



WEEKLY ECONOMIC COMMENTARY



9 Mar 2026 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Middle East conflict presents two-sided risks for RBNZ

New hostilities in the Middle East, which have led to a sharp increase in the prices of crude oil and petroleum, have caused markets to worry about the potential for a protracted lift in inflation and tighter policy from the world’s inflation-targeting central banks. We think that such an outcome is less likely in New Zealand, where a starting point of spare capacity means less risk of second-round effects from a temporary rise in petrol prices. Indeed, given that starting point, it would be folly to entirely rule out scenarios that could lead to further policy easing. This might occur if the conflict led to a severe downward revision to the outlook for global growth and commodity prices, dampening New Zealand’s fledging recovery and posing downside risks to the medium-term inflation outlook. In the meantime, faced with two-sided uncertainty, we think that the RBNZ will become even more wedded to the “on hold” stance communicated at last month’s meeting.

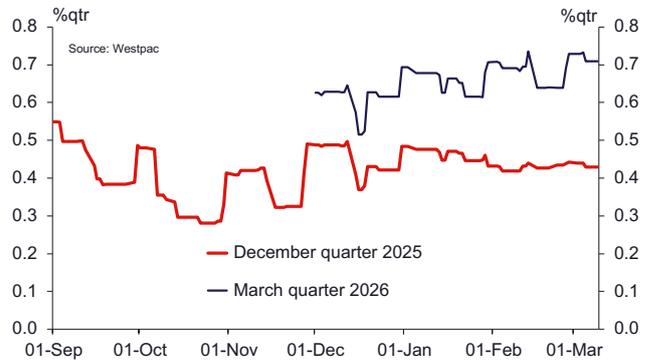
The main driver of domestic and international financial markets over the past week has been the attack on Iran by the US and Israel, and Iran’s retaliation targeting both Israel and US interests across multiple other nations in the region. The most enduring market impact to date has been on the price of crude oil and other key energy products. For example, Brent crude closed last week at \$93/bbl – up a huge \$21/bbl from the previous week’s close. This increase is on top of the rise seen through January and February as market participants began to anticipate this conflict. The increase in the price of refined petroleum has been even larger, with refiners’ margins also widening as usually happens when crises trigger worries about refinery capacity.

Elsewhere, safe-haven flows back to the US dollar have seen the risk-sensitive NZ dollar fall about 2% to just

Key views

| | Last 3 months | Next 3 months | Next year |
|----------------|---------------|---------------|-----------|
| Global economy | → | → | → |
| NZ economy | ↑ | ↗ | ↗ |
| Inflation | → | ↘ | ↘ |
| 2 year swap | → | → | ↗ |
| 10 year swap | → | → | ↗ |
| NZD/USD | ↗ | → | ↗ |
| NZD/AUD | ↘ | → | ↗ |

Westpac GDP nowcasts

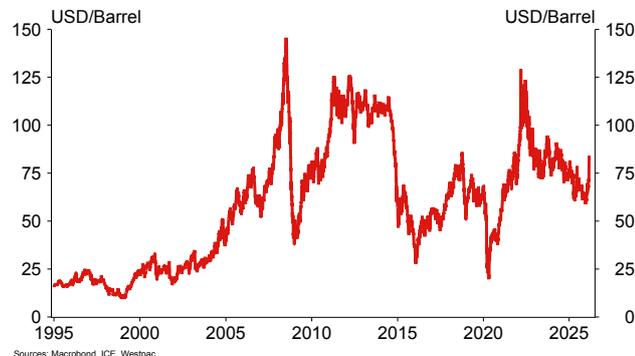


Key data and event outlook

| Date | Event |
|------------|--|
| 17 Mar 26 | NZ Selected price indexes, February |
| 17 Mar 26 | RBA Monetary Policy Decision |
| 18 Mar 26 | FOMC meeting (19 Mar NZT) |
| 19 Mar 26 | NZ GDP, December quarter |
| 8 April 26 | RBNZ OCR Review |
| 17 Apr 26 | NZ Selected price indexes, March |
| 21 Apr 26 | NZ QSBO Business Survey, March quarter |
| 21 Apr 26 | NZ CPI, December quarter |
| 29 Apr 26 | FOMC meeting (30 Apr NZT) |
| 5 May 26 | RBA Monetary Policy Decision |

below 0.5900, compounding the local currency impact of higher US dollar energy prices. Global equity prices are slightly lower and term interest rates slightly higher – the latter reflecting concerns about the potential impact of higher oil prices on inflation and central bank policy.

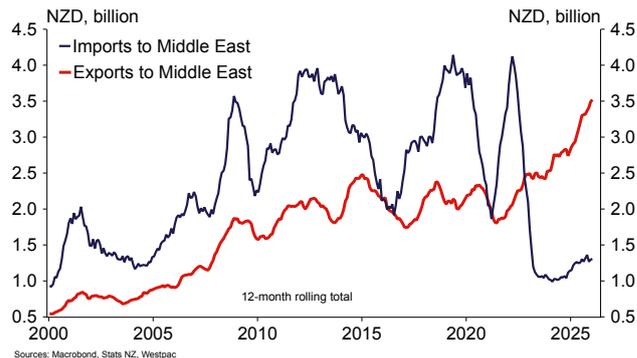
Brent crude oil



As discussed in a joint report with our Australian colleagues, **the economic impact on New Zealand will depend on the duration of the military conflict**, and the associated disruption and damage caused to international supply chains. If the conflict is resolved relatively quickly – say within the next month or so – with little damage to energy infrastructure, the economic implications for New Zealand and elsewhere could be negligible. However, a protracted conflict, especially one resulting in significant disruptions to oil supply and/or significant negative impacts on financial asset prices, could have more material downside impacts on New Zealand and its major trading partners. This would be especially so if the stresses created by the conflict were to expose other perceived economic and financial vulnerabilities across the global economy (e.g. risks associated with private credit, AI investment and associated asset valuations or China’s domestic economy).

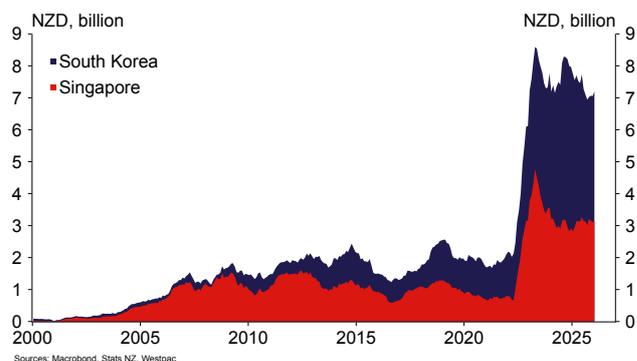
In terms of direct exposure to the Middle East region, New Zealand has little trade with Iran. However, New Zealand’s exports to the Middle East have grown to exceed \$3bn in the past year – the majority being dairy products sent to Saudi Arabia and the United Arab Emirates. Ongoing conflict would create logistical difficulties for exporters attempting to get product to the region and would increase the cost of doing business. There will also be an impact on traded services. The closure of airspace in the Middle East is impacting the movement of people as well as goods. Inbound tourism would be negatively impacted if important gateway airports to New Zealand, such as Dubai and Doha, were to remain largely closed for an extended period. Some people may be reluctant to travel through the region for a period even once the current conflict ends.

New Zealand trade with the Middle East



Direct imports from the Middle East region amounted to just over \$1bn over the past year, led by imports of fertiliser. Since the closure of the Marsden Point refinery, New Zealand’s supply of petroleum products is mostly sourced from refineries in South Korea and Singapore. However, those refineries rely significantly on crude oil sourced from the Middle East and transported through the Strait of Hormuz. In the event of a prolonged conflict that cuts crude supply to refineries, this leaves New Zealand exposed to potential supply disruptions as well as higher prices. Our onshore inventory of refined petroleum products is very low in absolute terms and relative to global peers. The issues could move beyond a simple question of costs towards that of physical availability and the need to prioritise use. Such disruptions would raise the economic cost to New Zealand.

Mineral fuel imports (two largest suppliers)



As a rough guide, a \$USD10 increase in the price of oil adds around 11c/litre to domestic pump prices (assuming no change in the NZ dollar). If that sort of move in oil prices was sustained, it would directly and quickly add 0.1 to 0.2ppts to the CPI. However, the large increase in refining margins means the inflationary impact of the recent rise in oil prices could be significantly larger. At current levels, the combined impact of higher oil prices and refining margins could see pump prices for 91 unleaded rising to around \$3/ltr.

Moreover, a sustained oil price rise would likely pass through to local transport and other costs, leading to an

additional CPI impact over time. Such increases tend to be around 30% of the direct impact of higher fuel prices, so could add a further 0.1 to 0.2ppts to annual inflation (those such effects take longer to manifest than changes in oil prices).

The impact of those increases in fuel and transportation costs could be compounded by disruptions to global supply chains, which could impact the availability of some productive inputs or consumer goods, both here and in other regions. Such disruptions would further add to domestic cost pressures. However, the impact on consumer prices would also depend on the strength of domestic demand. In sectors where demand is already soft, increases in costs could result in pressure on firms' margins, rather than significant increases in output prices.

Provided there was no significant damage to energy infrastructure, most of the above effects would unwind once the conflict was resolved and oil prices returned to pre-conflict levels. But should there be damage and/or ongoing instability in the region even after the current conflict ends, oil prices could remain elevated for an extended period. Supply chain impacts could also be prolonged depending on the nature of the damage caused during the period of kinetic fighting and the impact on risk preferences of insurers for example.

So, what does this mean for the RBNZ? In many respects it is too soon to tell given uncertainty about the likely duration of the conflict and what damage and disruption might be caused, especially to key energy infrastructure. But the RBNZ's standard approach is to look through a near-term lift in inflation caused by higher oil prices, where that lift reflects a supply shock (due to geopolitical events or other temporary disruptions). In part this is due to the accompanying downside risks for growth, which could pose downside risks to inflation beyond the near-term (higher domestic petrol prices will reduce household disposable incomes, depressing demand elsewhere in the economy). It also reflects the expectation that any monetary policy response to a temporary inflation shock would only impact the economy after the shock had already passed, thus serving to amplify the cycle in inflation.

That said, the RBNZ will be mindful of the risk of a further uplift in inflation expectations should inflation remain in the upper part of the RBNZ's target band for an extended period, especially with the post-Covid surge in inflation still front of mind for many households and businesses. Given the current level of spare capacity in the New Zealand economy, we think there is less risk of a meaningful lift in inflation expectations than would otherwise be the case. However, the risk is not negligible. For this reason, the RBNZ will also likely be reluctant to ease policy further even if the outlook for the economy were to weaken materially.

But it would be folly to entirely rule out the possibility of further policy easing if the impact on the global economic outlook and export commodity prices was to prove severe. In the past, the more serious episodes of Middle East tensions have sometimes led to large falls in business confidence and output. While we are not expecting that this time, those downside risks can't be ruled out.

In the near term, faced with such two-sided uncertainty, we think that the RBNZ will likely become even more wedded to the "on hold" stance that it communicated at last month's meeting. As the conflict plays out, the RBNZ will assess how this is impacting the economic outlook and the medium-term path of inflation. Fortunately for the RBNZ, it will not have to publish updated forecasts until the next Monetary Policy Statement in late May. However, RBNZ Governor Breman is scheduled to give an address to a BusinessNZ CEO Forum on 24 March, touching on the current economic outlook. This might provide some insight into the RBNZ's early thinking. We expect the RBNZ to communicate a more dovish message compared to current market pricing, which this week has been leaning towards a greater chance of the OCR being hiked sooner than December.

Darren Gibbs, Senior Economist

Table of the week.

The past week has seen a regional war break out in the Persian Gulf, triggering the most serious crisis since the 1970s. Fighting between the US, Israel and Iran has led to spillovers to surrounding oil exporting states and closed the Strait of Hormuz. The impact on global energy supply has been profound as 20% of shipped supplies have halted and a considerably larger proportion of global oil reserves are threatened due to their proximity to the fighting. Asia's supply of crude oil is dominated by Middle Eastern suppliers. Hence Asia's energy-hungry industrial economies are increasingly running dry, forcing governments in those countries to prioritise supply for their own industries over exports. Thailand and China have already halted exports and a major state-owned Indian refiner halted exports last week. Oil prices have accordingly increased significantly. Refined fuel margins have also increased steeply as refiners react to reduced supply of crude oil. New Zealand is extremely exposed. Hard data on available onshore inventories are not routinely publicly available from the Government. However, MBIE noted last week that around 28 days' supply is available onshore, with another 22-29 days enroute.

Available fuel inventories as at 6 March 2026

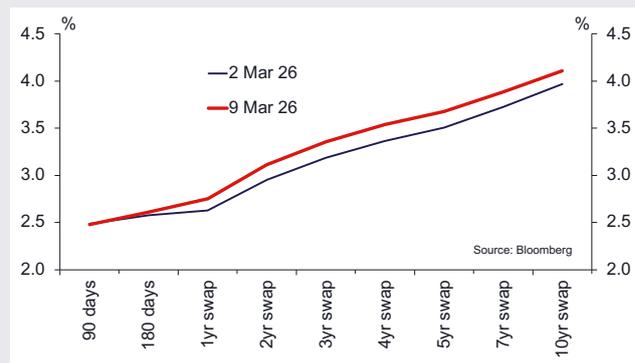
| | Petrol | Diesel | Jet fuel |
|-----------------|-----------|-----------|-----------|
| On hand | 27 | 25 | 28 |
| En route | 22 | 29 | 22 |
| Total | 49 | 54 | 50 |

Source: MBIE

Fixed versus floating for mortgages.

The RBNZ's cautious signal about the extent of future OCR hikes has helped to take some pressure off longer-term wholesale interest rates, at least for now. Ultimately though, once the tightening cycle does get under way we expect to see a series of rate hikes to return the OCR to more neutral levels. Fixed-term mortgage rates between two and five years now lie slightly either side of 5%. Fixing for one of these longer periods appears attractive as it would insulate borrowers from a trend higher in the OCR over the next couple of years.

NZ interest rates



Global wrap

Middle East conflict.

The past week saw the US and Israel launch military action against Iran, prompting retaliatory strikes throughout the region. There have been related disruptions to shipping through the Strait of Hormuz, along with volatility in financial markets and energy prices. Of note, Dubai oil prices have risen from around US\$67/barrel prior to the conflict to around US\$91 at the time of writing. It's unclear how long the conflict will last. Our main essay this week discusses how New Zealand could be affected.

US.

Non-farm payrolls were softer than expected in February, falling 92k over the month (exp: +55k), with unemployment rising to 4.4%. While some temporary factors will have weighed on employment, the data still highlights that the US jobs market remains fragile. Other US data pointed to mixed economic conditions. The ISM manufacturing and services gauges both firmed in February. However, the latest Beige Book highlighted soft conditions in several districts. Business surveys have also pointed to increases in operating costs, along with related pressure on margins. This week we'll get updates in the CPI (Wednesday), along with personal income and spending data, the PCE deflator and Michigan Consumer Confidence (all out Friday).

Asia-Pacific.

In Australia, GDP rose 0.8% in Q4. Together with recent revisions, that lifted the annual growth pace to 2.6% – the strongest outcome since Q1 2023. The December quarter saw solid growth in both public and private demand, including business investment. Ahead of the GDP data, RBA Governor Bullock sounded hawkish, noting that every meeting is live. The Governor also stated that “labour market conditions are still tight,” and “it is uncertain whether financial conditions are sufficiently restrictive to return inflation to the midpoint of the target in a reasonable timeframe.” Across in China, the target for GDP growth was lowered at the annual National People's Congress from “around 5.0%” to “around 4.5-5%.” On the data front, both the manufacturing and services PMIs dipped deeper into contractionary territory. While some of that softness may be related to the Lunar New Year holiday, business sector conditions have generally remained subdued. This week's calendar includes Chinese GDP (Monday), Australian consumer and business confidence (Tuesday) and Japanese GDP (Tuesday).

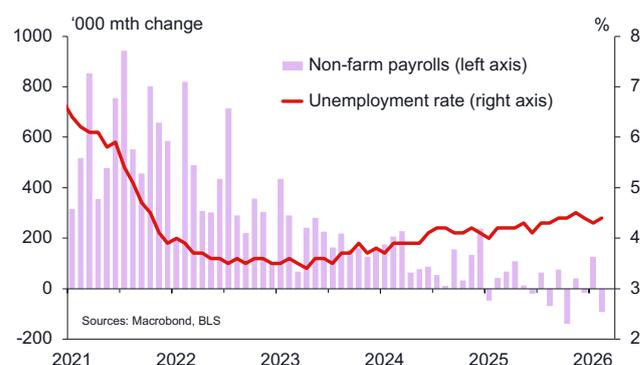
Trading partner real GDP (calendar years)

| | Annual average % change | | | |
|---------------------|-------------------------|------|------|------|
| | 2024 | 2025 | 2026 | 2027 |
| Australia | 1.0 | 2.0 | 2.6 | 2.3 |
| China | 5.0 | 5.0 | 4.6 | 4.5 |
| United States | 2.8 | 2.3 | 2.7 | 1.8 |
| Japan | 0.1 | 1.2 | 0.9 | 0.9 |
| East Asia ex China | 4.3 | 4.6 | 4.1 | 4.1 |
| India | 6.5 | 7.2 | 6.8 | 6.5 |
| Euro Zone | 0.8 | 1.5 | 1.3 | 1.5 |
| United Kingdom | 1.1 | 1.4 | 1.0 | 1.5 |
| NZ trading partners | 2.9 | 3.2 | 3.1 | 2.9 |
| World | 3.3 | 3.4 | 3.4 | 3.3 |

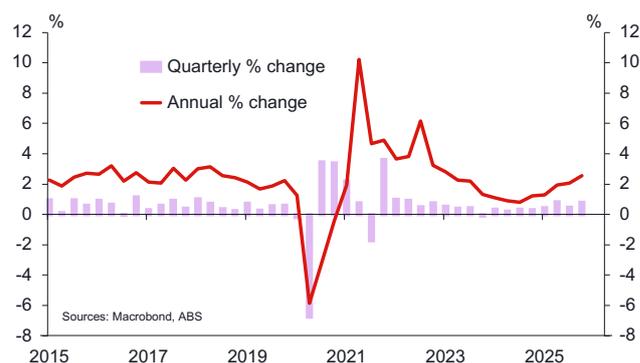
Australian & US interest rate outlook

| | 6 Mar | Mar-26 | Dec-26 | Dec-27 |
|----------------------------|-------|--------|--------|--------|
| Australia | | | | |
| Cash | 3.85 | 3.85 | 4.10 | 3.85 |
| 90 Day BBSW | 4.07 | 4.05 | 4.15 | 3.80 |
| 3 Year Swap | 4.42 | 4.25 | 4.00 | 3.60 |
| 3 Year Bond | 4.43 | 4.25 | 4.00 | 3.60 |
| 10 Year Bond | 4.84 | 4.75 | 4.80 | 4.60 |
| 10 Year Spread to US (bps) | 70 | 55 | 40 | 0 |
| US | | | | |
| Fed Funds | 3.625 | 3.625 | 3.375 | 3.375 |
| US 10 Year Bond | 4.14 | 4.20 | 4.40 | 4.60 |

US nonfarm payrolls and unemployment rate



Australian GDP growth



Financial markets wrap

Foreign exchange.

The NZD remains under downward pressure, mostly due to the Iran war which enters its second week. Support around 0.5850 remains vulnerable.

During the week ahead, markets will be sensitive to signs of intensification in the war, as well as concerns about fuel supply. Economic data will also be influential, as was evidenced by the USD's decline on Friday in response to surprisingly weak US labour data. This week, US CPI and PCE inflation data will be watched. There is limited NZ data this week and releases are second-tier.

For the quarter ahead, we soften our bullish outlook. It's still possible the 0.61 area could be revisited if the Iran war is short-lived, but an elongation could add risks to our view the NZ economy continues to recover and local interest rates gradually rise this year.

NZD/AUD has stalled around 0.84, but retains downside risks near term. The year-old downtrend has been justified by relative economic performance and NZ-AU yield spreads, while the Iran war poses greater risks to NZ than to Australia given the latter's energy resources.

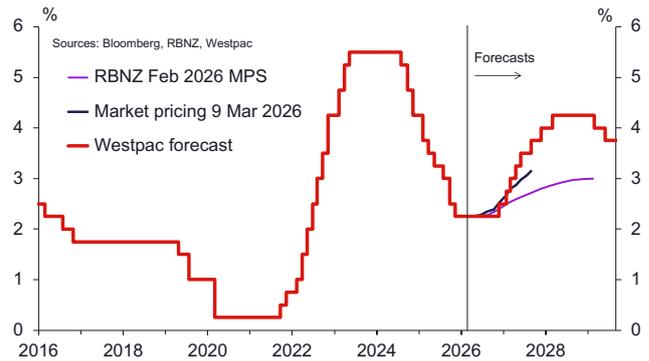
Interest rates.

The NZ 2yr swap rate rose to a cycle high of 3.17% in early February and then corrected lower to 2.90% after the RBNZ warned markets against excessively pricing the next tightening cycle. At 3.12% currently, it has recently been driven by offshore markets which are more sensitive to the inflationary impact of higher oil prices due to the Iran war than to the economic growth impact.

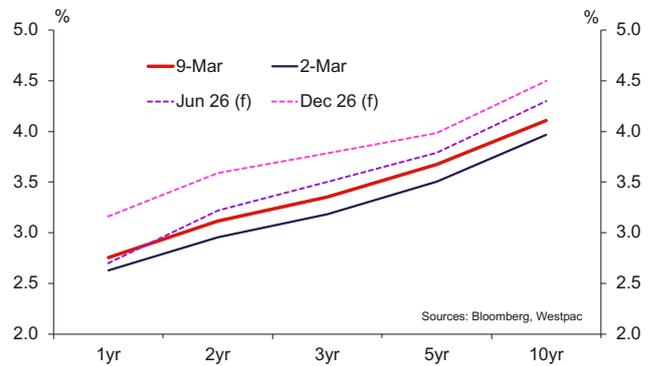
The OIS market continues to price a 0% chance of a rate hike at the next meeting on 8 April, but now an 80% chance of one by September and 100% of one by October. This increase in pricing seems inconsistent with our view that the RBNZ will largely look through the inflationary impact of the Iran war, as long as inflation expectations remain anchored.

The yield curve has flattened from the peak in late December, driven by higher short maturity yields and relatively stable long maturity yields. The difference between 2yr and 10yr swap rates is now 100bp, vs the December peak at 120bp. During the year ahead, we expect significant flattening as we approach the RBNZ's tightening cycle.

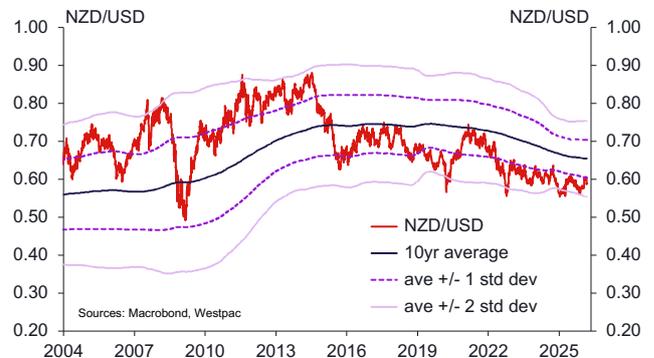
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

| | Historical data | | | | F'cast |
|-----|-----------------|-------------|-------------|---------|--------|
| | Spot | 3mth range | 5yr range | 5yr avg | Dec-26 |
| USD | 0.587 | 0.573-0.605 | 0.553-0.728 | 0.624 | 0.63 |
| AUD | 0.840 | 0.837-0.873 | 0.837-0.971 | 0.917 | 0.88 |
| EUR | 0.508 | 0.491-0.511 | 0.484-0.637 | 0.565 | 0.52 |
| GBP | 0.440 | 0.427-0.444 | 0.426-0.531 | 0.484 | 0.45 |
| JPY | 92.7 | 89.3-94.4 | 74.7-98.6 | 85.8 | 91.4 |

Economic and financial forecasts

| Economic indicators | Quarterly % change | | | | Annual % change | | | |
|------------------------------------|--------------------|--------|--------|--------|-----------------|------|------|------|
| | Sep-25 | Dec-25 | Mar-26 | Jun-26 | 2024 | 2025 | 2026 | 2027 |
| GDP (production) | 1.1 | 0.6 | 1.0 | 0.5 | -1.6 | 1.8 | 3.3 | 2.7 |
| Consumer price index | 1.0 | 0.6 | 0.5 | 0.5 | 2.2 | 3.1 | 2.3 | 2.5 |
| Employment change | 0.0 | 0.5 | 0.3 | 0.7 | -1.3 | 0.2 | 2.6 | 2.2 |
| Unemployment rate | 5.3 | 5.4 | 5.3 | 5.1 | 5.1 | 5.4 | 4.7 | 4.4 |
| Labour cost index (all sectors) | 0.4 | 0.4 | 0.5 | 0.6 | 3.3 | 2.0 | 2.4 | 2.2 |
| Current account balance (% of GDP) | -3.5 | -3.4 | -3.2 | -3.1 | -4.7 | -3.4 | -2.9 | -3.3 |
| Terms of trade | -0.5 | -3.0 | 1.9 | 2.9 | 8.9 | 0.2 | 5.9 | 1.1 |
| House price index | -0.6 | -0.4 | 0.4 | 1.0 | -1.0 | -0.1 | 4.0 | 5.0 |

| Financial forecasts | End of quarter | | | | End of year | | | |
|---------------------|----------------|--------|--------|--------|-------------|------|------|------|
| | Sep-25 | Dec-25 | Mar-26 | Jun-26 | 2024 | 2025 | 2026 | 2027 |
| OCR | 3.00 | 2.25 | 2.25 | 2.25 | 4.25 | 2.25 | 2.50 | 4.00 |
| 90 day bank bill | 3.10 | 2.52 | 2.35 | 2.35 | 4.45 | 2.52 | 2.75 | 4.15 |
| 2 year swap | 2.99 | 2.71 | 3.25 | 3.50 | 3.64 | 2.71 | 4.00 | 4.30 |
| 5 year swap | 3.40 | 3.27 | 3.80 | 4.00 | 3.73 | 3.27 | 4.20 | 4.35 |
| 10 year bond | 4.42 | 4.27 | 4.70 | 4.75 | 4.50 | 4.27 | 4.85 | 5.00 |
| TWI | 68.4 | 66.4 | 66.8 | 67.3 | 69.5 | 66.4 | 69.6 | 73.3 |
| NZD/USD | 0.59 | 0.57 | 0.59 | 0.60 | 0.59 | 0.57 | 0.63 | 0.68 |
| NZD/AUD | 0.91 | 0.87 | 0.84 | 0.85 | 0.91 | 0.87 | 0.88 | 0.92 |
| NZD/EUR | 0.51 | 0.49 | 0.50 | 0.50 | 0.55 | 0.49 | 0.52 | 0.56 |
| NZD/GBP | 0.44 | 0.43 | 0.43 | 0.43 | 0.46 | 0.43 | 0.45 | 0.48 |

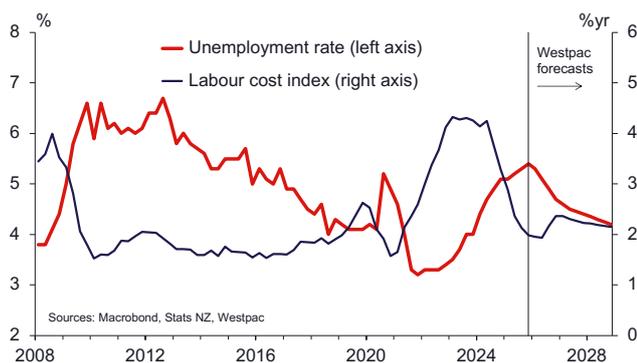
GDP growth



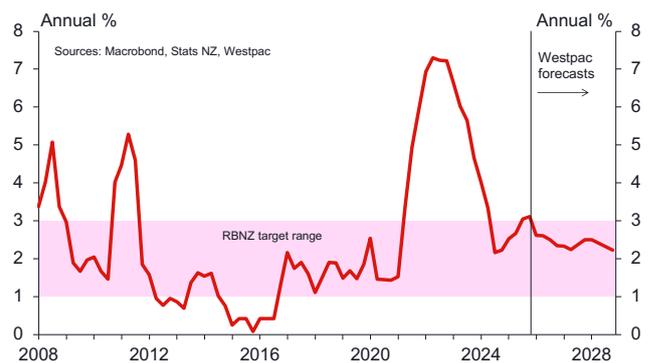
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

| | | Last | Market median | Westpac forecast | Risk/Comment |
|---------------|--|-------|---------------|------------------|--|
| Mon 09 | | | | | |
| Jpn | Jan Current Account Balance, ¥bn | 728.8 | 1015.9 | - | Likely reversal from last month's narrowing in surplus. |
| Chn | Feb PPI, %ann | -1.4 | -1.1 | - | Authorities have committed to increasing inflation but ... |
| | Feb CPI, %ann | 0.2 | 0.9 | - | ... no concrete policies have been laid out yet. |
| Eur | Mar Sentix Investor Confidence, index | 4.2 | -3.0 | - | Energy woes likely to dampen confidence. |
| US | Feb NY Fed 1-Yr Inflation Expectations, %ann | 3.09 | - | - | Anchored pre-Middle East turmoil. |
| Tue 10 | | | | | |
| Aus | Mar Westpac-MI Consumer Sentiment, index | 90.5 | - | - | Reactions to Middle East conflict in focus. |
| | Feb NAB Business Conditions, index | 7 | - | - | Will confidence remain resilient despite headwinds? |
| Jpn | Jan Household Spending, %mth | -2.6 | - | - | Real spending lags as inflation bites into bottom line |
| | Feb Machinery Orders, %yr | 25.3 | - | - | AI build out is supporting machinery demand from Japan. |
| | Q4 GDP, %qtr | 0.1 | 0.3 | - | Final estimate |
| Chn | Feb Trade Balance, US\$bn ytd | - | 175 | - | Surplus is wide compared to history. |
| US | Feb NFIB Small Business Optimism, index | 99.3 | 99.6 | - | Hiring woes are plaguing small businesses. |
| | Feb Existing Home Sales, %mth | -8.4 | -1.2 | - | High borrowing costs are discouraging sales. |
| Wed 11 | | | | | |
| US | Feb CPI, %mth | 0.2 | 0.2 | 0.2 | Core services inflation is showing persistence. |
| Jpn | Feb PPI, %ann | 2.3 | 2.2 | | Import costs are keeping producer costs high. |
| Thu 12 | | | | | |
| Aus | Mar MI Inflation Expectations, %ann | 5 | - | - | Inflation expectations at their highest since June 2025. |
| Eur | Mar ECB Speak | - | - | - | Governing Council Member Isabel Schnabel to speak. |
| US | Initial Jobless Claims | 213 | - | - | Still at very low levels versus history. |
| Fri 13 | | | | | |
| NZ | Feb Manufacturing PMI, index | 55.2 | - | - | Business conditions have been firming in recent months. |
| | Jan Net Migration, no. | 2870 | - | - | Steady at low but positive levels. |
| Eur | Jan Industrial Production, %mth | -1.4 | 0.5 | - | Demand weaken in the wake of global slowdown. |
| UK | Jan Trade Balance, GBPmn | 4340 | - | - | Deficit has widened since the start of 2025. |
| US | Jan Personal Income, %mth | 0.3 | 0.5 | - | Real income and spending remains resilient despite ... |
| | Jan Personal Spending, %mth | 0.4 | 0.3 | - | ... the inflationary pulse. This has kept services-related ... |
| | Jan PCE Deflator, %mth | 0.4 | 0.3 | - | ... inflation strong. |
| | Q4 GDP, %ann'd | 1.4 | 1.4 | - | Second estimate. |
| | Jan Durable Goods Orders, %mth | -1.4 | 0.4 | - | Showing persistent strength ex. transport orders. |
| | Mar Uni. Of Michigan Sentiment, index | 56.6 | 56.3 | - | Gauge on inflation expectations are key. |
| | Jan JOLTS Job Openings, 000s | 6542 | - | - | Labour demand and supply are broadly in balance. |

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