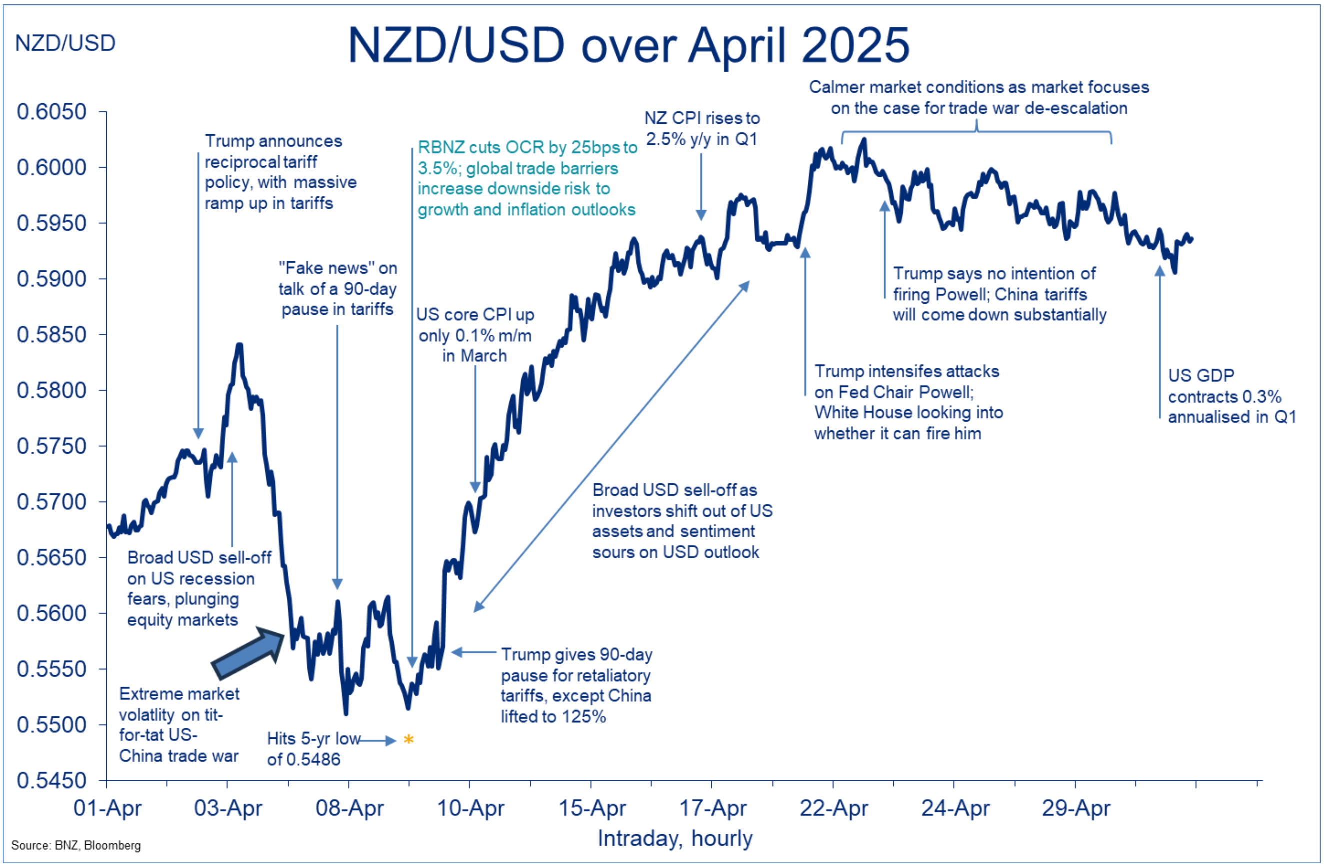
Research

Financial Markets Wrap

1 May 2025

Markets yippy in April

- **Trump's reciprocal tariff policy and attack on Fed Chair Powell kicked off some significant market volatility and a "sell America" trade**
- **Some walk back on these reversed the market reaction, resulting in modest net moves for equities and the US 10-year rate in April**
- **However, broad USD weakness was largely sustained; NZD/USD traded a wide 5½ cents range and closed up 4½%**



Quick Outlook		April Ranges
NZD/USD	There are compelling reasons to suggest that the USD has begun a downward journey from its lofty heights, triggered by the US policy agenda. The expected NZD/USD recovery has begun earlier than expected and can continue through the end of the year, with the occasional hiccup.	0.5485-0.6030
NZD/AUD	We remain neutral on the cross rate, with the outlook for the NZ and Australian economies looking similar at this juncture, following a prolonged period of NZ economic underperformance.	0.9065 – 0.9390
NZD/GBP	NZD is more at risk than GBP on Trump's tariff agenda and concern about global growth, but we find it hard to get bearish on the cross rate with it trading near a nine-year low.	0.4280 – 0.4515
NZD/EUR	Europe should be a key benefactor of any asset allocation out of US assets, and this should be euro-supportive, alongside easier fiscal policy, led by Germany. On the other hand, US-EU trade negotiations might well be painful over coming months.	0.5000 – 0.5320
NZD/JPY	Market volatility will see the BoJ more cautious in its delivery of tighter monetary policy this year. The yen's safe-haven characteristics in a trade war appeals. Still looking for downside in the cross over the medium-term but prone to volatile trading episodes.	79.8– 86.7

President Trump's reciprocal tariff announcement at the beginning of the month kicked off a period of significant market volatility with monthly changes belying the extent of the chaotic trading conditions. Intra-month ranges were wide, and at one point a strong "sell America" theme prevailed. In the washup though, global equities showed only a modest net fall, and the US 10-year rate fell less than 5bps. In currency markets, the USD was broadly weaker, and the NZD traded a 5½ cents range, ending the month up 4½% at 0.5935.

There was much anticipation of President Trump's scheduled 2-April announcement of reciprocal tariffs on so-called Liberation Day. In the event, the new tariffs were worse than the worst-case scenario that most imagined pre-election. The average US tariff rate would climb to well over 20% from the pre-election level of 2½%, taking it back to the rate seen pre-World War I. Most countries would face an additional 10% baseline tariff while countries with the largest proportionate trade surpluses with the US would face an additional "reciprocal" tariff of up to 50%. Further product-based tariffs on pharmaceuticals, semi-conductors, copper and lumber were still to come.

Markets rightly spat the dummy, causing volatility reminiscent of previous shocks like the GFC and COVID19, although in this case volatility was driven by policy. Following increasing predictions of economic recession, plunging stock markets and a sharp lift in US Treasury yields Trump walked back the policy, saying people were getting "yippy". The result was a 90-day "pause" for the reciprocal tariffs, meaning most countries would now face "only" a baseline 10% tariff rate, but China's rate was ratcheted up to 145% after China had retaliated. China imposed a 125% tariff for US imports and said it "will fight to the end", while the EU paused its proposed retaliatory tariffs.

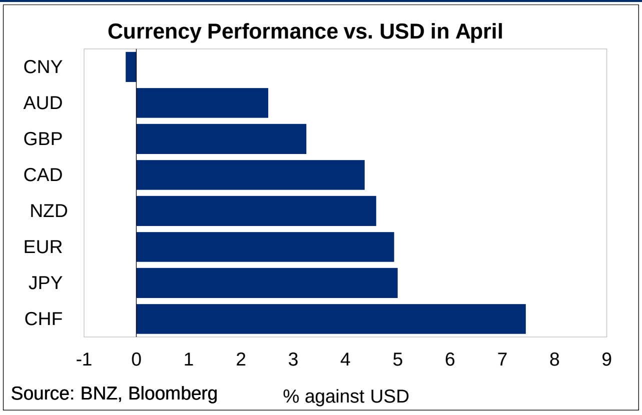
During the month there were signs of some further backtracking of tariffs, with some tariffs on electronic goods scaled back to help Apple and some tariff relief was provided to the auto sector. But the US Trade Representative also issued a notice outlining the policy for charging Chinese-owned or operated ships, a policy that was flagged last month, which will ultimately result in these ships being charged millions of dollars for each US port visit.

Later in the month, Trump said China's final tariffs after a deal would not be anywhere near 145%, even if it won't be zero. He said "we're going to be very good to China…China will be very happy…we'll see what happens".

Adding to market volatility, President Trump kicked off a renewed campaign attacking Fed Chair Powell, calling him a loser and claiming he's too slow to lower rates. Earlier in the month, US CPI data were softer than expected in March. Headline inflation fell 0.1% m/m, its first monthly decline in close to five years. Fed Chair Powell reiterated that the central bank is in no hurry to change policy. He acknowledged that a weakening economy and elevated inflation could bring the Fed's dual goals of maximum employment and stable prices into conflict and that the central bank would consider the economy's distance from each goal if that scenario occurs.

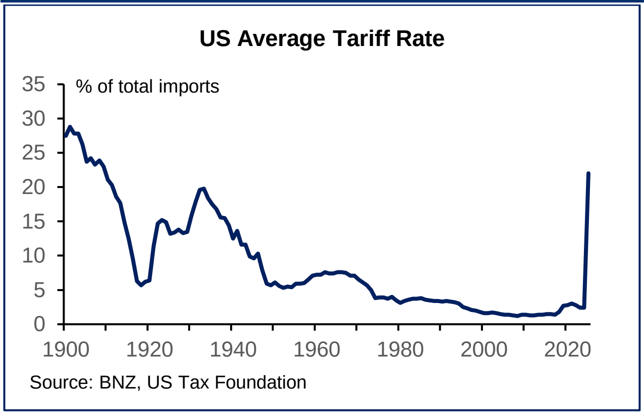
While Trump threatened to fire Chair Powell, he later said he had no intention of doing so, but only after a dive in US equities and the USD as investors considered the unthinkable potential loss of Fed independence.

USD broadly weaker in April



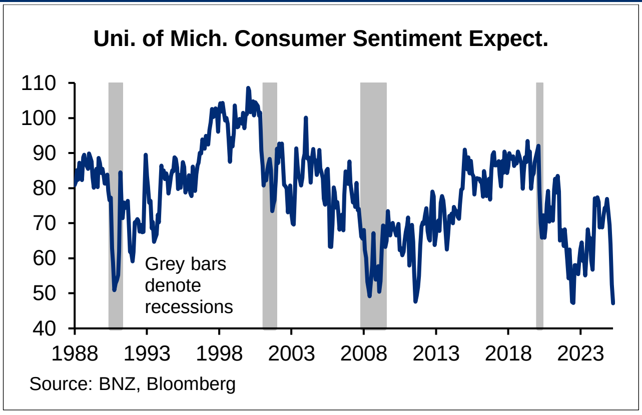
Source: BNZ, Bloomberg

Proposed US tariff rates back to pre-World War I level



Source: BNZ, US Tax Foundation

US consumer confidence plunges



Source: BNZ, Bloomberg

Early signs of tariffs impacting economic data were evident, with large falls in US business and consumer confidence. Trade data showed a rush of imports to avoid tariffs and US retail sales were boosted by front-loaded auto sales. Shipping and port data showed a slump in goods being transported from China towards the US, with various indicators showing freight activity and bookings down in the order of 30-50% compared to year-ago levels. The Fed's Beige Book showed reduced leisure and business travel, including a decline in international visitors. The outlook in several Districts worsened considerably as economic uncertainty, particularly surrounding tariffs, rose. On inflation, the report noted elevated input cost growth resulting from tariffs, and most businesses expected to pass these on, although there were also reports about margin compression.

The IMF cut its global growth forecasts relative to January after building in higher US import tariffs. The release noted "intensifying downside risks dominate the outlook, amid escalating trade tensions and financial market adjustments". For this year, growth was downgraded five tenths to 2.8% and for next year it was downgraded by three tenths to 3.0%. Downgrades for the US were greater than for any other advanced economy, down nine tenths to 1.8% and four tenths to 1.7% for 2025 and 2026 respectively.

In domestic news, NZ Q1 CPI data were at the top end of market expectations, with inflation ticking higher to 2.5%. The seasonally adjusted data showed a second consecutive quarterly lift in inflation, and annualised inflation running around 3.3% over the past six months. Mildly softer non-tradeables inflation was more than offset by higher tradeables inflation.

On the activity side, the performance of services index showed further signs of stabilisation in March, with the composite services/manufacturing index consistent with weak economic growth – better than the recessionary conditions endured over much of the past two years, but consistent with only a mild recovery at this stage. This was underlined by very weak spending data for March.

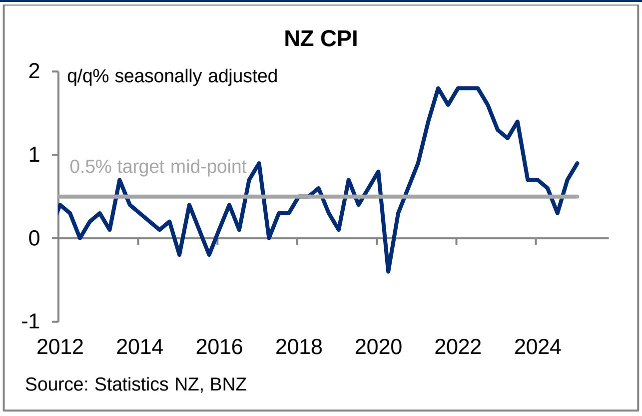
The RBNZ reduced the OCR by 25bps to 3.75%, dialling down rate cuts from the recent pace of 50bps, as universally expected and fully priced. The accompanying statement outlined that downside risks to inflation and growth track had risen from the trade war and there is scope to lower the OCR further as appropriate.

Turning to the markets, equities slumped in the week after Liberation Day, before bouncing back in a volatile fashion in response to near-daily headlines on tariffs and the attacks on the Fed. The US S&P500 traded a high/low range of 15% for the month before ending down less than 1%, not significantly worse than the small fall in the World Index despite the "Sell America" thematic.

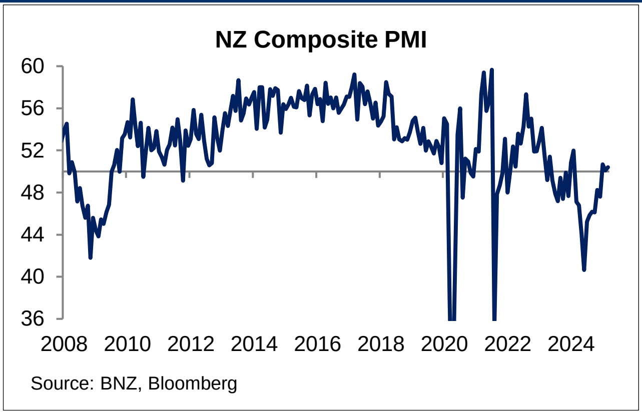
The US 10-year Treasury yield rose to a high of 4.59% – losing its safe-haven bid at one stage during the market chaos – before some order was returned and it closed the month down 4bps 4.16%. However, there was a significant steepening of the yield curve as the market priced in an increasing chance of economic recession, which would give the Fed more scope to cut rates, despite higher inflation. At month-end the market had fully priced in four rate cuts by the Fed this year, up from three a month ago.

Reflecting global forces, NZ rates curves were also steeper. The 2-year swap rate fell 32bps to 3.06% against an 18bps fall to 3.93% for the 10-year rate. The market priced in the chance of more RBNZ rate cuts this year, with the terminal rate at 2.7% as at month end from just over 3% a month earlier.

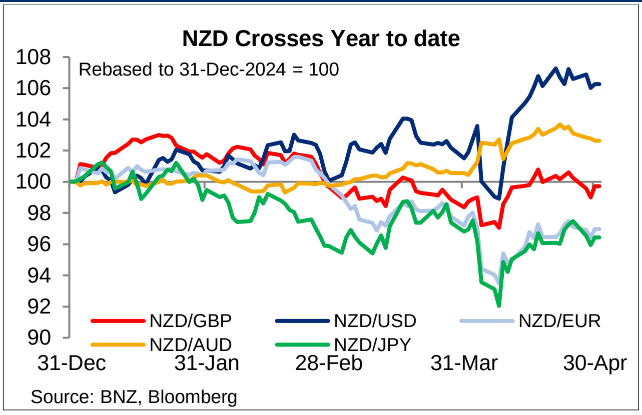
NZ CPI inflation picking up again



Recovery in NZ composite PMI stalls just over 50



NZD up against USD and AUD so far this year



In currency markets, the USD came under significant selling pressure on views that the US economy could fall into recession and asset allocation flows out of the country. USD indices fell to multi-year lows. The DXY index closed the month down 4½%, taking its fall since mid-January to close to 10%.

During a period of significant market dislocation, on 9 April NZD/USD fell to 0.5486, its lowest level since the chaotic trading day of 19-March-2020 during the height of the COVID19 scare. However, the dip below 0.55 lasted less than 20 minutes. A strong rebound in the NZD – driven by broad falls in the USD – saw the NZD trade as high as 0.6029 on 22 April, its highest level since November. For the month, NZD/USD rose 4½% to 0.5935.

On the crosses, the NZD traded at fresh multi-year lows against EUR, GBP, JPY and CAD during the month before recovering, with some big figures breached, such as NZD/EUR trading briefly below 0.50, NZD/GBP trading briefly below 0.43 and NZD/JPY trading briefly below 80.

NZD/AUD was stronger, as increased fear on the economic impact of tariffs on China affected the AUD more than the NZD. NZD/AUD traded as high as 0.9388, its highest level in over a year, before finishing the month up 2% to 0.9270. The Reserve Bank of Australia left rates on hold at 4.1% as expected. The accompanying statement noted monetary policy remains restrictive, and the continued decline in underlying inflation was welcome, but there were two-sided risks, and the Board was cautious about the outlook.

NZD/EUR showed little net change for the month at 0.5240 after its brief lurch down below 0.50. The ECB cut its Deposit Rate by 25bp for a sixth consecutive meeting, bringing it to 2.25% and removing the restrictive label from its policy statement. The concept of “neutral” policy was also dropped, with President Lagarde stressing that it’s not an appropriate concept currently with huge shocks. NZD/GBP rose over 1% to 0.4450, after recovering from a fresh nine-year low.

A safe-haven bid for the yen saw USD/JPY trade just below 140 at one point, well down from the 150+ level before the reciprocal tariff announcement. While NZD/JPY traded a 6pt range, it closed the month only down slightly at 84.85. Japan was one of the first countries in the queue for US trade negotiations. But Japan PM Ishiba told Parliament that Japan won’t just keep conceding to US demands to reach a deal over tariffs and he launched a strong defence of barriers to agricultural imports.

The PBoC maintained a tight grip on the yuan. In the first half of the month, it allowed USD/CNY to rise to 7.35, but not much higher, before market pressures sent it back below 7.30. The yuan’s underperformance against other majors meant that China’s currency basket depreciated by nearly 3% for the month, taking depreciation this year to 5½%, providing a decent shock absorber for the economy.

China activity data were stronger than expected, with GDP for Q1 up 5.4% y/y and industrial production and retail sales accelerating in March to 7.7% y/y and 5.9% y/y respectively. The data were somewhat academic, with improved growth reflecting a front-loading of activity ahead of rising US import tariffs and some added fiscal support.

In commodity markets, Brent crude fell over 15% for the month to USD63 per barrel, an understated fall as the USD was much weaker as well. This reflected downgrades to the global growth outlook and OPEC+ adding to supply. Industrial commodity prices were mostly weaker as well, while NZ dairy prices were stronger, with whole milk powder on the SGX-NZX up over 6%. Gold prices rose to a record high on strong demand for a safe-haven during the period of market turmoil.

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Monthly Performance Table

Currencies	end-Apr	end-Mar	Change
NZD/USD	0.5934	0.5679	4.5%
NZD/AUD	0.9268	0.9090	2.0%
NZD/EUR	0.5239	0.5250	-0.2%
NZD/GBP	0.4452	0.4396	1.3%
NZD/JPY	84.85	85.15	-0.3%
NZD/CNY	4.315	4.119	4.8%
TWI	69.4	67.5	2.7%
AUD/USD	0.6403	0.6247	2.5%
EUR/USD	1.1327	1.0817	4.7%
GBP/USD	1.3330	1.2919	3.2%
USD/JPY	143.07	149.97	-4.6%
USD/CNY	7.27	7.26	0.2%
USD/CAD	1.3797	1.4389	-4.1%
USD DXY	99.63	104.21	-4.4%
Asia dollar index	90.81	89.64	1.3%
Equity Markets			
MSCI AC Wrld, loc.	2,331	2,339	-0.3%
MSCI World, loc.	13,357	13,401	-0.3%
MSCI EM, USD	2,959	2,939	0.7%
US S&P 500	5,569	5,612	-0.8%
Euro STOXX 600	527.5	533.9	-1.2%
Germany DAX	22,497	22,163	1.5%
France CAC 40	7,594	7,791	-2.5%
UK FTSE 100	8,495	8,583	-1.0%
Aust S&P/ASX 200	8,126	7,843	3.6%
Japan Topix	2,667	2,659	0.3%
China CSI 300	3,771	3,887	-3.0%
NZX50	11,903	12,270	-3.0%
Volatility: VIX	24.70	22.28	10.9%
3-mth Money Market Futures			
NZD Sep-25	97.10	96.77	0.33
AUD Sep-25	96.73	96.38	0.35
USD Sep-25	96.37	96.19	0.17
EUR Sep-25	98.27	97.98	0.29
GBP Sep-25	96.33	95.96	0.37
CAD Sep-25	97.70	97.71	-0.01

NZ Rates	end-Apr	end-Mar	Change
OCR	3.50	3.75	-0.25
NZ 90day BB	3.43	3.60	-0.17
NZ 2yr swap	3.06	3.37	-0.32
NZ 5yr swap	3.41	3.66	-0.25
NZ 10yr swap	3.93	4.10	-0.18
NZ Govt (4/27)	3.25	3.55	-0.30
NZ Govt (5/30)	3.80	4.01	-0.22
NZ Govt (5/35)	4.44	4.59	-0.14
NZ Govt (5/41)	4.91	5.00	-0.09
Global 10 year bond rates			
US	4.16	4.21	-0.04
Canada	3.09	2.97	0.12
UK	4.44	4.67	-0.23
France	3.17	3.45	-0.29
Germany	2.44	2.74	-0.29
Italy	3.56	3.87	-0.30
Spain	3.11	3.37	-0.26
Portugal	3.00	3.26	-0.25
Ireland	2.79	3.02	-0.23
Japan	1.31	1.49	-0.18
Australia	4.16	4.38	-0.22
Commodities (USD)			
WTI Crude	58.21	71.48	-18.6%
Brent Crude	63.12	74.74	-15.5%
R/B CRB Index	288.8	309.3	-6.6%
Gold spot	3,289	3,124	5.3%
Silver spot	32.62	34.09	-4.3%
Copper	456.0	503.4	-9.4%
Iron Ore	97.41	100.99	-3.5%
Thermal coal	97.50	103.00	-5.3%
Corn	475.5	463.3	2.6%
Wheat	530.8	550.5	-3.6%
SGX-NZX Dairy WMP	4,230	3,965	6.7%
SGX-NZX Milk Price '25	10.17	10.11	2.2%

Source: BNZ, Bloomberg

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