision was two years before in May 2023, when it voted to raise the OCR to its recent peak of 5.5% by a majority of five votes to two<sup>2</sup>. That vote turned out to be an inflection point for interest rates. We therefore think this latest vote suggests that a new inflection point may be on the way.

## Short-term inflationary pressures providing food for thought on interest rates

One development the RBNZ is likely to have noted is evidence of short-term inflationary pressures in New Zealand's selected price indexes (SPI) for May, which were released by Stats NZ on 17 June. The SPI provide monthly price changes for a selection of goods and services purchased by households, and the latest figures show some upward pressure in the prices of food and other items. One example is electricity prices, which climbed by 2.3% in May compared with April<sup>3</sup> according to the data. We believe that these figures represent an upside risk for inflation in New Zealand. Some of the more pessimistic estimates in the market see inflation either nearing the top of the RBNZ's medium-term policy target range of 1–3% per annum or even exceeding it. Should such a scenario unfold, it could place the RBNZ in an uncomfortable position if the bank found itself simultaneously easing interest rates.

## Global geopolitical tensions seen adding source of uncertainty

Another question the RBNZ may be considering is whether geopolitical tensions can be inflationary, particularly when key commodities are involved. We feel that the current global flashpoints could be particularly significant given that Ukraine is a major producer of wheat and the Middle East is a key location for oil exports. We expect this source of uncertainty to be a topic of discussion when the MPC next decides whether to cut the OCR further or to keep it on hold.

<sup>1</sup> <https://www.rbnz.govt.nz/hub/news/2025/05/ocr-lowered-to-3-25>

<sup>2</sup> <https://www.rbnz.govt.nz/hub/news/2023/05/official-cash-rate-set-to-remain-restrictive>

<sup>3</sup> <https://www.stats.govt.nz/information-releases/selected-price-indexes-may-2025/>

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