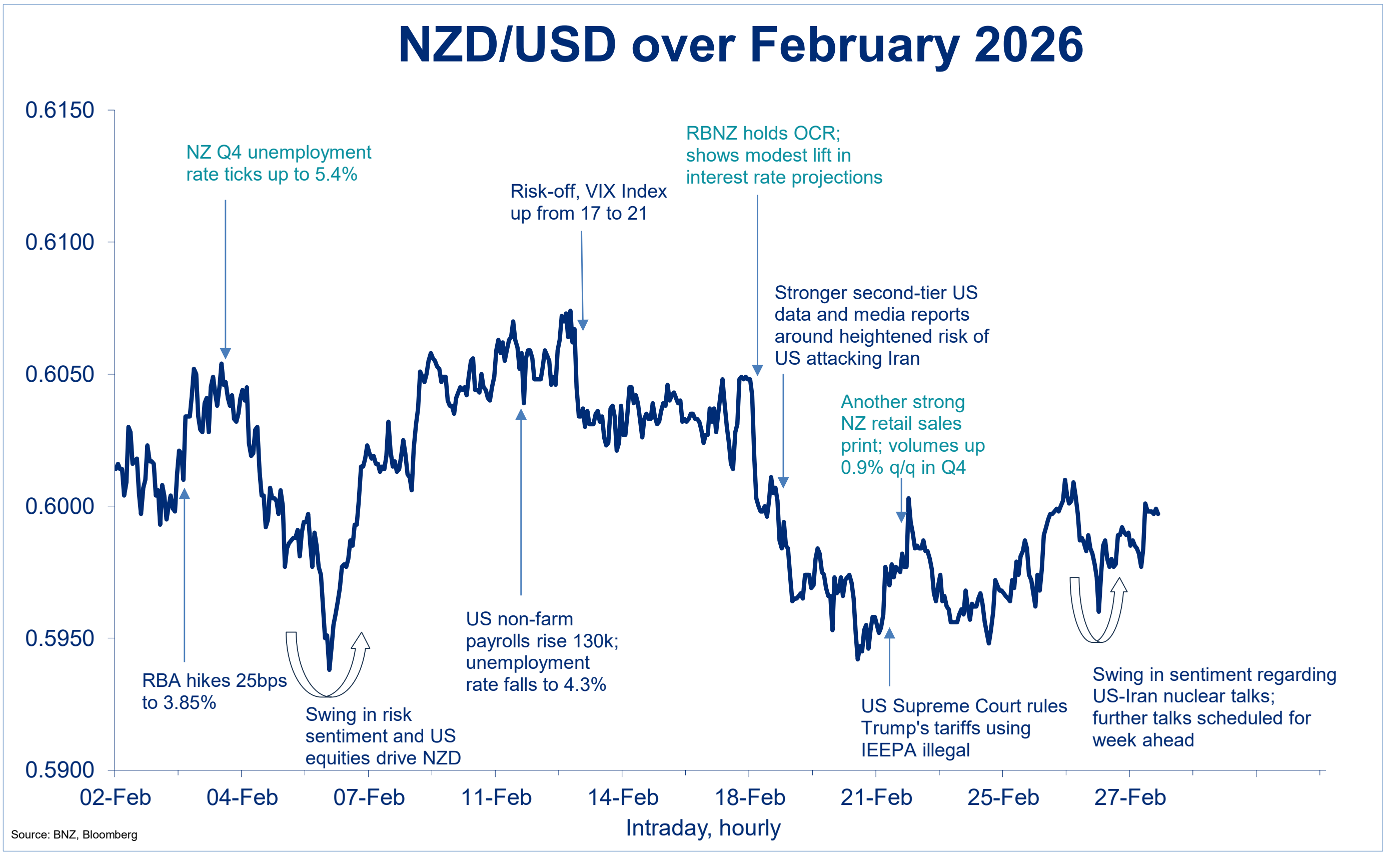
Research

Financial Markets Wrap

28 February 2026

Fairly flat February for the NZD

- **NZD/USD traded a tight range of 1½ cents in February, ending the month with a small fall**
- **AUD and CNY clearly outperformed, seeing NZD crosses against these down about 2-2½%**
- **Lingering risk of war in the Middle East and a dovish-hold by the RBNZ contributed to the NZD's lagging performance**



	Quick Outlook	February Ranges
NZD/USD	Further consolidation, ahead of the expected next leg higher, supported by the global reflationary trade. A war between US and Iran is a near-term risk factor that could briefly interrupt proceedings.	0.5930 – 0.6075
NZD/AUD	Near term downside risk remains clear as further RBA tightening over the near term is likely, pushing NZ-Australian rates more deeply negative. Prospects for a turnaround rely on the RBA taking a break from hiking and the RBNZ pivoting in a more hawkish direction.	0.8405 – 0.8675
NZD/GBP	Decent recovery underway and looking for an extension through the year. NZ economy looks to be in a better place than the UK and NZ-UK rate differentials are apt to increase. UK political risk will intensify around the local elections in May.	0.4385 – 0.4465
NZD/EUR	Risks positively skewed as NZ-EU rate spreads push higher and global reflationary trade continues through much of the year.	0.5040 – 0.5125
NZD/JPY	Fundamentally JPY is destined to remain a weak currency as long as the BoJ continues its slow path to raising rates. Ongoing threat of intervention is only a short-term risk factor. A stronger for longer cross rate near term with medium-term downside potential remains our call.	91.8 – 95.0

Global equities continued to rise in February, with the MSCI World Index gaining 1% and emerging markets displaying even stronger performance. Global interest rates generally declined, providing a tailwind for the NZ bond market. A dovish hold from the RBNZ added further downward pressure on short-term yields. After significant moves in January, currency markets were relatively stable. NZD/USD traded in a narrow range of just 1½ cents and was slightly weaker following the RBNZ policy update.

There were no major macroeconomic themes driving markets in February. However, within the equity market, sentiment fluctuated regarding the impact of AI on various stocks and sectors. US equity indices continued to underperform, due to their large exposure to IT stocks.

The persistent risk of joint US-Israel military action against Iran remained a constant concern. Following US/Iran negotiations, Iran's foreign minister stated that a general agreement on guiding principles for a potential nuclear deal had been reached, though there was widespread scepticism about any imminent agreement. The US significantly increased its military presence in the Middle East, and Iran prepared for conflict. Brent crude climbed to a seven-month high of USD73 per barrel, adding to the substantial gains seen in January.

The US Supreme Court ruled that the International Emergency Economic Powers Act (IEEPA) does not authorise the President to impose tariffs, thereby affirming limits on executive power over trade policy. The IEEPA was previously used as the basis for Trump's reciprocal tariffs on Liberation Day and the so-called Fentanyl tariffs. President Trump criticised the ruling and announced a 10% global tariff under a different authority, section 122 of the Trade Act of 1974, which permits tariffs to be imposed for 150 days. The day after the ruling, Trump threatened to raise the tariff to 15%. The Supreme Court's decision was widely anticipated by markets, resulting in a muted reaction.

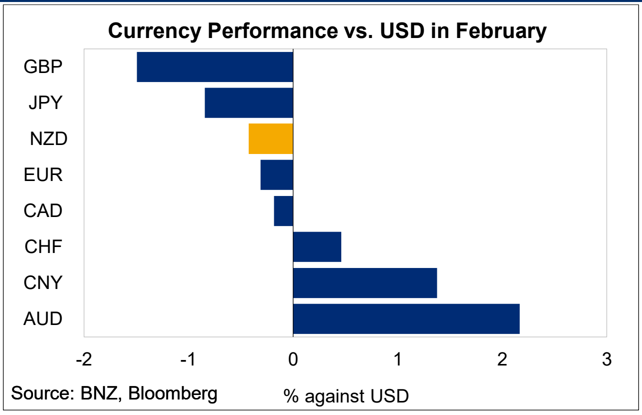
US economic data continued to indicate a resilient economy. While Q4 GDP growth was weaker than expected at a 1.4% annual rate, nearly 1% of the outturn was attributed to the Federal government shutdown. Underlying growth, such as real final sales to private domestic purchasers, remained solid, and jobless claims continued to suggest a robust labour market. Non-farm payrolls increased by a much stronger-than-expected 130k in January, and the unemployment rate edged down to 4.3%. Meanwhile, inflation remained above target, with the core PCE deflator rising to 3.0% y/y in December, although the core CPI dipped to 2.5% y/y in January.

The market's outlook for the Fed remained unchanged, with expectations that it could still implement two more rate cuts this year, likely in the second half. Concerns about potential conflict with Iran contributed to a flight-to-quality in Treasury markets. The US 10-year Treasury yield ended the month down 30bps at 3.94%, at the bottom end of its five-month range.

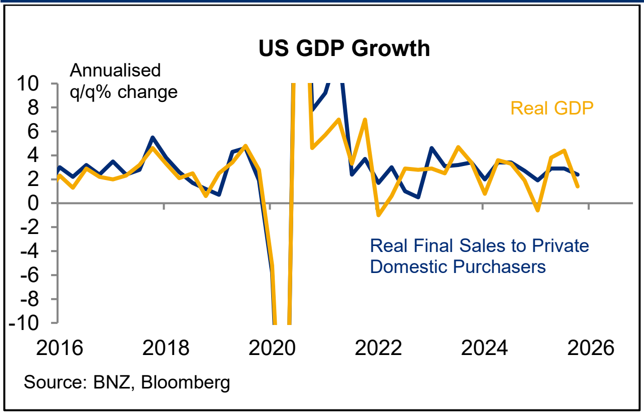
NZ labour market data showed employment rising by 0.5% q/q in Q4, the strongest gain in two and a half years. However, an increase in the participation rate led to the unemployment rate ticking up to a new cycle high of 5.4%. Monthly indicators such as the PMI and job advertisements remained consistent with an economy in recovery. Retail sales also continued to exceed expectations, with sales volumes rising 0.9% q/q in Q4 after a strong 1.9% increase in Q3.

The RBNZ kept the OCR unchanged at 2.25% and only modestly increased its interest rate projections, now signalling a high probability of a rate hike by December. Both the Statement and the rate track were broadly aligned with expectations from local economists, resulting in no changes to rate hike forecasts.

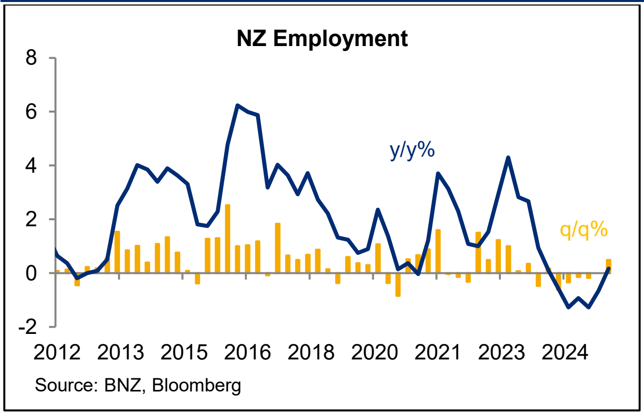
In February, NZD underperforms, particularly vs AUD, CNY



US economic growth showing some resilience



NZ employment turning up



However, the market response suggested a more dovish interpretation, as evidenced by a decline in rates and a weakening of the NZD following the announcement. This likely reflected the absence of any hawkish surprises, an evident tail risk, and the RBNZ's explicit confidence that inflation will return toward 2%. This outlook persists despite expectations for stronger growth ahead, as the Bank continues to assume NZ's output gap remains both negative and substantial.

After ending January near its peak, NZ's 2-year swap rate fell 21bps to 2.95%. Both the 5-year and 10-year rates dropped even further, declining by about 30bps, with the long end particularly influenced by the broader move lower in global interest rates.

Currency markets, which saw significant movement in January, remained relatively stable throughout February. The USD DXY index broke a three-month streak of declines by rising a modest 0.6%. Nevertheless, CFTC positioning data revealed a decisive shift against the US dollar, with speculative traders increasing net USD shorts to approximately $22.2 billion, the most bearish position since 2021. While traders increased AUD long positions in February, they maintained short positions on the NZD.

The latest Bank of America fund manager survey indicated their positioning toward the US dollar was the most negative since at least 2012, when the survey began. This negative sentiment aligned with anecdotal evidence showing investors were now more inclined to hedge USD exposure than previously.

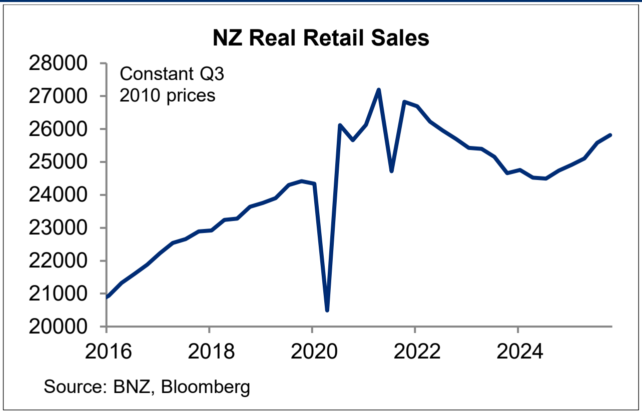
NZD/USD fell slightly for the month to just under 0.60, trading within a range of just 1½ cents, consolidating after the strong gain in January. The monthly low of 0.5928 occurred on the 6th, following a brief drop in risk appetite, while the high of 0.6076 was reached a week later, on the 13th.

The AUD was a clear outperformer, alongside the CNY. The RBA became the first major developed central bank to tighten policy in this cycle, raising its cash rate by 25bps to 3.85%. The accompanying statement was hawkish, with the Bank highlighting a significant increase in inflation during the second half of 2025, stronger domestic demand, increased capacity pressures, and tight labour market conditions. The Board noted that inflation is likely to remain above target for some time.

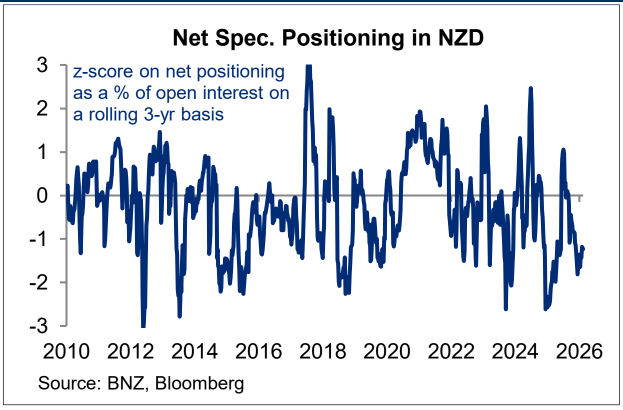
Later in the month, data showed Australian labour market conditions remained resilient in January, with the unemployment rate steady at 4.1%. Monthly CPI figures came in at the higher end of expectations, leading the market to almost fully price in another rate hike in May. With NZ-Australian rate spreads falling to negative levels not seen in over a decade, NZD/AUD reached fresh lows since 2013, just above 0.84, and ended the month down 2½% at 0.8425.

The Chinese yuan remained in favour, continuing to test multi-year highs as the PBoC carefully managed its rate of appreciation. The yuan is widely regarded as structurally undervalued, given China's annual trade surplus exceeding USD 1 trillion. The Chinese government appeared willing to tolerate a stronger currency. USD/CNY declined about 1.5% to 6.86, while NZD/CNY fell 2% to 4.12.

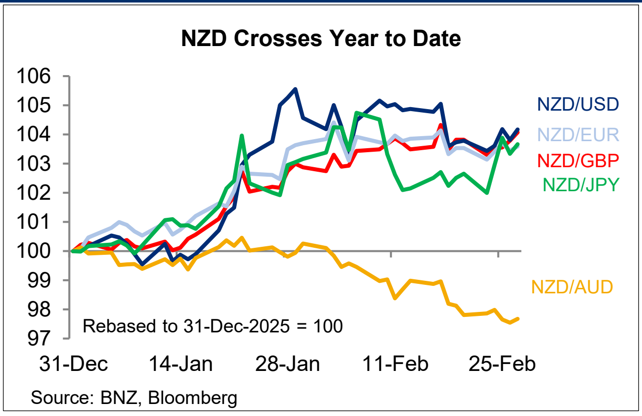
NZ retail sales recovering strongly off a low base



Net NZD positioning still very short on CFTC data



NZD higher on all key crosses in 2026, except against AUD



NZD/GBP rose just over 1% to 0.4450. The BoE kept rates unchanged as expected, but the decision was surprisingly dovish, with a 5-4 vote and four dissents favouring easing. This development, combined with soft economic data—including GDP barely rising in Q4, the unemployment rate climbing to a new five-year high of 5.2% in December, and ongoing declines in wage inflation—prompted the market to anticipate a likely rate cut in March rather than postponing the decision to April.

NZD/EUR was little changed. The ECB held rates steady, as universally expected. President Lagarde acknowledged that the stronger euro “could bring inflation down beyond current expectations,” but described risks to the inflation outlook as broadly balanced. She stated that policy is “in good shape because it is agile and prepared to do what is necessary to reach our medium-term 2% targets in a symmetric way.” Euro-area inflation eased in January, with headline CPI declining to 1.7% y/y, while core inflation moderated to 2.2%, its lowest since October 2021.

The yen experienced volatility, resulting in a flat NZD/JPY. Initially, the yen responded positively to the snap election, where Prime Minister Takaichi received a strong mandate to pursue her expansionary policy agenda, including increased fiscal stimulus and defence spending. Her party secured a two-thirds super majority in the lower house, facilitating the passage of legislation.

However, yen strength faded after softer-than-expected Q4 GDP, a newspaper report that Takaichi had expressed concern to Bank of Japan Governor Ueda about anticipated interest-rate hikes at a recent meeting, and her appointment of two dovish new board members—further highlighting her preference for the BoJ to maintain an ultra-easy policy stance.

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Monthly Performance Table

	end-Feb	end-Jan	Change
Currencies			
NZD/USD	0.5996	0.6022	-0.4%
NZD/AUD	0.8427	0.8647	-2.5%
NZD/EUR	0.5075	0.5081	-0.1%
NZD/GBP	0.4448	0.4400	1.1%
NZD/JPY	93.60	93.20	0.4%
NZD/CNY	4.116	4.197	-1.9%
TWI	67.6	68.3	-1.1%
AUD/USD	0.7115	0.6964	2.2%
EUR/USD	1.1815	1.1852	-0.3%
GBP/USD	1.3481	1.3686	-1.5%
USD/JPY	156.10	154.78	0.9%
USD/CNY	6.86	6.96	-1.4%
USD/CAD	1.3646	1.3621	0.2%
USD DXY	97.61	96.99	0.6%
Asia dollar index	93.30	92.39	1.0%
Equity Markets			
MSCI AC Wrld, loc.	2,985	2,942	1.5%
MSCI World, loc.	16,805	16,641	1.0%
MSCI EM, USD	4,403	4,173	5.5%
US S&P 500	6,879	6,939	-0.9%
Euro STOXX 600	633.9	611.0	3.7%
Germany DAX	25,284	24,539	3.0%
France CAC 40	8,581	8,127	5.6%
UK FTSE 100	10,911	10,224	6.7%
Aust S&P/ASX 200	9,199	8,869	3.7%
Japan Topix	3,939	3,566	10.4%
China CSI 300	4,711	4,706	0.1%
NZX50	13,723	13,423	2.2%
Volatility: VIX	19.86	17.44	13.9%
3-mth Money Market Futures			
NZD Sep-26	97.36	97.15	0.21
AUD Sep-26	95.69	95.77	-0.08
USD Sep-26	96.78	96.76	0.02
EUR Sep-26	98.01	98.00	0.01
GBP Sep-26	96.76	96.62	0.15
CAD Sep-26	97.82	97.73	0.08

	end-Feb	end-Jan	Change
NZ Rates			
OCR	2.25	2.25	0.00
NZ 90day BB	2.49	2.51	-0.02
NZ 2yr swap	2.95	3.16	-0.21
NZ 5yr swap	3.49	3.78	-0.29
NZ 10yr swap	3.94	4.25	-0.31
NZ Govt (5/28)	3.08	3.34	-0.26
NZ Govt (5/31)	3.78	4.07	-0.29
NZ Govt (5/36)	4.33	4.61	-0.28
NZ Govt (5/41)	4.74	4.97	-0.23
Global 10 year bond rates			
US	3.94	4.24	-0.30
Canada	3.13	3.42	-0.29
UK	4.23	4.52	-0.29
France	3.22	3.43	-0.21
Germany	2.64	2.84	-0.20
Italy	3.27	3.46	-0.19
Spain	3.06	3.21	-0.15
Portugal	3.00	3.20	-0.20
Ireland	2.91	3.11	-0.20
Japan	2.11	2.24	-0.13
Australia	4.65	4.81	-0.16
Commodities (USD)			
WTI Crude	67.02	65.21	2.8%
Brent Crude	72.48	70.69	2.5%
R/B CRB Index	312.7	320.1	-2.3%
Gold spot	5,279	4,894	7.9%
Silver spot	93.79	85.20	10.1%
Copper	600.5	592.4	1.4%
Iron Ore	98.36	103.78	-5.2%
Thermal coal	115.80	108.90	6.3%
Corn	448.5	435.8	2.9%
Wheat	591.5	546.0	8.3%
SGX-NZX Dairy WMP	3,845	3,460	11.1%
SGX-NZX Milk Price '26	9.71	9.38	3.5%

Source: BNZ, Bloomberg

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