



ECONOMIC BULLETIN

Market reaction to RBNZ November 2025 Monetary Policy Statement



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After the dust has settled – implications for borrowing rates.

- The week since the RBNZ Monetary Policy Statement has seen a marked increase in longer-term interest rates.
- Markets have responded to the RBNZ's message that further OCR cuts are unlikely and pushed up short-term rates.
- Markets have also concluded that OCR hikes might come sooner than the RBNZ forecast, pushing longer-term rates higher.
- These moves are in line with Westpac's forecasts but have come a bit sooner than expected.
- An implication is that there will be upward pressure on borrowing rates in both mortgage and wholesale markets.
- The longevity of these moves will depend on the strength of the economic data and whether the RBNZ tries to lean against recent market trends.

A week on from the RBNZ meeting.

It has been a volatile period in wholesale interest rate markets since the RBNZ Monetary Policy Statement on 26 November. Benchmark wholesale interest rate swap rates have increased by 15-30 basis points, with longer maturity rates rising by more than shorter maturities. In the last day or so interest rates have moved off their highs as the markets have consolidated somewhat.

Change in benchmark wholesale rates pre-November MPS to now

	25 Nov	3 Dec	Change
1 year swap	2.39	2.52	0.13
2 year swap	2.59	2.82	0.23
3 year swap	2.79	3.08	0.29
10 year swap	3.75	3.99	0.24

Source: Bloomberg

These movements, combined with around a 1.5% rise in the New Zealand dollar Trade Weighted Index, have contributed to a noticeable tightening in financial conditions. The big driver of the increase in interest rates has been shifting expectations of when markets see a rise in the OCR above 2.25%. Prior to the MPS, markets saw chances of a further cut in the OCR to 2% by the middle of 2026 and then a very gradual rising trend after that. This would have meant the OCR would remain below 2.5% until mid-2027. After the MPS, markets have significantly reduced the perceived chance of a further OCR cut (from around a 60% chance to perhaps a 20% chance now) and have brought forward their view of when the OCR will rise above 2.5%. Market pricing implies some risk of an OCR hike from 2.25% from May 2026 and a full hike by December 2026.

These adjustments in market rates line up nicely with Westpac's own forecasts but are running ahead of the RBNZ's projections. Even when comparing to Westpac's forecasts, we notice that longer-term interest rates have moved up more quickly than we had expected. We thought the RBNZ would leave the door to another rate cut open a touch wider than what seemed to be the case.

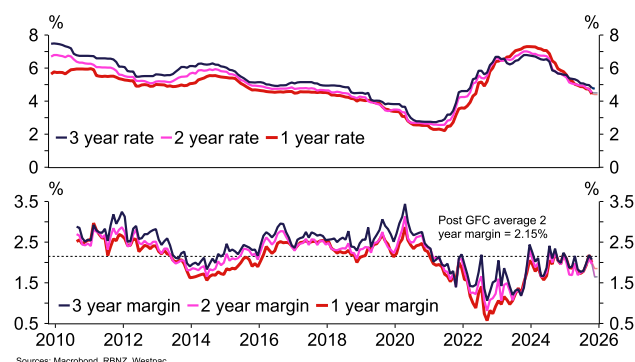
Implications for borrowing rates.

Rising wholesale borrowing costs have implications for retail mortgage rates. Typically banks pitch retail mortgage rates at a margin above their funding costs. And wholesale swap rates are a key component of those funding costs.

This means that as wholesale rates rise, the chance of retail interest rate increases also rises. Longer-term wholesale rates typically rise some time ahead of actual increases in the OCR, as these rates embody expectations of future OCR changes. The current situation is unusual because markets have responded to an actual OCR decrease by raising and bringing forward their expectations of future OCR increases. Hence, we could be in a position that, unless recent trends in wholesale interest rates halt or reverse, increases in retail interest rates (including mortgage rates) might occur.

So, when could that upward pressure on mortgage rates eventuate? The chart below sheds some light on the issue. Given where wholesale rates are today, the margin between retail rates and wholesale rates is as narrow as we have seen since the start of 2024. And margins are a lot narrower than the average seen since 2010. Margins were a lot lower during the Covid period in 2021-23. However, that was likely due to the concessionary financing offered by the RBNZ as part of its Covid response, which temporarily reduced bank funding costs and allowed narrower funding spreads.

Retail mortgage rates and margins to wholesale swap rates



Evaluated against trends in mortgage rate margins since early 2024, we can see that the 1-year mortgage rate is within the recent range. But the 2-year margin is very narrow, suggesting that the 2-year mortgage rate could

rise by perhaps 20-30 basis points to return the margin closer to the average level seen since early 2024.

This suggests that it is longer-term mortgage rates that might be under the most pressure to rise. This makes sense given it has been longer-term wholesale rates that have reacted the most to the RBNZ's less dovish stance a week ago.

Wholesale market rates are likely to ultimately rise further in time as the timing of the first OCR increase comes into sight. Our forecasts are that ultimately longer-term wholesale swap rates will rise perhaps 40-80 basis points over 2026 from current levels assuming an end 2026 OCR rate rise is in prospect, as per our forecasts.

This is the stage of the cycle where the benefits of interest rate hedging become more tangible for corporate borrowers. In periods where interest rates are expected to fall the preference is often to borrow short. But this should be less attractive if the OCR cutting cycle is over. Historical experience shows this. While the average cost of borrowing for shorter maturities such as for a year is lower than if a corporate consistently borrowed a portion of their funding needs for five or ten years, the variability in funding costs is larger if a shorter funding strategy is adopted.

The benefit of consistently funding short term has reduced since 2019 as the long-term downtrend in interest rates globally has been arrested. The average cost of funding short term has been closer to longer term funding while the relative variability of long-term funding has reduced. These benefits should become even more tangible to borrowers as the OCR tightening cycle gets closer.

Average and range of wholesale swap rates

	Since 2010		Since 2019	
	Average (%)	Range (ppts)	Average (%)	Range (ppts)
1 year	2.78	5.74	2.82	5.74
5 years	3.15	5.17	2.80	5.17
10 years	3.55	5.02	3.05	4.80

Source: RBNZ and Westpac calculations

The risks from here.

Wholesale interest rates are reacting as normal to shifting risks around the distribution of future OCR outcomes. Markets previously placed some chance that the OCR could still fall and didn't think a 2.5% OCR was in prospect until mid-2027 at the earliest. Now, markets place very low weight on a sub-2.25% OCR and are increasing the weight on the possibility of an earlier normalisation of the OCR. Hence the upward pressure on wholesale interest rates.

The outlook for interest rates remains cloudy. It's important to note that while the RBNZ was signalling a high hurdle for further OCR cuts, there was certainly no signal of OCR increases in the immediate future. It will take some time for above-trend growth to absorb spare capacity in the economy, allowing policy settings to remain supportive so long as inflation remains contained.

It's quite likely that markets have gotten ahead of themselves right now, reflecting the surprisingly hawkish post-MPS communications (for example the RBNZ's initial suggestion that the market reaction to the MPS was as expected when formulating the stance). Some risk/liquidity premia may have been embedded into wholesale rates as market participants digest the new information, and as investors speculate that retail borrowers may look to lengthen the maturity of their fixed-rate mortgages.

The tone of the data over the next six months will be key to determining exactly what path the OCR takes and the trend in long-term interest rates. We continue to forecast a gradually improving trend in the economy. But the large, accumulated level of spare capacity likely means it will be some time before OCR hikes become a reality. Should that forecast be borne out by the data, then wholesale interest rates might not rise much further and there would not be further upward pressure on retail mortgage rates.

In the meantime, it's also possible the RBNZ could find an avenue to make some public comment on evolving financial conditions. We doubt the RBNZ intended to materially tighten financial conditions. The RBNZ could comment explicitly to that effect, which could assuage concerns in wholesale markets that a normalisation of the OCR might be coming sooner than previously expected. This may also help to cap wholesale rates and ease the tightening in financial conditions.

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