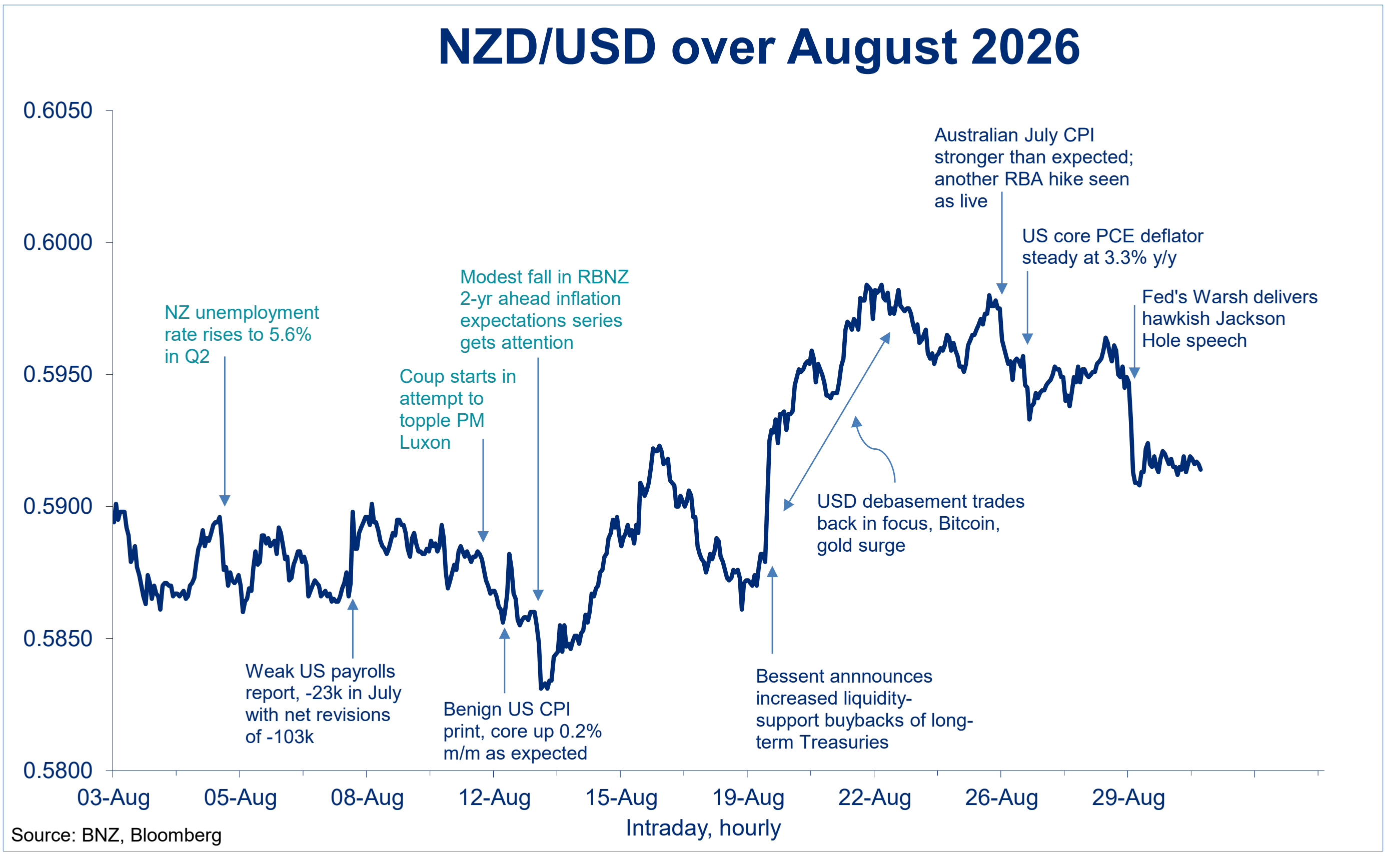
Research

Financial Markets Wrap

1 September 2026

An air of apathy in August

- **Market movements across most asset classes were well contained through August; the US-Iran conflict remained in a stalemate.**
- **Global equities continued to post fresh record highs, supported by stronger earnings and untroubled by modestly higher global bond yields.**
- **The NZD was relatively flat against a backdrop of low FX volatility; the AUD outperformed while JPY underperformed.**



Quick Outlook		August Ranges
NZD/USD	September policy meetings by the RBNZ and Fed will set the tone near term. Low NZ rates, seasonal forces, and the November NZ general election (which looks too close to call) are all NZD-negative factors, which will need to be overcome for the NZD to make any progress	0.5820 – 0.5990
NZD/AUD	The negative 150bps spread between NZ and Australian 3-month rates remains a significant headwind for the cross. The increased chance of the RBA hiking further this cycle hasn't helped. The RBNZ will need to deliver on the 75bps of hikes we expect between Sep-Dec for our year-end 0.84 target to be met.	0.8245 – 0.8395
NZD/GBP	We're still positive as NZ-UK short rate spreads should lift as the RBNZ tightens policy, while we see the BoE on hold as the UK economy struggles through the second half. UK inflation looks better controlled compared to NZ.	0.4320 – 0.4390
NZD/EUR	Cross rate to be supported by higher NZ-EU short rate spreads as the RBNZ delivers further tightening, while the ECB is seen to need just one more hike to bring inflation under control.	0.5055 – 0.5125
NZD/JPY	The lack of success with significant yen intervention puts the onus on the BoJ to deliver rate hikes. Some evident resistance remains just above 95 on the cross, which could hold with a September BoJ hike and some intent to speed up policy normalisation.	91.7 – 95.2

Market movements across most asset classes were well contained through August. Alongside the Northern Hemisphere summer lull, the US-Iran conflict remained in stalemate. Global equities continued to post fresh record highs, supported by stronger earnings and untroubled by modestly higher global bond yields. The NZD was relatively flat against a backdrop of low FX volatility. The JPY was the weakest major currency, as the impact of late-July official intervention faded, while the AUD outperformed as markets shifted towards expecting further RBA tightening.

Turning to developments in the US-Iran war, oil prices weakened early in the month after President Trump called off a major strike against Iran and fresh talks emerged on reopening the Strait of Hormuz. As the days passed, it became clearer that no deal would be reached, given the unacceptable demands put forward by both sides, and oil prices began tracking higher again. Iran continued to attack ships that attempted to traverse the strait. Trump then changed tack, showing little appetite for further military action and instead opting for “economic warfare”, raising the prospect of a drawn-out process. The US announced sweeping new sanctions and threatened any country doing business with Iran.

Oil prices ended the month with little net movement overall, with Brent crude around USD90 per barrel. The partial continuation of Gulf oil flows through clandestine routes helped buffer the market against more extreme price moves.

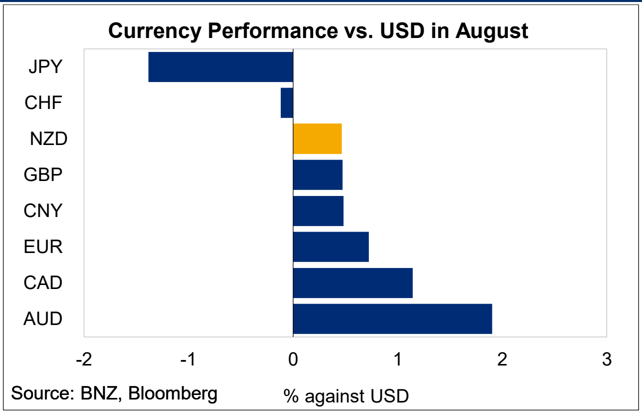
US economic data pointed to a loss of US economic exceptionalism, at least relative to expectations, as reflected in the fall in Citigroup’s US economic surprise index compared with the lift in the equivalent G10 surprise index. US nonfarm payrolls fell by 23k, well below the 80k consensus, while previous months were revised down by a further 103k. The unemployment rate declined to 4.1%, but this reflected a continued fall in labour force participation rather than stronger job creation. Wage growth also softened, with average hourly earnings rising 3.2% y/y, the slowest pace in more than five years. CPI and PPI inflation data were also relatively benign, with core CPI up 2.5% y/y, matching the lowest annual reading in more than five years. However, the Fed’s preferred measure, the core PCE deflator, was steady above target at 3.3% y/y.

Fed Chair Warsh delivered a clear message in his first major speech since taking office, at the annual Jackson Hole symposium. On the US monetary policy outlook, he said he did not view current financial conditions as restrictive, believed the labour market was at full employment, and remained concerned about inflation, particularly the lack of meaningful improvement in the underlying trend. The speech led markets to price a greater chance of tighter policy over coming months, reversing a move in the opposite direction earlier in the month.

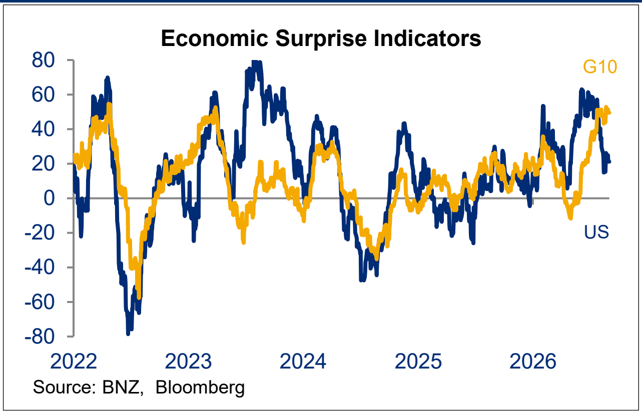
During the month, global long-term rates reached fresh multi-decade highs across many economies, including the US, Germany, France, and Japan. The synchronised nature of the move reflected a global repricing of term premia. Concerns about the trajectory of global fiscal policy and debt dynamics were a common theme. In the US, competing demand for bonds from significant investment-grade corporate issuance, as hyperscalers stepped up capital investment, was an additional factor.

Reflecting his frustration with higher long-term rates, US Treasury Secretary Bessent directed the Treasury to at least double the maximum size of liquidity-support buyback operations for longer-dated Treasuries, with maturities of 10 to 30 years, to $4b per operation. While the policy was framed as providing liquidity support, it was clearly another step by Bessent to suppress long-end yields, amounting to a form of financial repression.

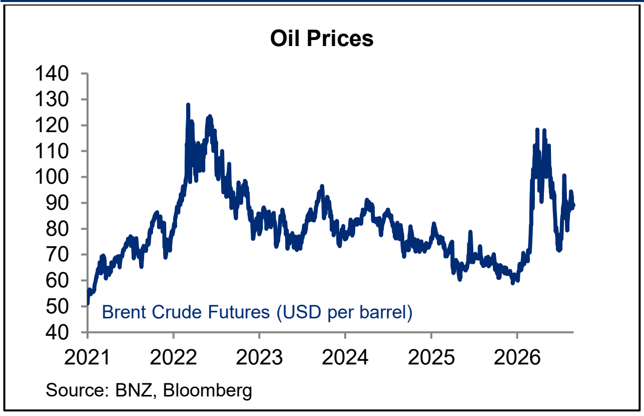
JPY and AUD at opposite ends of the August leaderboard



Weaker US data against positive global dataflow



Brent crude settles around USD90 per barrel mark



After reaching a 19-year high of 5.34%, the US 30-year Treasury yield closed the month at 5.24%, down 3bps. Net Treasury moves were modest overall, with the curve flattening.

Turning to NZ, labour market data were mixed. The unemployment rate rose to a new 10-year high of 5.6%, two-tenths above consensus. Employment growth was stronger than expected, with the rise in unemployment reflecting higher labour force participation. Wage growth, as measured by the labour cost index, increased at an annual pace of 2%, consistent with the RBNZ's inflation target.

Timely monthly indicators were mixed, but the PMI, PSI, consumer confidence, and ANZ's Business Outlook survey remained consistent with the NZ economy being in recovery mode, following the disruption caused by the US-Iran conflict. On inflation, the ANZ survey showed rising inflation expectations and pricing intentions. The RBNZ's survey of expectations reported higher wage expectations, higher house price expectations, and higher long-term inflation expectations, but the market focused more on the fall in one-year and two-year inflation expectations, with the latter declining from 2.53% to 2.34%.

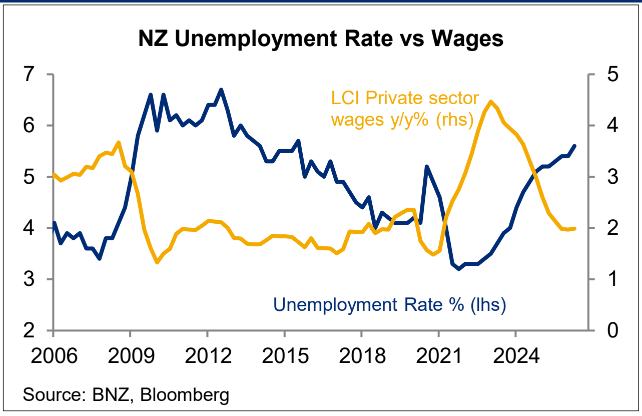
Aligned with the global backdrop, NZ rates showed only modest net movements over the month. Swap rates traded in a narrow range, with the 2-year rate closing up 4bps at 3.72% and the 10-year rate up 6bps at 4.44%. At month-end, the market was almost fully pricing a September RBNZ rate hike, with 56bps cumulatively priced through to December, only slightly lower than a month earlier.

Currency markets also traded in relatively tight ranges, consistent with the recent low-volatility environment. USD indices were broadly flat. The biggest moves came after Bessent announced increased liquidity-support buybacks for long-term US Treasuries, which prompted USD weakness and hinted at the return of the USD debasement trade. That move then reversed after Warsh's Jackson Hole speech, which the market interpreted as hawkish.

NZD/USD closed the month with a modest gain, at 0.5915. It traded to a low of 0.5821 on the 13th, in the wake of the market reaction to the lower NZ 2-year inflation expectations print. It reached a high of 0.5988 late on the 21st, about 24 hours after Bessent's attempt to control long-term yields.

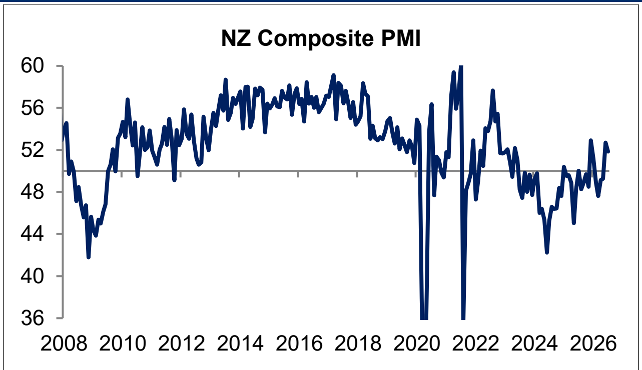
The AUD was the strongest of the majors. As widely expected, the RBA left its policy rate at 4.35% and maintained a tightening bias. The Statement noted that "inflation is still too high" and that there were upside risks to its projections, meaning the Board could increase the cash rate target further if those risks materialise. While Australian labour market data for July were weaker than expected, with the unemployment rate lifting to 4.5%, monthly CPI data for July were stronger than expected. The trimmed mean CPI was steady at 3.6%, leading the market to fully price another rate hike for this cycle, with the next meeting in late September seen as live. NZD/AUD weakened 1½% over the month to 0.8255.

Higher NZ unemployment sees LCI settle at 2% annual rate



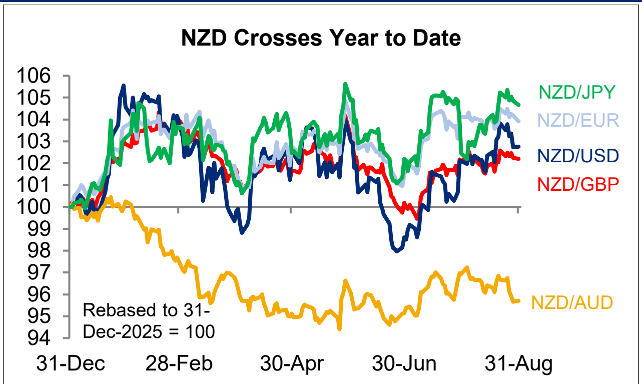
Source: BNZ, Bloomberg

NZ composite PMI consistent with NZ in recovery mode



Source: BNZ, Bloomberg

NZD broadly higher YTD with only NZD/AUD lower



Source: BNZ, Bloomberg

The yen was the weakest of the majors, as the strong gains seen at the end of July, driven by the historic joint US-Japan intervention, quickly faded. Japan's MoF confirmed that about ¥15.4 trillion (USD96 billion) had been bought to support the yen. Bessent's attempt to verbally support the yen, including calling on the Fed to expand its FIMA repo facility to give Japan easier access to dollars and avoid forced unwinds of Japanese Treasury holdings, proved ineffective. The market priced an increased chance of the BoJ hiking in September, but the large short-end negative rates gap between Japan and the rest of the G7 continued to put downward pressure on the yen. After trading below

92 early in the month, NZD/JPY rose steadily back above 95 before closing the month up nearly 2%, at 94.5.

The Chinese yuan rose to a fresh 3½-year high against the USD, with USD/CNY trading below 6.72, even as the PBoC actively tried to limit the pace of appreciation through its daily rate fixes. NZD/CNY traded in a tight range and closed flat at 3.98. China's monthly activity data for July were softer than consensus across the board. The theme remained familiar, with weak domestic demand, driven by the slump in the property sector, weighing on growth. Meanwhile, the strong export sector appeared to be the only growth engine providing meaningful economic support.

The NZD traded in tight ranges against the EUR and GBP, with little net change over the month. Euro area Q2 GDP surprised on the upside, rising 0.4% q/q, suggesting limited impact from the US-Iran conflict. Expectations for an ECB rate hike in September remained close to fully priced. ECB Board member Schnabel said rates needed to rise further, citing upside inflation risks. UK Q2 GDP rose 0.4% q/q, rounding off a solid growth performance in the first half. In their new roles as PM and Chancellor, Burnham and Healy played a straight bat, keeping policy announcements small-scale and repeating the line that they would stick to the fiscal rules.

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Monthly Performance Table

Currencies	end-Aug	end-Jul	Change
NZD/USD	0.5916	0.5889	0.5%
NZD/AUD	0.8256	0.8374	-1.4%
NZD/EUR	0.5093	0.5106	-0.3%
NZD/GBP	0.4367	0.4367	0.0%
NZD/JPY	94.50	92.77	1.9%
NZD/CNY	3.976	3.978	0.0%
TWI	66.7	66.9	-0.3%
AUD/USD	0.7166	0.7033	1.9%
EUR/USD	1.1617	1.1534	0.7%
GBP/USD	1.3549	1.3485	0.5%
USD/JPY	159.74	157.54	1.4%
USD/CNY	6.72	6.75	-0.5%
USD/CAD	1.3856	1.4015	-1.1%
USD DXY	99.43	99.91	-0.5%
Asia dollar index	93.45	92.31	1.2%

Equity Markets	end-Aug	end-Jul	Change
MSCI AC Wrld, loc.	3,293	3,217	2.4%
MSCI World, loc.	18,580	18,140	2.4%
MSCI EM, USD	4,767	4,611	3.4%
US S&P 500	7,686	7,490	2.6%
Euro STOXX 600	651.1	649.2	0.3%
Germany DAX	26,258	25,629	2.5%
France CAC 40	8,335	8,510	-2.1%
UK FTSE 100	10,824	10,868	-0.4%
Aust S&P/ASX 200	9,076	8,977	1.1%
Japan Topix	4,156	4,003	3.8%
China CSI 300	4,625	4,588	0.8%
NZX50	13,917	13,699	1.6%
Volatility: VIX	14.92	15.99	-6.7%

3-mth Money Market Futures	end-Aug	end-Jul	Change
NZD Mar-27	96.38	96.30	0.08
AUD Mar-27	95.23	95.40	-0.17
USD Mar-27	95.79	95.81	-0.02
EUR Mar-27	97.03	97.10	-0.07
GBP Mar-27	95.71	95.71	0.00
CAD Mar-27	97.23	97.24	-0.02

NZ Rates	end-Aug	end-Jul	Change
OCR	2.50	2.50	0.00
NZ 90day BB	3.06	2.94	0.13
NZ 2yr swap	3.72	3.68	0.04
NZ 5yr swap	4.07	4.03	0.04
NZ 10yr swap	4.44	4.38	0.06
NZ Govt (5/28)	3.61	3.61	0.01
NZ Govt (5/31)	4.18	4.15	0.03
NZ Govt (5/36)	4.74	4.67	0.07
NZ Govt (5/41)	5.13	5.04	0.09

Global 10 year bond rates	end-Aug	end-Jul	Change
US	4.75	4.74	0.02
Canada	3.74	3.66	0.08
UK	5.06	5.05	0.01
France	4.18	4.00	0.18
Germany	3.32	3.21	0.12
Italy	4.15	4.02	0.13
Spain	3.78	3.65	0.12
Portugal	3.67	3.55	0.13
Ireland	3.47	3.35	0.11
Japan	2.94	2.79	0.15
Australia	5.09	4.93	0.17

Commodities (USD)	end-Aug	end-Jul	Change
WTI Crude	85.76	84.67	1.3%
Brent Crude	90.49	90.12	0.4%
R/B CRB Index	410.6	385.1	6.6%
Gold spot	4,437	4,046	9.7%
Silver spot	66.58	57.60	15.6%
Copper	659.4	646.6	2.0%
Iron Ore	99.36	95.89	3.6%
Thermal coal	141.75	130.15	8.9%
Corn	537.8	464.0	15.9%
Wheat	774.0	657.5	17.7%
SGX-NZX Dairy WMP	3,810	3,535	7.8%
SGX-NZX Milk Price '26	9.75	9.79	-0.4%

Source: BNZ, Bloomberg

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