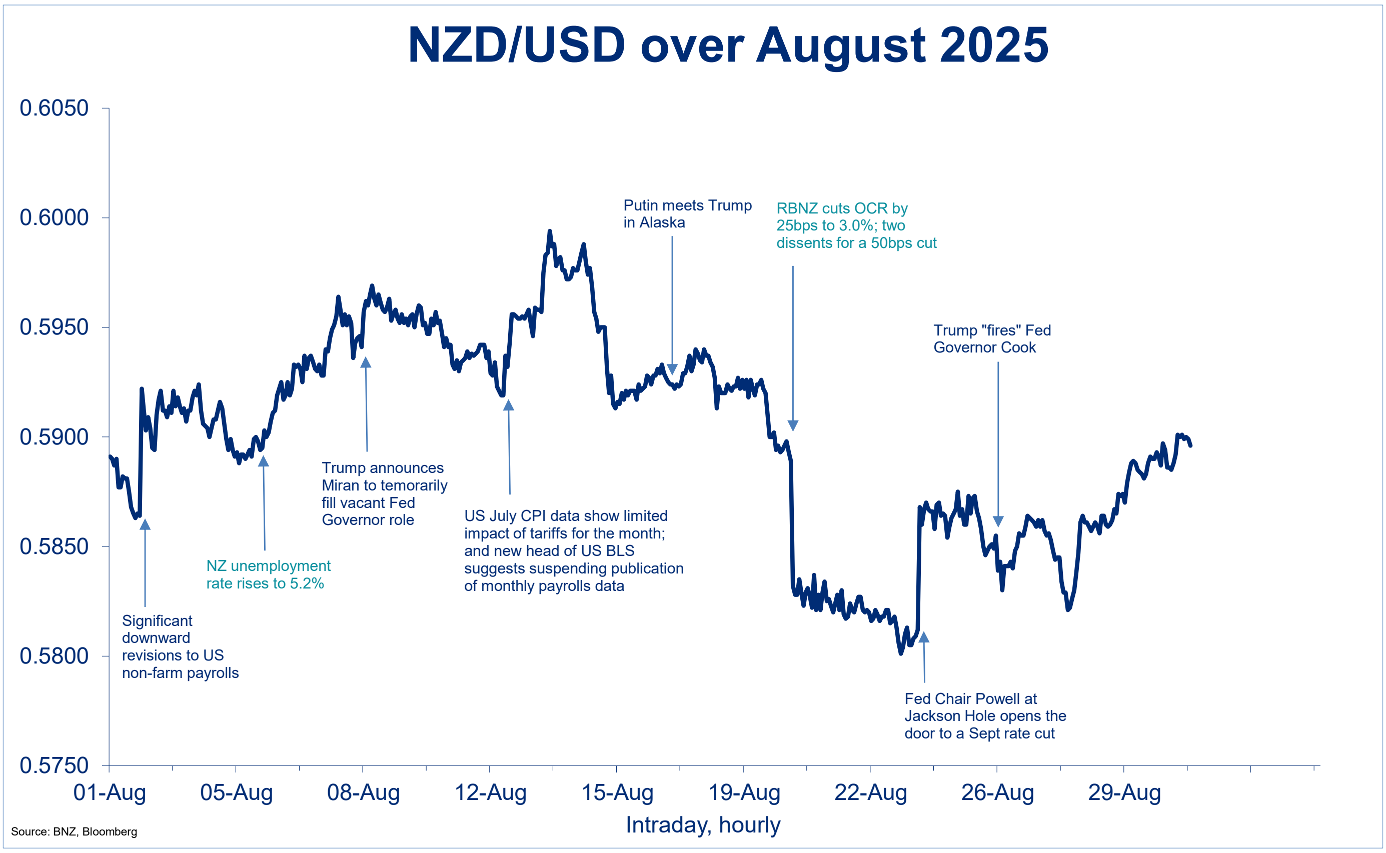
Research

Financial Markets Wrap

30 August 2025

RBNZ's dovish pivot deals a blow to NZD in August

- **Downward revision to US payrolls and Fed Chair Powell opening the door to a September easing supports risk appetite**
- **US rates lower and curve steeper; global equities power up to fresh record highs**
- **RBNZ also adopts a dovish pivot, driving down NZ rates; broad USD weakness, but NZD a laggard as NZ-global rate spreads fall**



	Quick Outlook	August Ranges
NZD/USD	Shouldn't be too hard to probe better levels heading towards year-end, after the recent fall to the bottom end of its range. But we will need to see the Fed cutting rates in September and at least once more, with compliant data to support high odds of further Fed easing next year.	0.5800 – 0.5995
NZD/AUD	After the RBNZ's surprising dovish pivot, there's the risk of probing 2024 lows just below 0.8950 over the next month or two; upside limited to the extent that NZ's OCR will likely dip further below the RBA cash rate over coming months.	0.8990 – 0.9180
NZD/GBP	Much of the damage to the cross rate has already been done, but limited room for recovery into year-end as NZ's OCR drives down further below the UK policy rate.	0.4310 – 0.4470
NZD/EUR	While the euro should be a key beneficiary of any asset allocation out of US assets, with the cross rate near a 15-year low we find it hard to be overly bearish. The cross rate could extend down a little further, but central view is a new trading range around current depressed level.	0.4985 – 0.5170
NZD/JPY	A clearing of political uncertainty would support the BoJ to give rates another nudge higher, as inflation remains above 3%. Clear path ahead for lower NZ-JP rate differentials which should pave the way for a weaker cross-rate in time.	85.6 – 89.0

Risk sentiment improved as the market saw an increased likelihood of the Fed restarting the US easing cycle as soon as September. Global equity markets rose to fresh record highs and the US Treasuries curve steepened, driven by lower short-end rates. US investment grade corporate bond spreads tightened to their narrowest level since 1998. Lower short-end US rates contributed to a broadly weaker USD. However, the NZD underperformed as NZ rates fell further, following a dovish pivot by the RBNZ. NZD/USD was flat, but the NZD showed notable falls on the crosses.

The outlook for US monetary policy was a key theme for August. Early in the month, a massive downward revision to US non-farm payrolls of over 250k triggered a sharp repricing of Fed rate cut expectations for September. A dovish pivot by Fed Chair Powell at Jackson Hole later in the month supported that move, opening the door to cutting rates as soon as September. The month was also interspersed with further pressure from the White House on Powell to cut rates and President Trump's intent to load up the FOMC with people friendly to his agenda of lower rates.

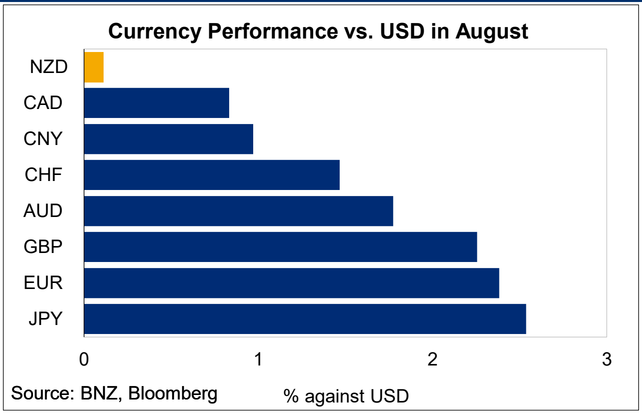
On the back of rising prosect for easier US monetary policy, BNZ's risk appetite index rose to 78%, its highest level in 21 months and this corresponded with falls in implied volatility across equities, bonds and currencies to fresh lows for the year, as measured by the VIX, MOVE and CVIX indices.

US economic activity data were mixed. As well as the noted payrolls data, the ISM manufacturing and services indices were also softer than expected falling to 48.0 and 50.1 respectively, with the employment indicators particularly weak. By contrast, the unemployment rate only ticked up to 4.2%, PMI data were stronger than expected, with the composite index rising to a multi-year high of 55.4, and retail sales growth raised no concern about consumer spending. Reflecting a net positive balance of dataflow for the month, Citigroup's US economic surprise index rose to an 8-month high.

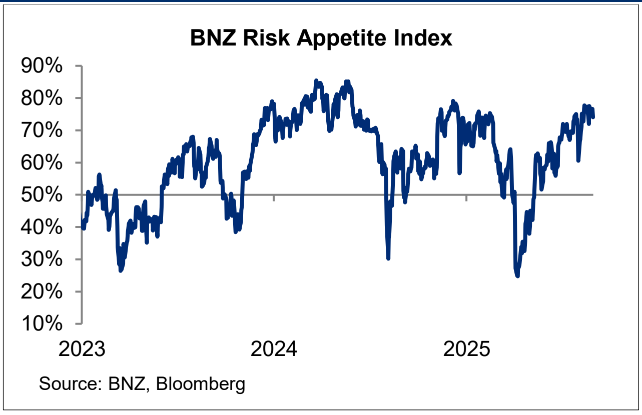
US inflation data were also mixed, with the CPI report showing a weaker pass-through of higher tariffs into goods prices, while core services sector inflation picked up. PPI inflation was much stronger than expected, with core and headline rates of 0.9% m/m. The data were consistent with tariffs driving higher inflation amongst businesses, even if that had yet to be fully felt by consumers.

Fed Chair Powell ripped up the playbook he suggested at the end-July FOMC meeting, where he said to down weight employment and focus on the unemployment rate, as a better indicator of labour market pressures on inflation, against a backdrop of reduced immigration impacting labour supply. At his Jackson Hole speech he surprised the market with a dovish pivot, opening the door to a possible September rate cut by stating, "with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance."

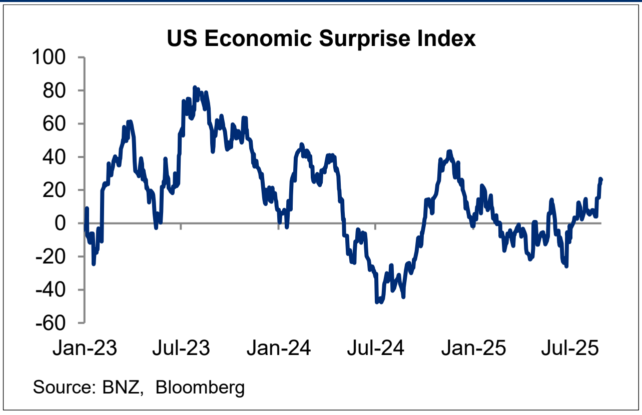
NZD underperforms as major currencies lift versus USD



Risk appetite rises to its highest level this year



US economic surprise index improves to an 8-month high



The speech followed unprecedented pressure on Powell from the US administration to cut rates. Fed Governor Kugler resigned, allowing Trump to nominate one of his economic advisors, Miran, to replace her on the FOMC. Later in the month, Trump fired Fed Governor Cook on the grounds that she had falsified details in personal mortgage applications, although that decision will play out in the courts. It all looked like Trump trying to stack the FOMC with members friendly to his policy agenda of wanting lower rates, challenging the independence of the central bank.

The market seemed unperturbed by the threat to the Fed's independence, although it could have been a factor in the ongoing trend of yield curve steepening. At month-end the market had priced in 22bps of cuts for the Fed's

September meeting and 56bps of cuts by year-end, up from 33bps priced a month earlier. The 2-year Treasury yield fell 34bps for the month to 3.62%, against a smaller 15bps fall in the 10-year rate to 4.23% and a 3bps lift in the 30-year rate to 4.93%.

President Trump finalised his country tariff policy, which included a 10% global minimum and higher duties for countries with trade surpluses with the US like NZ. Thus, NZ faced a 15% country tariff rate, higher than competing primary exporters such as Australia, Argentina and Chile, which faced the minimum 10% tariff rate. Trump implemented a 50% tariff for Indian imports, which included an additional 25% levy for its ongoing purchases of Russian oil.

Turning to NZ, monthly activity data perked up a little, with a lift in the PSI, PMI, filled jobs and ANZ's Truckometer all suggesting better growth in Q3 relative to a very soft Q2. The RBNZ's nowcast indicator estimated a 0.1% fall in Q2 GDP. Labour market data indicators for Q2 were weak as expected, with falling employment, hours worked and labour force participation and a lift in the unemployment rate to 5.2%, matching the high recorded in the depths of the COVID-19 pandemic. Stronger real retail sales went against the grain of weak indicators for Q2.

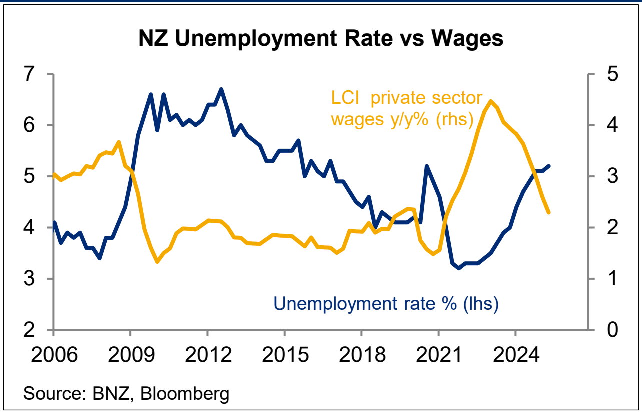
As widely expected, the RBNZ cut the OCR by 25bps to 3.0%, but the dovish policy pivot was a surprise. Notably, two of the six MPC members voted for a larger 50bps cut, and the rate track was revised down by 30bps, to 2.55% at its projected low. The weak performance of the economy in Q2 unsettled the RBNZ.

The RBNZ's dovish pivot drove down NZ rates, led by the short end of the curve. By month end the OIS market had priced the OCR to fall to close to 2.5%, building in an extra rate cut compared to a month earlier. NZ 2- and 5-year swap rates fell to multi-year lows, down 29bps to 2.87% and 23bps to 3.31% respectively. NZGBs were also well supported, with the 10-year bond rate falling 16bps to 4.35%.

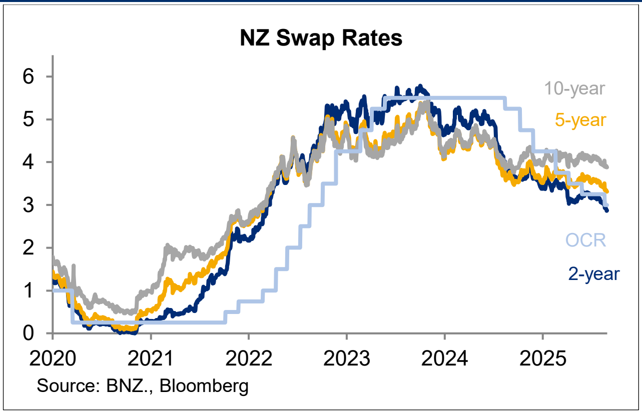
While price action in the currency market was consistent with a broadly weaker USD against a backdrop of lower US rates, the NZD was an outlier, with the combination of lower NZ-global rate spreads and the higher 15% tariff rate imposed by the US doing the damage. NZD/USD closed the month little changed just under 0.59. NZD/USD traded a high of 0.5996 on 13-August in the wake of the benign US CPI report and traded a low of 0.5800 on 22-August following the RBNZ's dovish pivot and just ahead of Fed Chair Powell's pivot.

NZD/AUD fell 1½% to 0.9015, trading below 0.90 for the first time since February. The RBA cut its cash rate by 25bps to 3.6%, as widely anticipated, and Governor Bullock said the bank's forecasts were conditioned on a couple more cuts. On this basis, inflation tracks lower and settles at the mid-point of the 2-3% target range. Market pricing was consistent with another 25bps cut in November and a follow-up cut in February.

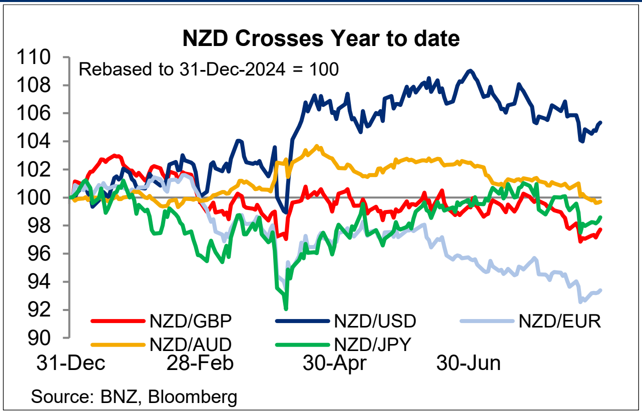
NZ unemploy. rate tracking higher, easing wage pressures



NZ shorter end rates down to multi-year lows



NZD/USD higher this year; crosses flat to lower



Against a backdrop of a weaker USD, the yuan appreciated to its strongest level this year, with USD/CNY falling to 7.13. Trump signed an executive order to extend the US-China trade truce for another 90-days, as expected, and he didn't move to punish China for buying Russian oil, as he did for India. Trump has an eye on meeting President Xi later in the year and didn't want to antagonise China ahead of any potential meeting. China activity data was soft.

NZD/EUR fell over 2% to 0.5045, after taking a peek below 0.50, a 15-year low during the month. Euro area PMI data showed some positive growth momentum, with the composite index rising to 51.1, the highest level in over a year. The closely watched US-Russia Summit in Alaska didn't have any clear implications for markets and nothing concrete came out of the high-profile meeting between President Trump and European leaders regarding the Russia-Ukraine war. Russia continued to bomb Ukraine, reducing the prospect of a peace deal.

NZD/GBP fell over 2% to 0.4365, with the April lows below 0.43 holding. Both UK GDP and CPI inflation data were stronger than expected, with the UK activity data showing it to be the strongest G7 nation in the first half of the year, even if the mix of growth was underwhelming. The BoE cut its policy rate by 25bps to 4.0%, as universally expected, but the MPC was split and, after a second vote that led to a majority of 5-4, the decision was made. Inflation forecasts were revised higher, with the Bank seeing inflation rise to a peak of 4.0% in September before falling back towards 2%. Guidance was unchanged of "a gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate". Governor Bailey said there is "genuine uncertainty now about the course of [the downward] direction of rates".

NZD/JPY fell 2½% to 86.7. The combination of stronger than expected GDP growth and headline and core CPI inflation remaining over 3% kept the pressure on the BoJ to normalise monetary policy once political uncertainty clears.

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Monthly Performance Table

	end-Aug	end-Jul	Change
Currencies			
NZD/USD	0.5896	0.5890	0.1%
NZD/AUD	0.9016	0.9166	-1.6%
NZD/EUR	0.5045	0.5159	-2.2%
NZD/GBP	0.4366	0.4460	-2.1%
NZD/JPY	86.70	88.79	-2.4%
NZD/CNY	4.207	4.245	-0.9%
TWI	68.0	68.6	-1.0%
AUD/USD	0.6540	0.6426	1.8%
EUR/USD	1.1687	1.1415	2.4%
GBP/USD	1.3505	1.3207	2.3%
USD/JPY	147.04	150.77	-2.5%
USD/CNY	7.13	7.20	-1.0%
USD/CAD	1.3740	1.3855	-0.8%
USD DXY	97.77	99.97	-2.2%
Asia dollar index	92.15	91.73	0.5%
Equity Markets			
MSCI AC Wrld, loc.	2,670	2,617	2.0%
MSCI World, loc.	15,312	14,998	2.1%
MSCI EM, USD	3,413	3,364	1.5%
US S&P 500	6,460	6,339	1.9%
Euro STOXX 600	550.1	546.1	0.7%
Germany DAX	23,902	24,065	-0.7%
France CAC 40	7,704	7,772	-0.9%
UK FTSE 100	9,187	9,133	0.6%
Aust S&P/ASX 200	8,973	8,743	2.6%
Japan Topix	3,075	2,943	4.5%
China CSI 300	4,497	4,076	10.3%
NZX50	12,931	12,824	0.8%
Volatility: VIX	15.36	16.72	-8.1%
3-mth Money Market Futures			
NZD Dec-25	97.25	96.95	0.30
AUD Dec-25	96.68	96.72	-0.04
USD Dec-25	96.23	95.97	0.26
EUR Dec-25	98.04	98.08	-0.04
GBP Dec-25	96.16	96.29	-0.13
CAD Dec-25	97.54	97.41	0.14

	end-Aug	end-Jul	Change
NZ Rates			
OCR	3.00	3.25	-0.25
NZ 90day BB	3.01	3.20	-0.19
NZ 2yr swap	2.87	3.16	-0.29
NZ 5yr swap	3.31	3.54	-0.23
NZ 10yr swap	3.88	4.05	-0.17
NZ Govt (4/27)	2.97	3.25	-0.29
NZ Govt (5/30)	3.59	3.82	-0.23
NZ Govt (5/35)	4.35	4.51	-0.16
NZ Govt (5/41)	4.91	5.00	-0.09
Global 10 year bond rates			
US	4.23	4.38	-0.15
Canada	3.37	3.46	-0.08
UK	4.72	4.57	0.15
France	3.51	3.35	0.16
Germany	2.72	2.69	0.03
Italy	3.59	3.51	0.08
Spain	3.33	3.27	0.06
Portugal	3.18	3.12	0.06
Ireland	2.96	2.91	0.05
Japan	1.60	1.55	0.04
Australia	4.27	4.26	0.01
Commodities (USD)			
WTI Crude	64.01	69.26	-7.6%
Brent Crude	68.12	72.53	-6.1%
R/B CRB Index	302.4	299.8	0.9%
Gold spot	3,448	3,290	4.8%
Silver spot	39.72	36.71	8.2%
Copper	451.9	435.5	3.8%
Iron Ore	103.47	99.65	3.8%
Thermal coal	111.50	115.15	-3.2%
Corn	420.3	413.8	1.6%
Wheat	534.3	542.5	-1.5%
SGX-NZX Dairy WMP	3,715	3,945	-5.8%
SGX-NZX Milk Price '26	10.10	10.10	0.0%

Source: BNZ, Bloomberg

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