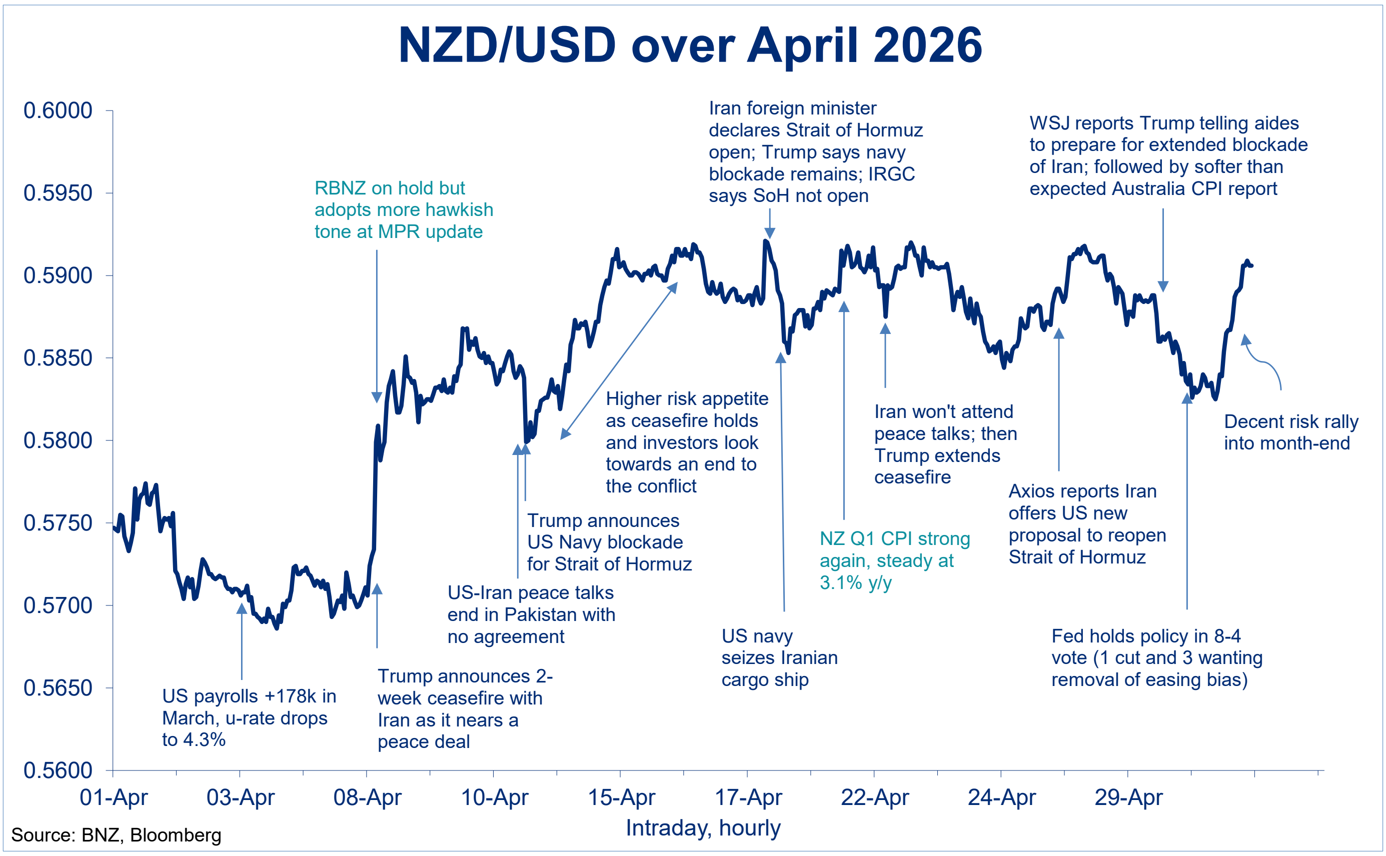
Research

Financial Markets Wrap

1 May 2026

Risk appetite recovery in April, despite the war

- **Risk assets bounced back in April following the US-Iran ceasefire, despite lingering uncertainty about when the conflict will end**
- **Strong gains in global equities; bond market still fearful of the inflationary impact of higher oil prices**
- **NZD/USD up nearly 3%, after the more than 4% plunge in March; mixed movement on NZD crosses**



Quick Outlook		April Ranges
NZD/USD	Developments in the Middle East are key to the NZD's near-term trajectory. Downside skew overhanging for as long as the Strait of Hormuz is closed. End of conflict would be NZD-supportive. RBNZ will need to hike rates to sustain any potential rally through 2H2026.	0.5680 – 0.5930
NZD/AUD	Feels like we're nearing a turning point. RBA rate hike in May won't help, but if that's it for the RBA and the RBNZ embarks on a tightening cycle, then that would pave the way for a gradual recovery in the cross rate.	0.8175 – 0.8330
NZD/GBP	Assuming the worst-case scenarios for the Middle East don't come to pass, then there's scope for the cross rate to recover on rising NZ-UK rate spreads. Local elections in May represent a downside risk for GBP if it leads to speculation of a challenge to UK PM Starmer.	0.4300 – 0.4380
NZD/EUR	Again, assuming the worst-case scenarios for the Middle East don't come to pass, then there's scope for the cross rate to recover on rising NZ-Euro area rate spreads. To boot, the euro area faces a bigger terms of trade shock from higher energy prices compared to NZ.	0.4925 – 0.5050
NZD/JPY	While prone to sharp corrections on wavering risk appetite, the lack of intent by the BoJ to hike rates remains a negative force on the yen. Official Japanese intervention is only a short-term fix. The RBNZ kicking off a major tightening cycle would be positive for the cross rate.	90.6 – 94.3

Risk appetite bounced back strongly in April, supported by the US-Iran ceasefire and hope that the Strait of Hormuz would soon reopen. After plunging in March, the MSCI AC World Equity index surged over 9% in April while oil prices fell back. The USD was broadly weaker, while the NZD and AUD outperformed, with NZD/USD closing up nearly 3% to just over 0.59. Rates markets were range-bound. NZ's rates curve was higher and flatter, after the RBNZ adopted a more hawkish policy tone and CPI data were stronger than expected.

Throughout April, the market remained gripped by the US-Iran conflict and its broader global impact. Early in the month, tensions escalated as President Trump threatened severe strikes against Iran unless an agreement was reached, with a deadline and warnings of attacks on infrastructure. Iran, for its part, refused negotiations and rejected ceasefire proposals, while US intelligence suggested Iran retained significant military capabilities.

Following the first week in April, Trump agreed to suspend bombing for two weeks in exchange for Iran reopening the Strait of Hormuz. Reflecting the lack of US appetite to ongoing military strikes, the Strait remained closed, and negotiations in Pakistan failed to yield progress, but the US went ahead with the ceasefire regardless and it seemed to hold. The US subsequently changed tack and ordered a naval blockade of the strait, aiming to cut off Iran's revenue and increase pressure for a resolution.

With the end of the ceasefire timeline approaching, Trump extended the ceasefire indefinitely to facilitate a process of negotiation. Trump's rhetoric was that the two sides were close to a peace deal, but that wasn't evident from comments by the Iranian side. By the end of April, the conflict had reached a stalemate, with both the US and Iran unwilling to alter their stances. Trump said the US was not prepared to lift the blockade of Iran until securing a deal with Iran to address its nuclear programme. Overall, the month was marked by ongoing tensions and the Strait of Hormuz remained effectively closed, but the market adopted a tone of cautious optimism.

Brent crude oil fell significantly through the first half of the month to as low as USD86 per barrel before sharply recovering to break up through USD126, exceeding the March peak. Reflecting the futures roll, by month-end the price was back down to USD114.

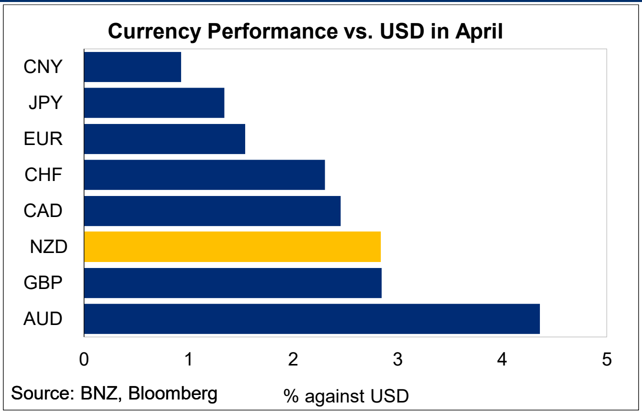
BNZ's risk appetite index closed the month at a risk-loving 80%, up significantly from a low of 55% towards the end of March. This was indicative of investor attitude towards the conflict, not seeing it as having an enduring impact on the global economy and prepared to look through the lingering tensions.

The economic dataflow wasn't a key driver of markets. Global PMI data suggested the war was yet to significantly make its mark on the global economy although the European economy is more exposed than the UK and the US and this was being felt across the services sector. The key US labour market reports were stronger than expected, with March non-farm payrolls up 178k and the unemployment rate falling one-tenth to 4.3%.

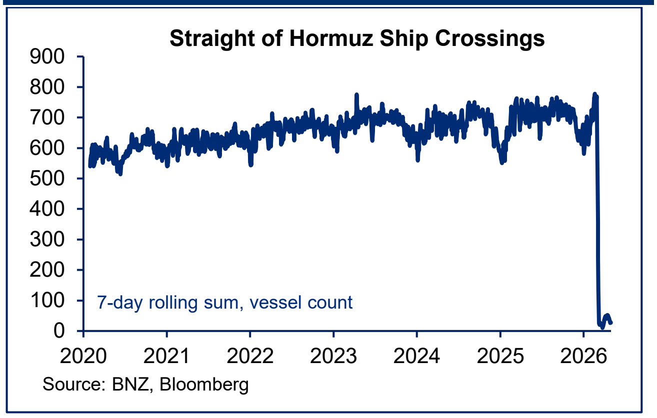
The impact of the war was more visible in inflation than activity data, with countries reporting higher petrol and gas prices feeding through into higher headline CPI inflation.

Key central bank meetings showed no inclination of policy makers to rush into changing policy. The US Fed kept policy steady, but it was an 8-4 vote, with perennial dove Miran voting to cut and 3 regional Presidents supporting steady policy but did not supporting inclusion of an easing bias in the statement. Market pricing at the end of the month was consistent with no expected change in Fed policy through the rest of the year.

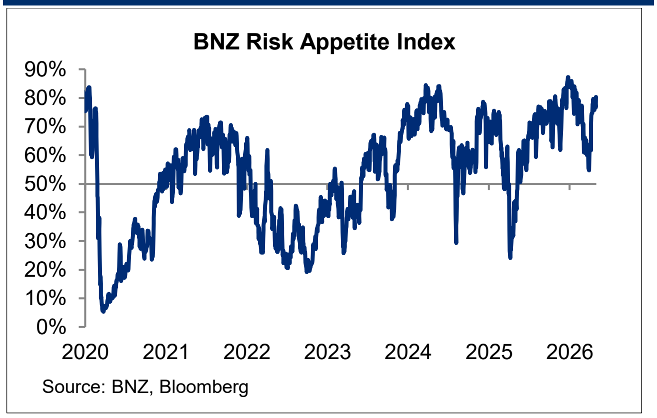
USD broadly weaker in April; AUD outperforms



Strait of Hormuz remained effectively closed



Risk appetite recovers after moderate fall in March



The ECB and BoE both kept policy steady, but they looked ready to react with higher rates, depending on how oil prices tracked ahead. Rather than set out a central forecast, the BoE offered three scenarios conditioned on different paths for oil prices and the strength of second round effects. Scenarios B and C, seen as most likely, led to higher rates. At month end the market was pricing 63bps of hikes by the BoE through to year-end and 73bps for the ECB.

The Bank of Japan kept its policy rate unchanged, as widely expected after Governor Ueda signalled caution earlier in the month, though a 6-3 vote was somewhat surprising, with three members voting for a 25bps hike. Uncertainty in the Middle East gave the BoJ some cover to ignore the bubbling inflationary pressure. Governor Ueda refrained from signalling imminent tightening at his press conference.

In domestic news, the RBNZ left the OCR unchanged at 2.25%, which surprised nobody. There was a notable shift in rhetoric in a more hawkish direction regarding the policy outlook, even compared to Governor Breman's speech a couple of weeks earlier. Language used included talk of possible "decisive and timely" increases in the OCR, the Committee "vigilant" to any generalised inflationary pressure and it "stands ready to act" to return inflation to its medium-term target.

The QSBO didn't surprise, with its message of lower business confidence – slipping consistently during the long survey period as the Iran conflict progressed – and higher pricing intentions.

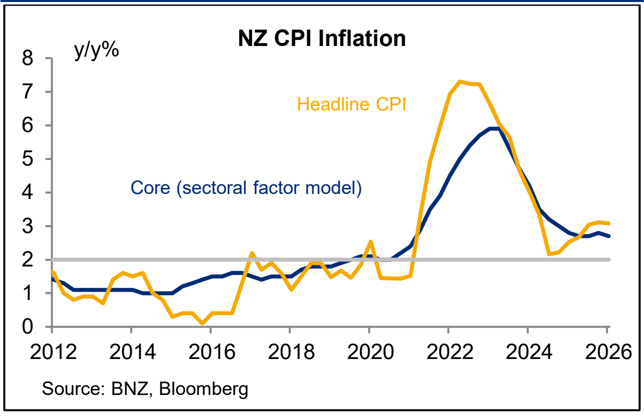
NZ's Q1 CPI report exceeded consensus expectations, with annual inflation holding steady at 3.1% instead of declining. Inflation was broad-based, with 9 out of 11 CPI groups showing annual inflation above 2%, and 6 groups recording inflation above 3%. Seasonally adjusted quarterly figures provide the clearest picture of recent inflation trends, indicating that annualised inflation has consistently hovered near 3% over the past eighteen months (with quarterly readings between 0.7-0.9%), despite a sluggish NZ economy.

The RBNZ update sent short-end rates higher and, after the move faded, the stronger CPI sent rates higher again. The 2-year swap rate closed the month 14bps higher at 3.61% against a 2bps lift in the 10-year rate to 4.38%, leaving the 2s10s curve at it 78bps, its flattest in over a year. At month-end the OIS market was pricing 93bps of hikes for the year, up from 66bps at the start of the month.

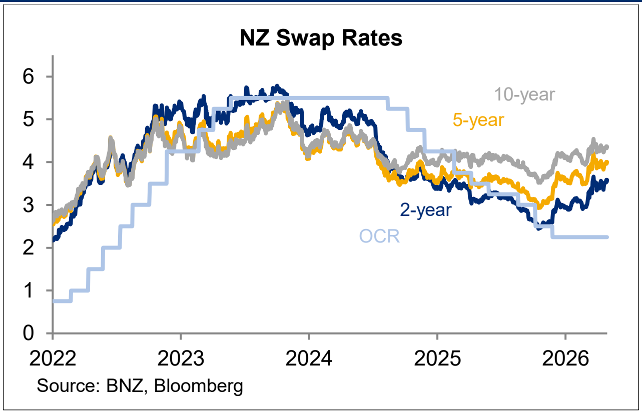
Global rates were modestly higher for the month, with lingering nerves about the inflationary impact of the US-Iran conflict and the increased chance of tighter monetary policy. The US 10-year treasury yield closed the month up 5bps at 4.37%.

In currency markets, the USD was broadly weaker, reversing some of the prior month's strength. The DXY USD index fell nearly 2%.

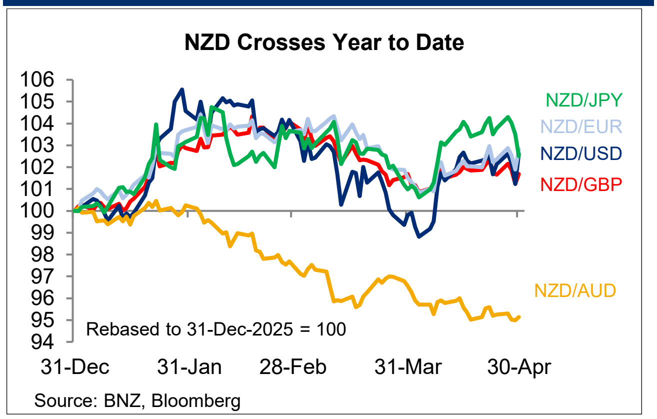
NZ CPI inflation continues to run above mid-point target



Upside pressure on swap rates persists



NZD higher YTD apart from NZD/AUD cross rate



After a fall of more than 4% in March, NZD/USD recovered nearly 3% to end the month at 0.5910, supported by higher risk appetite, despite the lingering uncertainty about how the US-Iran conflict resolves. The NZD traded a low of 0.5681 on the 6th, some 48 hours before Trump announced the ceasefire. The NZD traded a high of 0.5929 on the 18th, when Iran's foreign minister declared the Strait of Hormuz open – which was true only briefly, after the IRGC said the Strait wasn't freely open and ships would still require permission to pass through. Over the last three weeks of the month, the NZD traded a tight range of less than 1.5 cents, after it entered a consolidation zone.

The NZD was mixed on the crosses. The yen was one of the weakest of the majors until official intervention on the last day of the month. Weakness wasn't helped by the BoJ's lack of intent to raise rates against the backdrop of high inflation pressures and a real policy rate that remained deeply negative. USD/JPY rose to a fresh high for the year, peaking just under 160.50 ahead of the intervention, which sent it down to 156.50. NZD/JPY still gained 1.5% for the month to 92.6

NZD/GBP range traded and closed flat at 0.4345. NZD/EUR rose 1.3% to 0.5035. NZD/AUD fell to a fresh 13-year low of 0.8174 towards the end of the month. The market priced in about a 75% chance of the RBA hiking in early May. This would be the third consecutive rate hike by the RBA and extend the gap between Australia's and NZ's policy rate to a significant 210bps.

USD/CNY fell to a fresh three-year low of 6.8140 before finding a base. NZD/CNY recovered nearly 2% to close the month at 4.03. China GDP picked up to 5.0% y/y in Q1, two tenths higher than consensus. There were unders and overs for the March monthly activity indicators, but broadly consistent with the view that domestic demand remained soft, with tepid growth in retail sales of 1.7% y/y, while industrial production remained relatively stronger, at 5.7% y/y.

jason.k.wong@bnz.co.nz

Monthly Performance Table

Currencies	end-Apr	end-Mar	Change
NZD/USD	0.5910	0.5747	2.8%
NZD/AUD	0.8206	0.8328	-1.5%
NZD/EUR	0.5037	0.4973	1.3%
NZD/GBP	0.4344	0.4345	0.0%
NZD/JPY	92.56	91.17	1.5%
NZD/CNY	4.033	3.958	1.9%
TWI	66.8	66.0	1.2%
AUD/USD	0.7202	0.6901	4.4%
EUR/USD	1.1732	1.1554	1.5%
GBP/USD	1.3603	1.3227	2.8%
USD/JPY	156.63	158.73	-1.3%
USD/CNY	6.83	6.89	-0.9%
USD/CAD	1.3582	1.3915	-2.4%
USD DXY	98.06	99.96	-1.9%
Asia dollar index	92.17	91.13	1.1%
Equity Markets			
MSCI AC Wrld, loc.	3,063	2,799	9.4%
MSCI World, loc.	17,274	15,859	8.9%
MSCI EM, USD	4,394	3,830	14.7%
US S&P 500	7,209	6,529	10.4%
Euro STOXX 600	611.3	583.1	4.8%
Germany DAX	24,292	22,680	7.1%
France CAC 40	8,115	7,817	3.8%
UK FTSE 100	10,379	10,176	2.0%
Aust S&P/ASX 200	8,666	8,482	2.2%
Japan Topix	3,727	3,498	6.6%
China CSI 300	4,807	4,450	8.0%
NZX50	12,903	12,912	-0.1%
Volatility: VIX	16.89	25.25	-33.1%
3-mth Money Market Futures			
NZD Dec-26	96.46	96.70	-0.24
AUD Dec-26	95.09	95.19	-0.10
USD Dec-26	96.31	96.37	-0.05
EUR Dec-26	97.18	97.18	-0.01
GBP Dec-26	95.59	95.64	-0.05
CAD Dec-26	97.16	97.26	-0.09

NZ Rates	end-Apr	end-Mar	Change
OCR	2.25	2.25	0.00
NZ 90day BB	2.63	2.54	0.09
NZ 2yr swap	3.61	3.47	0.14
NZ 5yr swap	4.02	4.00	0.02
NZ 10yr swap	4.38	4.36	0.02
NZ Govt (5/28)	3.68	3.55	0.13
NZ Govt (5/31)	4.24	4.25	-0.01
NZ Govt (5/36)	4.73	4.73	0.00
NZ Govt (5/41)	5.05	5.10	-0.05
Global 10 year bond rates			
US	4.37	4.32	0.05
Canada	3.54	3.47	0.07
UK	5.01	4.91	0.10
France	3.69	3.72	-0.03
Germany	3.04	3.00	0.03
Italy	3.86	3.91	-0.05
Spain	3.50	3.50	-0.01
Portugal	3.44	3.45	-0.01
Ireland	3.27	3.25	0.02
Japan	2.52	2.35	0.17
Australia	5.06	4.97	0.09
Commodities (USD)			
WTI Crude	105.07	101.38	3.6%
Brent Crude	114.01	118.35	-3.7%
R/B CRB Index	395.1	372.4	6.1%
Gold spot	4,618	4,668	-1.1%
Silver spot	73.75	75.17	-1.9%
Copper	592.6	561.4	5.6%
Iron Ore	107.02	104.57	2.3%
Thermal coal	134.00	142.45	-5.9%
Corn	474.8	468.3	1.4%
Wheat	636.8	626.5	1.6%
SGX-NZX Dairy WMP	3,820	3,680	3.8%
SGX-NZX Milk Price '26	9.83	9.82	0.1%

Source: BNZ, Bloomberg

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Matt Brunt
Economist

Mike Jones
BNZ Chief Economist

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854