

New Zealand Fixed Income Monthly July 2025

Amid price bifurcation, market anticipating low interest rates and slow recovery

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Bond price bifurcation among notable recent features of market

One significant theme in fixed income markets of late has been bifurcation between the prices of government debt, which have been comparatively low, and the prices of other bonds such as those issued by companies and local authorities. We think that supply has been a significant factor in this situation given the large amounts of government issuance seen not just in New Zealand but also elsewhere. This reflects a current emphasis on fiscal expansion in markets around the world, examples of which include the recent “big, beautiful bill” in the US and commitments by European nations to increase defence spending. In terms of the overall market environment, although there has been volatility, this has occurred within a relatively moderate range. We believe that this is partly the result of fatigue with the persistent uncertainty surrounding the markets.

Interest rates seen remaining low as inflation eases

Although the Reserve Bank of New Zealand (RBNZ) seems to be maintaining its bias towards monetary easing at present, there is still some uncertainty over the timing of future interest rate cuts. New Zealand’s Official Cash Rate currently stands at 3.25% and most commentators expect it to fall to approximately 2–2.75% at some point as the RBNZ works to stimulate the economy. In addition, the RBNZ indicated in its 28 May Monetary Policy Statement (MPS)¹ that inflation looks likely to ease to the mid-point of the bank’s 1–3% target band in the medium term given the amount of spare capacity in New Zealand’s economy. The consumers price index for the June 2025 quarter² was up by 0.5% compared with the previous quarter and showed an annual percentage change of 2.7%. Nevertheless, the RBNZ acknowledged in the MPS that higher food and electricity prices have been putting near-term upward pressure on headline inflation. In our view, this is likely to give the RBNZ the confidence to reduce interest rates further.

Two-speed economy seen indicating slow pace of recovery ahead

Looking at the broader market environment, we believe that New Zealand is currently experiencing a two-speed economy, with different sectors growing at different rates. Although this is not unusual for New Zealand, strong performances by sectors such as agriculture are not currently flowing through to the rest of the economy. In our view, this is the result of the current climate of uncertainty and reluctance by consumers to spend. For New Zealand’s economy to recover, confidence among individuals and businesses will therefore need to improve. This will also be necessary for more borrowing to occur in the markets. With this in mind, the base case view for New Zealand appears to be that it is set for a gradual, grinding economic recovery.

¹ https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/monetary-policy-statements/2025/may-0525/mps_report_may2025.pdf

² <https://www.stats.govt.nz/information-releases/consumers-price-index-june-2025-quarter/>

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