MNI RBNZ Preview – November 2022

Meeting Date: Wednesday, 23 November 2022

Statement Release Time: 14:00 NZDT/01:00 GMT

Press Conference Time: 15:00 NZDT/02:00 GMT

Link To Statement: https://www.rbnz.govt.nz/monetary-policy/official-cash-rate-decisions

Link To MPS: https://www.rbnz.govt.nz/monetary-policy/monetary-policy-statement

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mni **Central Bank Watch - RBNZ**

November 21, 2022

MNI RBNZ Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI (Q)	% y/y	7.2	7.3	↓	6.9	↑					0.98
House Prices	% y/y	-0.6	9.5	↓	18.8	↓					-1.41
RBNZ Inflation Exp (Q)	% y/y	3.62	3.07	↑	3.29	↑					0.77
Inflation Breakeven 10Yr	%	2.19	3.10	↓	3.12	↓					-1.44
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
ISM	Index	49.3	53.3	↓	50.9	↓					-0.91
GDP (Q)	% y/y	0.4	1.0	↓	3.0	↓					-0.48
Trade Balance	$mn	-1615	-1133	↓	-593	↓					-0.68
Exports	$mn	6026	6226	↓	6468	↓					-0.07
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Credit Card Sending (Retail)	% m/m	1.0	-0.1	↑	7.2	↓					0.08
House Sales	% y/y	-34.7	-36.7	↑	-35.2	↑					-0.53
Terms of Trade (Q)	% q/q	-2.4	0.6	↓	-0.9	↓					-0.88
Commodity Prices	% m/m	-3.4	-2.2	↓	-1.9	↓					-0.72
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales (Q)	% q/q	-2.3	-0.9	↓	8.5	↓					-0.47
Consumer Confidence	Index	85.4	81.9	↑	84.4	↑					0.91
Employment Change (Q)	% q/q	1.3	0.0	↑	0.0	↑					1.08
Ave Hourly Earnings (Q)	% q/q	2.6	2.3	↑	1.9	↑					1.56
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market	Index	11440	11493	↓	11884	↓					-0.29
NZ 10-Year Yield	%	4.18	3.44	↑	3.65	↑					1.04
NZ Yield Curve (2s-10s)	bps	-14.5	11.7	↓	32.8	↓					-1.70
NZD TWI	Index	71.73	71.12	↑	72.43	↓					-0.66

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

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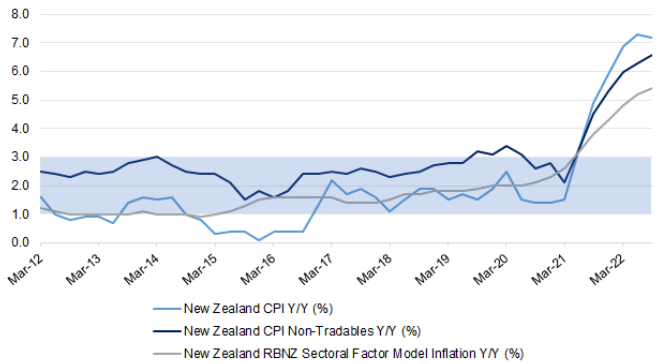
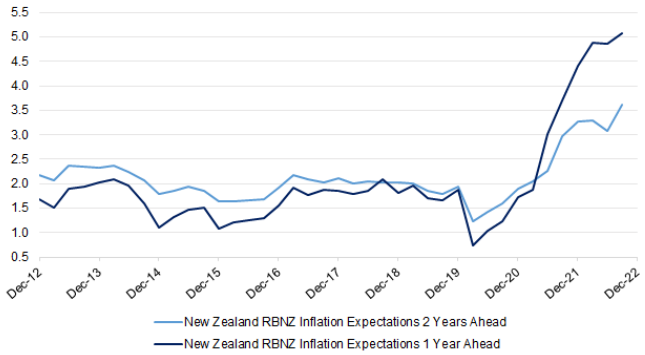
MNI POV (Point Of View): Fighting For Credibility

The October interim monetary policy review surprised to the hawkish side, with the Reserve Bank demonstrating its resolve by language surrounding the expected 50bp rate hike. The Committee demonstrated its openness to increasing the pace of tightening, with the minutes flagging a debate on a 75bp move, even as colleagues from the RBA pivoted to 25bp rate increases the day before. Domestic data flow since the October meeting underscored the need for continued aggressive tightening. In our view, the odds are high that the RBNZ will raise the OCR by 75bp this week, which would be consistent with its least regrets approach.

Although the RBNZ has been at the forefront of the global tightening campaign, price pressure are refusing to show signs of letting up, putting the central bank's inflation-fighting credibility at a risk. The moderation in annual CPI growth in Q3 was marginal and the figure topped the estimates of all economists surveyed by Bloomberg, as well as the RBNZ's forecast of +6.4% Y/Y. Key gauges of core inflation rose, moving further beyond the upper bound of the RBNZ's +1.0-3.0% Y/Y target range.





The pass-through from persistently elevated inflation into inflation expectations is evident, making the RBNZ's task all the more urgent. Inflation expectations rose to new multi-decade highs across one-year and two-year ahead gauges, the latter of which captures the medium-term impact of the RBNZ's monetary policy action. The Reserve Bank's data on household inflation expectations revealed similar insights, reinforcing the view that higher inflation expectations are becoming increasingly embedded among New Zealand consumers.

Acute price pressures are accentuated by ultra-tight labour market conditions. The deceptive unchanged reading of the unemployment rate for Q3 (marginal beat vs. consensus, in line with RBNZ projection) masked a sizeable influx of job-seekers, with employment growing at a notably faster than expected clip. This was accompanied by robust wage growth, which broke another record. In other words – employment remains way beyond its maximum sustainable level, which pours fuel on New Zealand's red hot inflation.

The exchange rate is becoming less of a worry, with the New Zealand dollar outperforming all its G10 peers since the last monetary policy review, as a product of its sensitivity to shifts in risk sentiment. The TWI has also rebounded towards levels projected in the August MPS and last operates just shy of the 72 figure. However, while there is no pressing need to come to the kiwi dollar's rescue, the RBNZ has no reason to lean against its recovery. A dovish monetary policy statement would undermine the kiwi's crucial advantage over its major peers at the time when fighting inflation is pretty much the Reserve Bank's sole focus.

Admittedly, there is a host of arguments that could potentially persuade the RBNZ to stick with its current pace of rate hikes. BusinessNZ Manufacturing PMI has now plunged into contractionary territory, printing at 49.3 last month. Commodity markets on the defensive in anticipation of global growth slowdown, with dairy prices in retreat for the past few months. Sentiment is deteriorating among consumers and businesses as they navigate the unfolding cost-of-living crisis. Finally, New Zealand's housing market keeps cooling at a steady yet rapid pace.

Still, the stakes are too high for the RBNZ to refrain from decisive action. The Reserve Bank's ability to keep inflation in check is being openly called into question. This is not only evident in quarterly data on inflation expectations. A survey commissioned by the central bank as part of its review of monetary policy between 2017 and 2022 showed that "the majority had little or no confidence in the Reserve Bank's ability to bring inflation within the target band by 2024." The Reserve Bank now finds itself in a situation when it cannot afford to let anyone doubt its hawkish credentials.

Furthermore, the debate around the RBNZ's response to the crisis caused by the COVID-19 pandemic has become politicised. New Zealand's main opposition parties repeatedly called for an independent inquiry into the matter and deplored the government's decision to reappoint Governor Orr for another five-year term, blaming him for unleashing the amount of monetary easing that caused inflation to spiral out of control. With the political stand-off surrounding the RBNZ's competence entering public debate, the central bank us under increased pressure to restore its inflation-fighting credibility.

In our view, the notoriously problematic scheduling of the Committee's meetings into the year-end increases the odds of an upsized rate hike. This week's MPS will be followed by an unusually long three-month hiatus before the next monetary policy review. There has been nothing in the recent data flow to seriously challenge the Committee's "stitch in time" logic – taking aggressive action to bring inflation under control sooner means that the pain for households and businesses will be shorter. Hence, policymakers will likely prefer to err on the hawkish side.

Meeting-dated swaps price a 66% chance of a 75bp rate hike on Wednesday, with consensus also leaning towards the jumbo-sized hike. Worth taking note of the fact that local sell-side analysts are generally looking for an outsized rate rise. We are cautiously siding with the 75bp camp, albeit there is a risk that the Committee will tip hat to the higher starting point and stick with raising the OCR in 50bp increments. The dovish reception of a half-percentage point increase could be partly offset by ostensibly hawkish revisions to forecasts and the OCR track, but only to an extent. In any case, given the recent surprises on the inflation front, the Reserve Bank will likely chart a new interest-rate forecast with a higher terminal rate.

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RBNZ October Monetary Policy Review Announcement

The Committee agreed it remains appropriate to continue to tighten monetary conditions at pace to maintain price stability and contribute to maximum sustainable employment. Core consumer price inflation is too high and labour resources are scarce.

Global consumer price pressures remain heightened. The global demand for goods and services is exceeding supply capacity, putting upward pressure on prices. Food and energy prices are being particularly exacerbated by the war in Ukraine.

A recent decline in oil prices and an easing in some supply-chain constraints have seen headline inflation measures fall in some countries. However, core measures of inflation have risen and persist. Central banks are tightening monetary conditions, implying a weaker growth outlook for New Zealand's trading partners.

In New Zealand, the level of domestic spending has remained resilient to date, in the face of slowing global growth and higher domestic interest rates. Employment levels are high, and household balance sheets remain resilient despite the fall in house prices.

New Zealand's productive capacity is still being constrained by labour shortages and wage pressures are heightened. Overall, spending continues to outstrip the capacity to supply goods and services, with a range of indicators continuing to highlight broad-based pricing pressures.

Committee members agreed that monetary conditions needed to continue to tighten until they are confident there is sufficient restraint on spending to bring inflation back within its 1 to 3% per annum target range. The Committee remains resolute in achieving the Monetary Policy Remit.

Summary Record of Meeting

The Monetary Policy Committee discussed developments affecting the outlook for inflation and employment in New Zealand. Inflation is currently too high and employment is beyond its maximum sustainable level. The Committee agreed to continue increasing the Official Cash Rate (OCR) at pace to maintain price stability and support maximum sustainable employment.

The Committee discussed recent international economic developments. Inflation remains high globally. Headline inflation has declined slightly in some countries, but core measures of inflation have proved more persistent. Recent indicators suggest the global growth outlook has weakened, in part due to tighter global financial conditions. In Europe, the war in Ukraine continues to pose downside risks to growth and upside risks to inflation. In China, containment of COVID-19 continues to adversely impact activity and there are financial stresses emanating from the property sector.

The Committee observed that global sovereign bond yields have increased significantly, consistent with a repricing of expectations for central bank policy rates. Some members believed that simultaneous and fast-paced monetary tightening in multiple countries was increasing downside risks to global growth. Members noted that large movements in wholesale interest rates and exchange rates were causing a deterioration in financial market liquidity, which can exacerbate market volatility.

Higher global interest rates and increased risk aversion in global markets have placed downward pressure on the New Zealand dollar. Members believed that this would contribute toward a rebalancing of New Zealand's current account over the long-term. However, a lower New Zealand dollar, if sustained, poses further upside risk to inflation over the forecast horizon.

The Committee discussed recent developments in the domestic economy. New Zealand GDP in the June quarter rebounded broadly as expected. This was supported by a resumption in international tourism following the reopening of New Zealand's borders, and an increase in domestic activity following the relaxation of pandemic restrictions. Other more recent indicators suggest that domestic activity in the September quarter may have been slightly stronger than previously assumed. Consumption remains resilient overall, but spending on durable goods, which may be more sensitive to interest rates, has continued to decline.

Household balance sheets are resilient despite recent declines in house prices. Members agreed that falling house prices and declines in other asset prices will negatively impact household consumption. Members noted that household debt servicing costs were rising and had further to increase on average as more fixed-rate mortgages are reset at higher interest rates. The impact of higher debt servicing requirements are an important channel of monetary policy transmission.

The Committee noted recent survey data showed that for businesses, cost pressures and labour scarcity remain the primary concerns. The construction industry faces ongoing capacity constraints. Building consents remain near historic highs, driven by growth in multi-unit dwellings, although there is uncertainty about the construction pipeline going forward.

The Committee agreed that the labour market remains very tight. Net migration remains negative and is yet to provide any sustained recovery in external labour supply. Members discussed the likelihood of further upside wage pressure given lags in the wage setting process. Some members noted that there may be changes in wage setting behaviour in an environment of higher headline inflation.

The Committee discussed domestic financial conditions. Members noted the strong funding position of banks and that as a result, recent increases in wholesale interest rates have yet to be fully reflected in retail interest rates. However, wholesale funding costs are rising and bank funding conditions are expected to become less accommodative. The Committee expects that higher wholesale interest rates will be reflected in higher retail interest rates, particularly deposit rates, as banks compete for funding.

The Committee discussed the pace and extent of monetary tightening required. Members agreed that the OCR needed to reach a level where the Committee could be confident it was sufficient to maintain expectations of low inflation in the longer term and bring consumer price inflation to within the target range.

The Committee considered whether to increase the OCR by 50 or 75 basis points at this meeting. Some members highlighted that a larger increase in the OCR now would reduce the likelihood of a higher peak in the OCR being required. Other members emphasised the degree of policy tightening delivered to date. Members also noted the lags in monetary policy transmission and a slow pass-through to retail interest rates. On balance, the Committee agreed that a 50 basis point increase was appropriate at this meeting.

On Wednesday 5 October, the Committee reached a consensus to increase the OCR to 3.5% from 3%.

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RBNZ August MPS – Key Forecast Variables

Key forecast variables

		GDP growth Quarterly	CPI inflation Quarterly	CPI inflation Annual	Unemployment rate	TWI	OCR
2020	Mar	-1.2	0.8	2.5	4.2	70.9	0.9
	Jun	-10.3	-0.5	1.5	4.0	69.7	0.3
	Sep	13.7	0.7	1.4	5.3	72.0	0.3
	Dec	-0.4	0.5	1.4	4.9	72.9	0.3
2021	Mar	1.7	0.8	1.5	4.6	74.9	0.3
	Jun	2.4	1.3	3.3	3.9	74.7	0.3
	Sep	-3.8	2.2	4.9	3.3	74.4	0.3
	Dec	3.0	1.4	5.9	3.2	74.3	0.6
2022	Mar	-0.2	1.8	6.9	3.2	72.6	0.9
	Jun	**1.8**	1.7	7.3	3.3	72.1	1.6
	Sep	**0.6**	**1.4**	**6.4**	**3.3**	**71.7**	**2.7**
	Dec	**0.2**	**0.8**	**5.8**	**3.5**	**71.7**	**3.7**
2023	Mar	**0.4**	**1.3**	**5.3**	**3.8**	**71.7**	**4.0**
	Jun	**0.0**	**0.9**	**4.5**	**4.1**	**71.7**	**4.1**
	Sep	**0.1**	**1.0**	**4.1**	**4.4**	**71.7**	**4.1**
	Dec	**0.2**	**0.6**	**3.8**	**4.5**	**71.7**	**4.1**
2024	Mar	**0.2**	**0.6**	**3.1**	**4.6**	**71.7**	**4.1**
	Jun	**0.2**	**0.5**	**2.6**	**4.7**	**71.7**	**4.1**
	Sep	**0.2**	**0.8**	**2.4**	**4.8**	**71.7**	**4.0**
	Dec	**0.3**	**0.3**	**2.2**	**4.9**	**71.7**	**3.9**
2025	Mar	**0.4**	**0.4**	**2.0**	**5.0**	**71.7**	**3.8**
	Jun	**0.5**	**0.4**	**1.9**	**5.0**	**71.7**	**3.7**
	Sep	**0.6**	**0.8**	**1.9**	**5.0**	**71.7**	**3.6**

Source: RBNZ

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Sell-Side Analyst Views

ANZ (+75bp)

- We expect the RBNZ will raise the Official Cash Rate (OCR) 75bp to 4.25% at its Monetary Policy Statement (MPS) next Wednesday. If there were to be a surprise, a 50bp hike is more likely than +100bp.
- On balance, local data since the August MPS (and particularly since the October Review, when the RBNZ said it considered a 75bp hike) has been firmly on the hawkish side of expectations. The RBNZ has already proven that it's not in the least afraid to go its own way, and the global tilt towards slower hikes is unlikely to play a significant part in the decision.
- We are forecasting the OCR to peak at 5%, via another 75bp hike in February on a "let's just get it done" basis. If data cools more rapidly than expected the RBNZ could well slow the pace at that point. But regardless, we see upside risk to our forecast of a peak 5% OCR, given what's looking like a well-entrenched wage-price spiral at this point.

ASB (+75bp)

- There are three recent warning signs that inflation pressures have got up a real head of steam, even though monetary tightening started over a year ago. Reported inflation was far more persistent in Q3 than was widely anticipated. Inflation expectations lifted by a significant amount in the RBNZ's Q3 Survey of Expectations. The labour market remains very tight.
- Along with the inflation signs, activity is also holding up for the time being. Although it is early days for the release of the actual data, consumer spending and overall GDP look like they have held up at least as well in the second half of 2022 as the RBNZ recently forecast.
- It isn't a done deal to step up the pace of OCR increases, but the arguments in favour are stronger than for another 50bp increase – particularly as the RBNZ's next scheduled meeting will be three months way. It would also be in keeping with the RBNZ's 'least regrets' decision-making framework, given that the RBNZ is at clear risk of not meeting its policy remit.

Barclays (+50bp)

- We expect yet another 50bp hike from the RBNZ, as the bank continues with its hawkish stance amid still hot inflation. A 4.0% rate has been mentioned by Governor Orr as enough tightening to achieve the bank's remit. Additionally, we think the MPC will see some risks to growth emerging, which will most likely get worse by the time of the next meeting in February, closing the window for more hikes.

BNZ (+75bp)

- The Reserve Bank's decision as to what it does with its cash rate on November 23 again rests with the relative weight it places on historical outturns as opposed to the suite of leading indicators, both published and anecdotal, that are available. Recently published data clearly argue the Reserve Bank should present a more aggressive face than it did at both the August Monetary Policy Statement and the October Monetary Policy Review. But forward indicators are arguing a much more cautious approach.
- When we wrote our October MPR preview we said much the same thing and concluded the cautious approach would be adopted. We were wrong! The RBNZ came out with fists flying, hiking 50 basis points and arguing for more of the same ahead. This time around we have even greater conviction that caution is warranted yet, given the recent past decisions of the central bank, we are not convinced we can forecast this outcome with any confidence.
- When push comes to shove, the determining factor for the Bank may well be what the market is pricing in the run up to the decision. We still reckon the RBNZ would prefer to go 50 if it could get away with it but it won't want the currency to reverse its recent recovery and will not want to appear to be going soft on inflation.

Goldman Sachs (+75bp)

- Looking to the November meeting, we expect the RBNZ to hike the official cash rate by 75bp to 4.25%, in line with consensus economists. Since the October meeting, domestic data have been on the stronger side of expectations in general. 3Q2022 CPI inflation was much stronger than expected which has led us (and consensus) to revise higher the expectations for the November RBNZ meeting to a 75bp hike, while the 3Q2022 inflation expectations data also edged higher including at the 5- and 10-year horizons. The subsequent labour market update was also stronger than expected in terms of the momentum in jobs

growth and wage pressures. And while the housing market has continued to adjust, there are few signs of a disorderly adjustment to date despite aggressive rate hikes.

- Given the RBNZ's consideration in October to step up the pace of hikes to 75bp – and the subsequent upside surprise across inflation, inflation expectations and the labour market – we expect the RBNZ to hike by 75bp in November, with a view that "a larger increase in the OCR now would reduce the likelihood of a higher peak in the OCR being required" (the language used in the October meeting to argue for a 75bp hike). On forward guidance we expect the RBNZ to maintain the language that policy will need to continue to tighten 'at pace', ahead of the long pause before the next meeting in February 2023. We expect the MPS to show an upgrade to the OCR track to a peak rate of around 5% or slightly above, and for the RBNZ to upgrade its inflation forecasts given the stronger starting point and ongoing momentum in wages growth while downgrading the already-weak growth forecasts reflecting the higher OCR peak.
- That said, we note the high level of uncertainty to the outlook. While there is an upside scenario that the RBNZ provides more hawkish forward guidance at the November meeting to keep financial conditions tight ahead of the long pause before February, there is also a downside scenario where they surprise to the dovish side given the weakening growth outlook and easing in the pace of tightening by global central banks.

ING (+50bp)

- We expect the Reserve Bank of New Zealand to hike by 50bp next week and signal a peak rate around 5.0%. The ongoing downturn in the housing market and worsening external conditions argue against a larger, 75bp move. We are not fully convinced the RBNZ will ultimately deliver all its projected hikes, but a dovish pivot is unlikely on the cards at this stage.
- A 50bp hike may be received as a slightly dovish surprise by markets, but we believe that a greater focus will be placed on the forward-looking policy message, in particular: a) any hints in the rate projections that we are close to the peak in rates; and b) other economic projections such as on inflation and house prices.

J.P. Morgan (+75bp)

- The RBNZ is in a tough position heading into the next meeting. The committee flagged in the October minutes that a 75bp move was considered at that meeting. The subsequent, large upside surprise in the 3Q inflation data now directly tests that claim, vs previous guidance that the cycle was “very mature”. The RBNZ’s early-mover status in late 2021 has not prevented a high terminal rate by DM standards, and an acceleration in hikes this year. It will be hard to present the message that everything is under control when dialing up the pace again to a 75bp hike (as we expect) and raising staff OCR forecasts to nearly 5%. This would keep market pricing steady and also implies mortgage rates would push above 7.5%, concerning terrain given where new mortgages were stress-tested in recent years. The staff’s growth forecasts will probably be cut further in this eventuality.

Kiwibank (+75bp)

- The war on inflation is ongoing. And the RBNZ is likely to up the ante next week. We expect to see an outsized 75bp hike to 4.25%. And they won’t stop there. We’re likely to see a 5% cash rate next year.
- Both inflation and inflation expectations have surprised on the upside since the RBNZ’s last MPS in August. The RBNZ’s next MPS is not until February. So they’ll want to get conditions right at this juncture.
- The effects of central bank tightening are being felt around the world. Global growth is slowing, and we may have seen the peak in inflation, here and abroad. Kiwi households are feeling the pain, now, as they roll off exceptionally low interest rates. The substantial increase in interest expense comes at a time of “crisis” for living costs and falling house prices. We expect to see an RBNZ “pivot” in February.

NZIER (+75bp)

- Shadow Board members recommend another hike in the Official Cash Rate (OCR) in the Reserve Bank’s upcoming November meeting. However, there was a range of views on the size of the increase. The majority view was that the OCR should increase by 75 basis points to 4.25 percent, given that strong action is required to bring down domestic inflation pressures. One member also considered that, given the rapid increase in the US Fed rate in recent months, any increases smaller than 75 basis points would weigh on the New Zealand currency and add to inflation pressures as prices of imported goods increase. Three members preferred a smaller OCR increase. Two of them highlighted the increased risk of entering another recession if the RBNZ increases the OCR by more than 50 basis points, and the other member was concerned about the increased costs for owners of SMEs.

- Regarding where the OCR should be in a year, the Shadow Board's core views ranged from 3.50 percent to 5.25 percent. One member noted that more central banks are increasing their interest rates at a less rapid pace now, and the Reserve Bank should take similar actions in the coming year. Some members pointed out that the Reserve Bank should consider the cumulative effect of interest rate increases on the New Zealand economy more carefully when determining the degree of tightening next year.

RBC (+50bp)

- Key domestic data since the RBNZ last met in early Oct have been stronger than expected with Q3 CPI and wages surprising to the upside together with stronger employment gains emerging. The last MPR noted the debate between a 50bp or 75bp move. Global developments have been mixed with the core thematic of a step down in the pace of global tightening emerging amid mixed data. Uncertainty is high and it will likely be another discussion this meeting between 50bp or 75bp. We err to another 50bp hike.

Scotiabank (+50bp)

- The Reserve Bank of New Zealand is likely to raise its official cash rate by another 50bps on Tuesday. Most within consensus hold to this view, with a minority thinking that the central bank could join the 75bps club with its first such foray. Markets are on the fence roughly halfway between the two options.
- To expedite the pace of hikes at this stage amid more mature concerns about the lagging effects on the economy could make for awkward optics and risks. It may be that the safer route could be to hike 50bps to 4% and indicate openness toward raising the terminal rate estimate yet another time.
- If there is one thing that holds the central bank back from picking up the pace, then it may be the class-leading performance of the NZ$ that has appreciated by nearly 7% to the USD and less so against every other major currency.

TD Securities (+75bp)

- The Bank appears to be drifting further from its remit as Q3 headline CPI surprised to the upside and private sector wages growth hit a record. RBNZ would have also been unpleasantly surprised by the rebound in ST inflation expectations. We will watch closely for RBNZ's new OCR track which may indicate a new terminal rate of 5%.

Westpac (+75bp)

- As it prepares next week's Monetary Policy Statement, the Reserve Bank finds itself facing the real risk of an inflationary spiral – the very situation it had hoped to prevent with its relatively early start on hiking interest rates. But given the momentum in domestic demand, and the cautious initial pace of rate hikes, the economy has become increasingly overheated and the advantage appears to have been lost. Now a much higher level of interest rates will be needed to bring inflation under control.
- As we detailed in our CPI review last month, we now expect the Official Cash Rate to reach a peak of 5%, most likely in the early part of next year. With the cash rate at 3.5% today, that implies the RBNZ is still some way from where it needs to be. And with little room for delay, we think that the RBNZ will deliver a larger 75 basis point increase in the OCR this time, taking it up to 4.25%.
- While we're picking a 75 basis point increase next week, we acknowledge that both a 50 point and a 100 point increase are genuine possibilities as well. In our view, there are a few factors that favour a step up from the 50 basis point increases we've seen at the last few reviews.