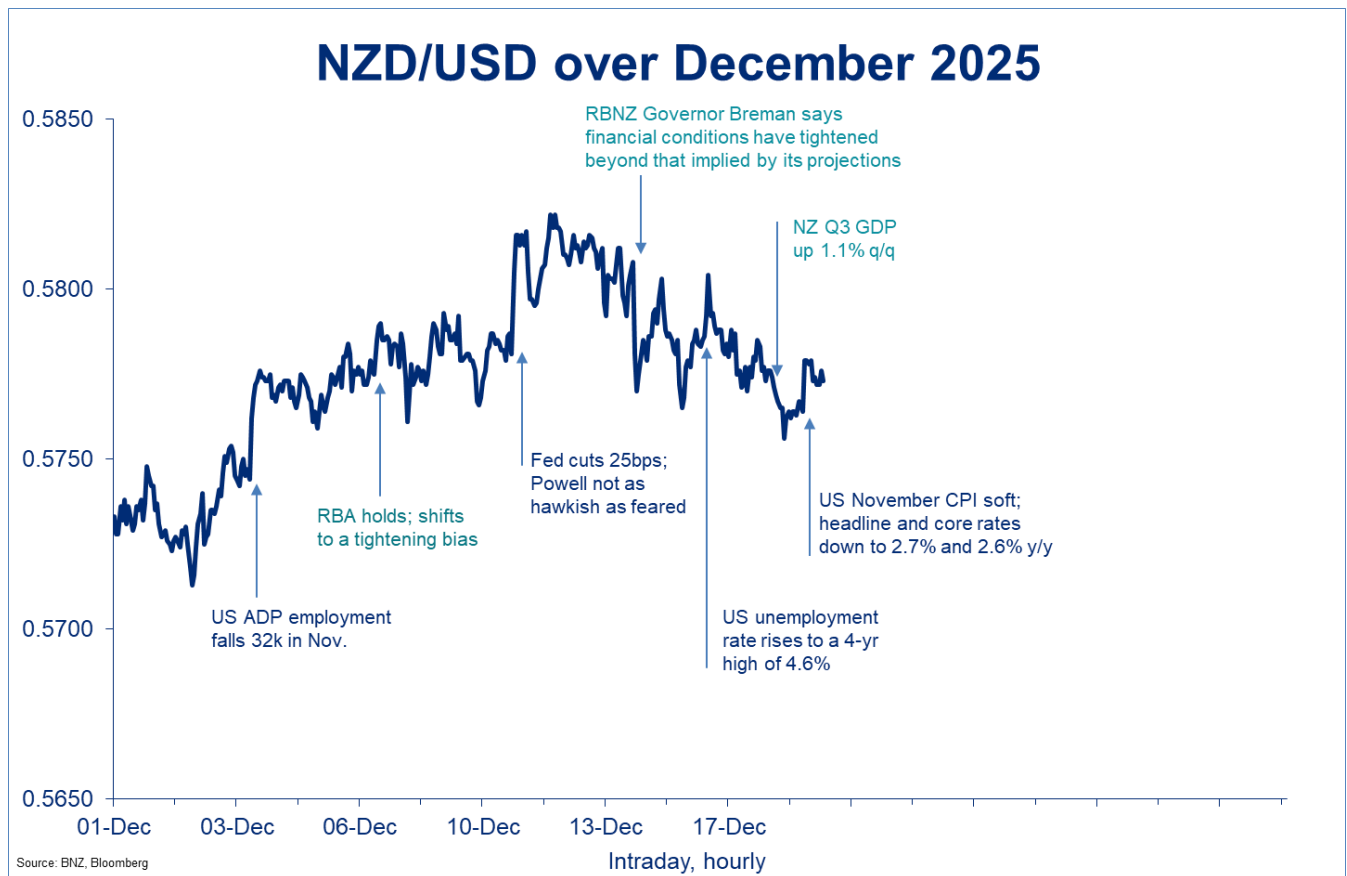


Financial Markets Wrap

19 December 2025

An uneventful close to 2025

- Market price action over the first three weeks of December was modest, with a lack of key drivers to perturb investors
- The bias to global rates was to the upside on a view of maturing rate cutting cycles
- The USD was broadly weaker; NZD/USD showed a small gain and NZD cross movements were also small



Note: This monthly summary is prepared earlier than usual in the cycle but captures most of the key events/data for the month. Data as at 11:30am 19th December. Given the timing, we exclude the monthly summary table but include an annotated NZD chart for 2025 at the end of the report.

2025 is heading towards an uneventful close. Global equity markets showed modest net movements through the first three weeks of December. Volatility in global rates and currency markets remained subdued due to limited market-moving events. The prevailing bias for rates was upward, reflecting signs of a maturing global policy easing cycle. Rate cutting cycles by the RBA and RBNZ appeared to have concluded, shifting market focus to the timing and potential scope for tighter policy next year. Currency movements were modest. The USD weakened broadly,

while the NZD displayed only small net movements on the crosses.

Following the end of the US government shutdown in November, the release of economic data resumed, some on a delayed schedule. Early in the month, weak ADP employment data revealed a 32k drop in private payrolls for November—the fourth decline in six months—providing advance warning of a softer labour market and encouraging the Fed to cut rates again. The Federal Reserve implemented a 25bps rate cut for the third consecutive meeting, bringing the top of the Fed Funds target range to 3.75% as anticipated. However, divergent views emerged within the committee, with a split vote and the dotplot highlighting a wide range of policy outlooks. Governor Miran once again dissented in favour of a larger

50bps cut, while regional Presidents Goolsbee and Schmid preferred maintaining current policy. In total, six participants' end-2025 "dot" suggested no policy change, indicating that four non-voters would also have preferred to keep rates unchanged.

US nonfarm payrolls increased by 64k in November following a drop of 105k in October, which was attributed to the government shutdown. The unemployment rate rose to a four-year high of 4.6%. Average hourly earnings edged up only 0.1% month-on-month, reducing annual wage inflation to a four-and-a-half-year low of 3.5%. These data did not alter market expectations for two further Fed rate cuts through 2026—one projected for mid-year and the other towards the year's end.

US CPI data showed annual inflation falling to 2.7% and the core rate falling to 2.6%, although the quality of the figures was questioned due to the government shutdown affecting data collection. The US 10-year Treasury yield traded a tight range of 4.02%-4.21% over the first three weeks of December.

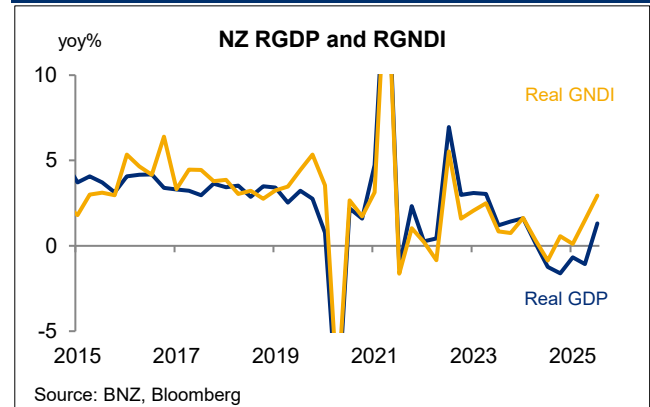
NZ interest rates began December under significant upward pressure following the RBNZ's hawkish rate cut in late November. On her second day on the job, RBNZ Governor Breman faced Parliament's Finance and Expenditure Committee, where she reiterated that under her leadership the Bank would be "laser focused" on low and stable inflation. She repeated this mantra in subsequent media interviews.

Governor Breman, she responded to the sharp rise in rates following the MPS by issuing an ad hoc media statement. She repeated the November MPS view, noting that the implied rate track was consistent with the OCR remaining at 2.25% for some time. She further stated, "financial market conditions have tightened since the November decision, beyond what is implied by our central projection for the OCR."

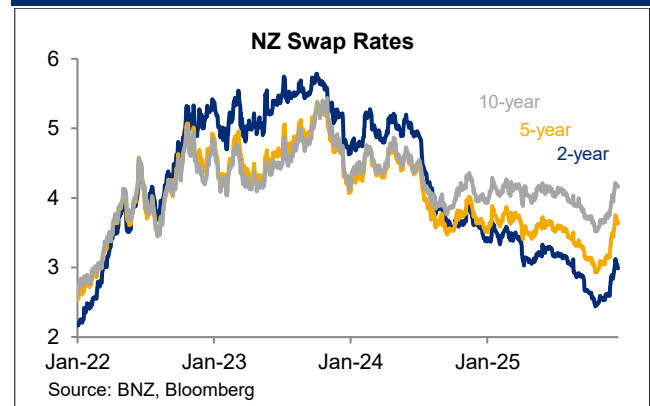
Although her statement was factual, the market interpreted it as Breman signalling some discomfort with the post-November MPS market reaction, which saw rates move sharply higher, including a more than 50bps increase in the 2-year swap rate. In a later media interview, she stated, "the purpose of cutting the OCR is to provide support for the economy, and that's what we want to see happening... if banks hike mortgages and that reduces growth, we have to take that into consideration."

The 2-year swap rate was marked as high as 3.14% before Breman's intervention; by the time of writing, it was trading at 2.97%, still up 10bps from the end of November. Besides local factors, higher Australian rates were a significant influence on NZ rates (see below). Upward pressure on longer-term swap rates was even more pronounced, resulting in a steeper yield curve.

NZ economy showing clear signs of recovery



NZ swap rates heading higher



Domestic economic releases for the month were mixed. NZ GDP grew by 1.1% q/q in Q3, rebounding strongly from a downwardly revised 1.0% contraction in Q2. Looking beyond the volatility, the NZ economy showed a clear but moderate upswing. PMI data supported the view of a modest economic recovery. On the cautionary side, the PSI remained below 50, while the housing market remained weak, with flat prices at best and declining sales activity in November.

NZ's terms of trade declined by 2.1% q/q in Q3, retreating from a record high, with falling dairy prices contributing to the downturn. More timely data indicated a sharper fall in dairy prices, as the GDT dairy price index dropped over the past nine auctions, resulting in a cumulative 25% decrease from the May peak. This rapid softening in the global dairy market was driven by a significant increase in milk supply from the US, NZ, and the EU.

The optics of the NZ government's fiscal update were not favourable, with the projected underlying operating deficit for the current fiscal year rising to a six-year high of 3.0% of GDP. Net core Crown debt is also expected to continue its upward trajectory, with projections indicating further increases for three more years.

However, the government reduced its bond tender programme for the current fiscal year by \$3b to \$35b and by \$2b to \$34b for the following fiscal year. This adjustment did not reflect underlying economic or fiscal conditions but rather resulted from NZDM being ahead of

its required borrowing run rate and a decision to reduce the minimum liquidity buffer from \$15b to \$10b, spread over two years. Consequently, there was no longer a need for another syndication this fiscal year. The prospect of reduced net bond supply ahead contributed to a tightening of NZGB-swap spreads.

In currency markets, the US dollar was broadly weaker over the first three weeks of December, declining against all the major currencies. However, the movements were modest, with the DXY index down only 1%. Seasonally, the US dollar tends to be weak in December.

Currency volatility remained subdued, as NZD/USD traded within a narrow range of just over one cent throughout the first three weeks of the month. The NZD reached a low of 0.5711 on the 2nd of December and a high of 0.5831 on the 12th, although these could change heading into the end of the month.

The NZD/AUD cross rate remained relatively steady, holding just above 0.87. The RBA kept policy on hold, but its forward guidance suggested a tightening bias. Governor Bullock ruled out further rate cuts, stating, “the question is, is it just an extended hold from here or is it the possibility of a rate rise,” and indicated the Board would be closely monitoring developments heading into the new year. This language left the door open for a potential rate hike as early as the next meeting in February.

Australian GDP growth was weaker than expected at 0.4% q/q in Q3, but a deeper look at the report revealed upward revisions to previous data and robust domestic demand of 1.2% q/q. Australian household spending increased by 1.3% m/m in October, further supporting the narrative of solid domestic demand. However, softer employment growth in November did not provide clear evidence for tighter policy.

Overall, Australian rates rose significantly during the month, with the market pricing in around a one in three chance of a February hike and increasing odds of further rate hikes as 2026 progresses. Nevertheless, fluctuating NZ-Australian rate spreads around a flat trend resulted in a stable performance for the NZD/AUD cross rate.

The Chinese yuan continued to strengthen steadily, with USD/CNY falling to its lowest level of the year around 7.04. The PBoC closely managed the yuan to restrain its strength throughout the month. A record trade surplus of over USD1 trillion for the eleven months to November underscored several factors: growth imbalances within China’s economy, the limited overall impact of US tariffs, and the very cheap yuan.

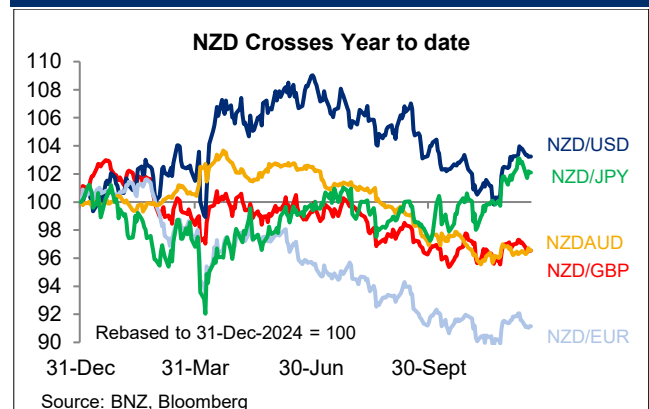
Key monthly economic indicators for China in November were weaker than expected, including a modest 1.3% y/y rise in retail sales and a faster pace of contraction in fixed investment. China’s Politburo has made strengthening domestic demand its top economic priority for 2026, while reiterating commitments to “proactive” fiscal policy and “moderately loose” monetary policy.

NZD/GBP tracked largely sideways. The Bank of England cut its policy rate by 25bps to 3.75% as widely expected but it was a close 5-4 vote. Governor Bailey offered some guarded forward guidance of further policy easing next year. He said there is “more limited space” for rate reductions as they near the neutral level. Data heading into the meeting showed CPI and wage inflation on a weaker path, the unemployment rate up to a near five-year high of 5.1% and monthly GDP data showing a flat to contracting economy over recent months.

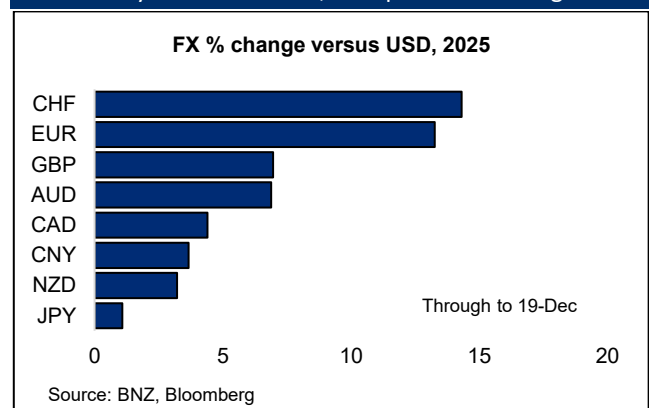
NZD/EUR tracked largely sideways. The ECB left policy on hold as expected. Regarding policy guidance the bank reiterated data dependence and a meeting-by-meeting approach. CPI inflation and growth projections were nudged higher, with average core inflation in 2026 now expected to be 2.2%. President Lagarde said all policy options should remain on the table in answering a question on whether the next move could be up or down.

A speech by BoJ Governor early December opened the door for the BoJ to hike its policy rate by 25bps to 0.75% and government officials didn’t offer any pushback to that view. This report was finalised just ahead of the policy decision. Despite the market moving to almost fully pricing the hike, JPY didn’t find much support and over the first three weeks of the month it was towards the bottom end of the leaderboard. NZD/JPY rose to a 2025 high just shy of 91 before receding back below 90.

NZD up against USD and JPY in 2025; down vs other majors

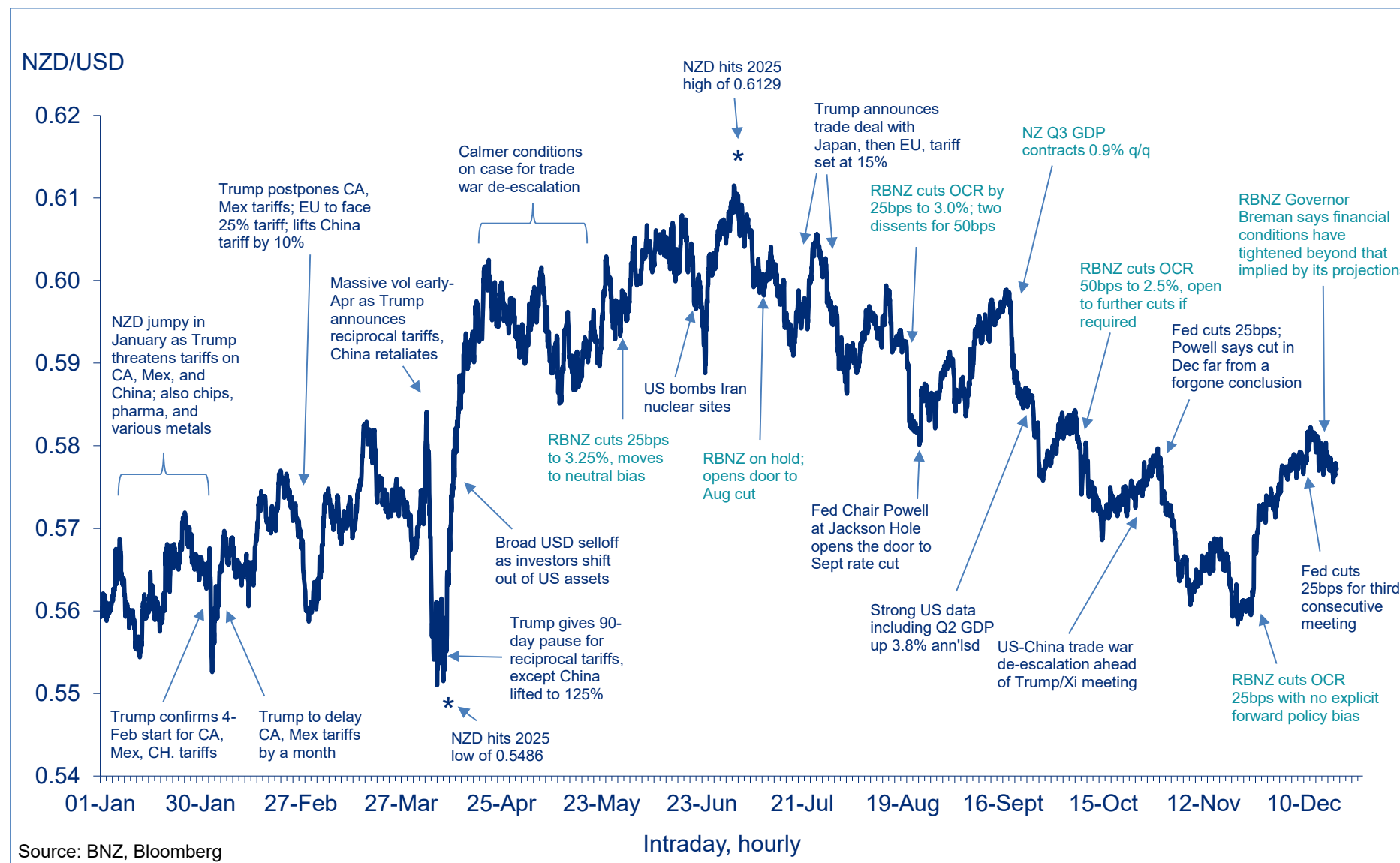


USD broadly weaker in 2025; NZD performance lags



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The NZD in 2025



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