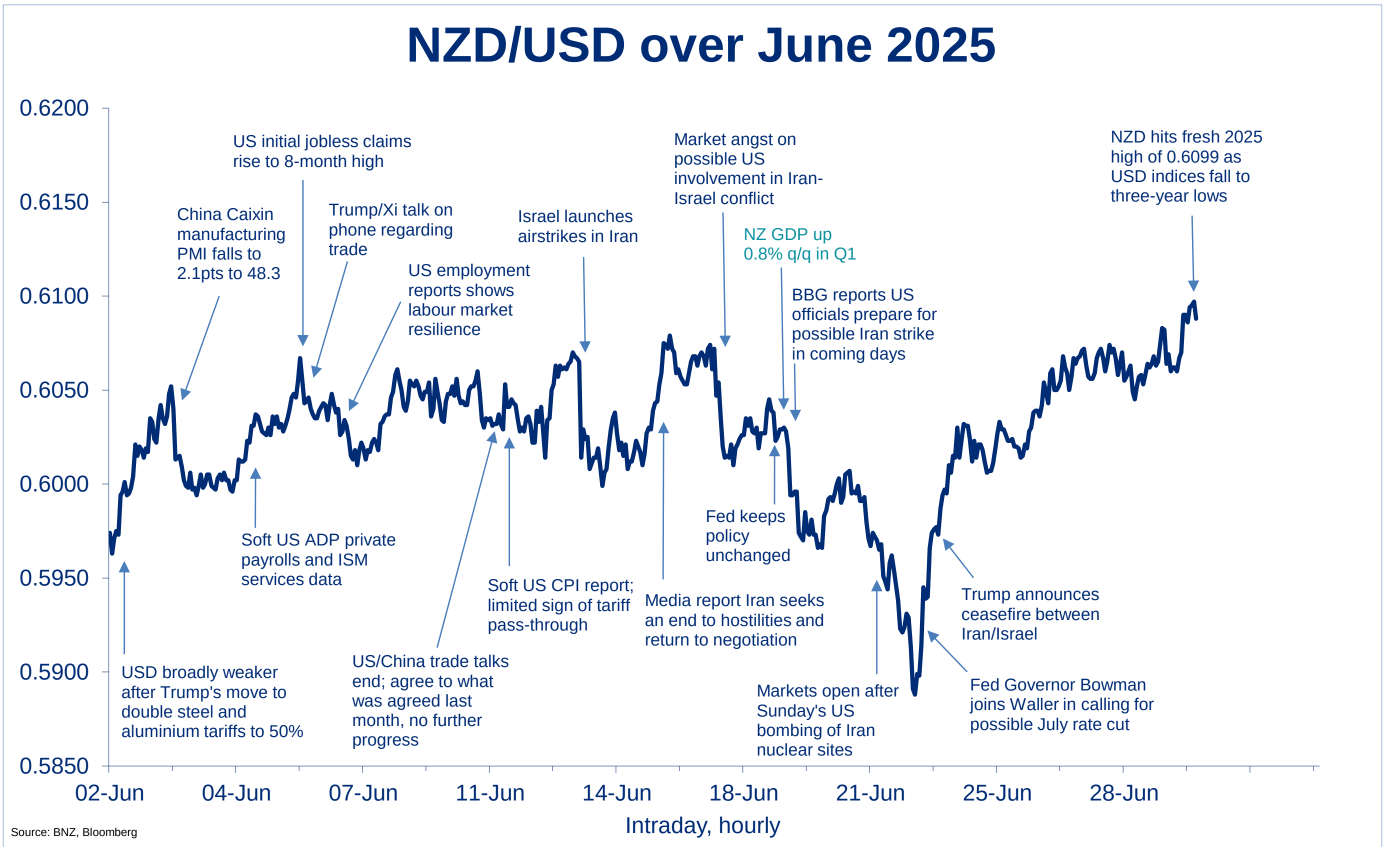
Research

Financial Markets Wrap

1 July 2025

Jolly June

- **Risk appetite improved in June, interrupted briefly by Middle Eastern conflict, sending global equities to fresh record highs**
- **Tariffs and US fiscal policy were relegated to the sidelines in terms of market drivers**
- **USD indices fell for a sixth consecutive month, to fresh three-year lows; NZD/USD rose over 2% to just under 0.61**



Source: BNZ, Bloomberg

	Quick Outlook	June Ranges
NZD/USD	Upward trend in 2025 intact, with the USD broadly out of favour. This backdrop is expected to continue, as investors diversify out of USD assets and increase hedging of USD exposure, with only the occasional hiccup along the way. Year-end target remains at 0.65.	0.5885 – 0.6100
NZD/AUD	The cross is expected to continue to track directionless over the foreseeable future, with the outlook for the NZ and Australian economies similar at this juncture, following a prolonged period of NZ economic underperformance.	0.9225 – 0.9320
NZD/GBP	NZD is more at risk than GBP on Trump's tariff agenda and its impact on global growth, but we find it hard to get bearish on the cross rate with it trading near a nine-year low. We have a modest positive bias over the year ahead.	0.4400 – 0.4495
NZD/EUR	Europe should be a key benefactor of any asset allocation out of US assets, and this should be euro-supportive, alongside easier fiscal policy, led by Germany. But after the modest fall in June, we have a small positive bias for trading over the second half of 2025.	0.5130 – 0.5310
NZD/JPY	The global backdrop sees the BoJ more cautious in its delivery of tighter monetary policy this year, but the yen's safe-haven characteristics appeal under heightened uncertainty. Still looking for downside in the cross over the medium-term.	85.5 – 88.0

Risk appetite improved in June, with our index closing the month at 68%, its highest level since February. Geopolitical risk came and went quickly, with President Trump coining the Iran-Israel conflict as the 12-day war. Tariffs and US fiscal policy were relegated to the sidelines in terms of market drivers. Global equity markets were stronger, with the World Index up nearly 4%, to close the month at a fresh record high. Global rates were mostly lower. USD indices fell for a sixth consecutive month to fresh three-year lows. NZD/USD rose more than 2% to close near 0.61, a fresh eight-month high.

Following the market's focus on US tariff policy and fiscal policy through April and May, a key focus for the market during June turned to geopolitical risk, kicked off by Israel launching missiles and airstrikes towards nuclear and military targets in Iran. Iran retaliated, directing missiles towards Israel. The US became directly involved in the conflict, following its surgical bombing of three nuclear sites in Iran. President Trump claimed that Iran's nuclear sites were obliterated. Iran orchestrated a missile attack on an empty US military base in Qatar, a choreographed move to appease its domestic audience while signalling to the world that it wasn't interested in targeting oil infrastructure. The war came to an end after the US and Qatar helped broker a ceasefire.

Oil prices surged, with Brent crude reaching a peak above USD81 per barrel, some 22% above pre-war levels, before quickly retreating after the speedy resolution to the war, and as the market became less concerned about any lasting impact on oil supply. Near-term Brent futures ended the month below USD68, albeit still up 6% for June.

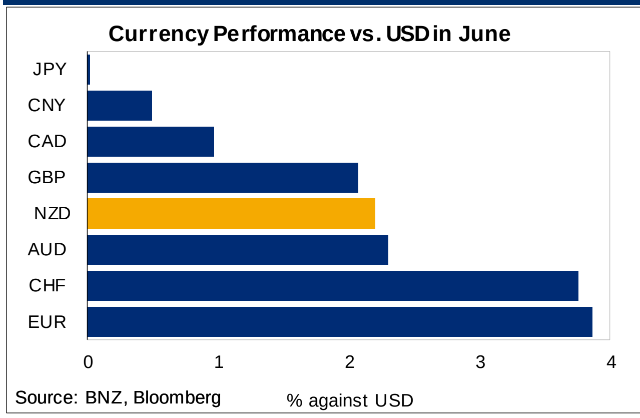
As noted, Trump's tariffs weren't really a market focus, although it was clear that the market had become desensitised to headline news on this topic. Early in the month, Trump doubled tariffs on steel and aluminium to 50%. US-China trade tensions were high, but eased after Presidents Xi and Trump spoke on the phone. This led to a two-day trade meeting in London, where negotiators agreed to what was already agreed in May – highlighting that no real progress had been made. While there was no official statement from the parties on what was actually agreed, the tariff rates imposed were unchanged, with the discussions focused on non-tariff trade barriers. There was talk of China speeding up the process of export licences on rare earth minerals destined for the US, but evidence of US companies still struggling to source them.

US economic data releases were weighted towards providing further evidence of weaker growth. ISM manufacturing and services indicators were weaker and both below 50, real personal spending fell in May and jobless claims showed a more decisive trend higher, indicative of a softening labour market. Growth in non-farm payrolls on smoothed basis continued to ease, although the unemployment rate was steady at 4.2%.

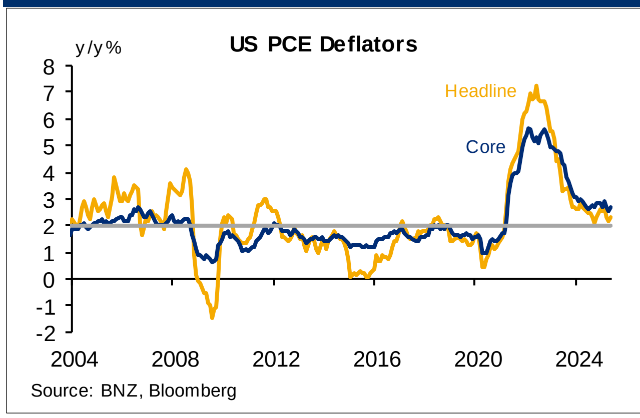
US CPI and PPI inflation data were weaker than expected but the core PCE deflator – the Fed's preferred inflation measure – nudged up by 0.2% m/m in May, seeing the annual measure tick up to 2.7% y/y. There was evidence of the direct impact of tariffs on goods so far being limited, but this could simply reflect the lag between higher tariffs and price increases.

The Fed's policy update didn't surprise, with the policy target range remaining at 4.25-4.5%. Chair Powell reiterated the committee is awaiting greater clarity on how the government's policies will affect inflation and activity. While still projecting rate cuts, committee members saw less scope for easier policy through the next two years.

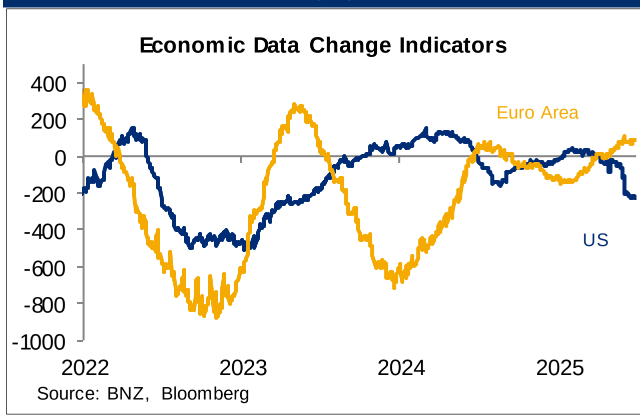
All majors stronger against the USD in June



US inflation settling in the 2s



US economic data weakening against better euro area data



Fed Governors Waller and Bowman – both Trump appointees – supported cutting rates as soon as July, but this was seen to be a minority view. President Trump continued to abuse Chair Powell for being too slow to cut rates and teased that he might announce his successor soon, even though his term as Chair doesn't expire until May next year. At month-end the market had priced in 66bps of easing through year-end, some 11bps more compared to a month ago.

In domestic economic news, NZ GDP rose 0.8% q/q in Q1, much stronger than the RBNZ's May forecast. However, timelier monthly indicators suggested Q2 was shaping up to be much weaker. The PMI and PSI indicators fell sharply in May to well into contractionary territory (at 47.5 and 44.0 respectively). Of some consolation, both business and consumer confidence picked up in June, the latter rising to a six-month high of 98.8 on the ANZ measure. NZ monthly inflation data released for May were stronger than expected, leading to upward revisions to Q2 CPI estimates (BNZ moved to 0.8% q/q and 2.9% y/y). The data reinforced market expectations that the RBNZ would likely pause the easing cycle in July, with just 4bps priced at month-end.

Global rates were mostly lower through the month, with the euro area and Canada notable exceptions. The US 10-year Treasury yield fell 17bps to 4.24%, with the curve moving down in a parallel fashion. NZ swap rates fell 6-10bps. The 10-year NZGB yield fell 2bps to 4.54%.

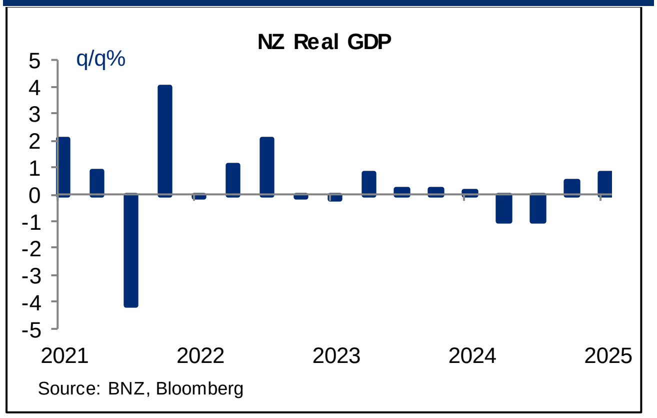
In the currency market, the USD was broadly weaker, falling against all key majors. The USD DXY index fell for a sixth consecutive month, falling 2½%, to its lowest level in over three years. Other USD indices showed a similar trend. While softer US data and lower US rates were factors, there was further anecdotal evidence of global investors diversifying out of US assets and increasing currency hedge ratios to protect portfolios against a protracted fall in the USD.

NZD/USD rose 2½% to just under 0.61. The currency traded a low of 0.5883 on 23-June in the aftermath of the US bombing Iranian nuclear sites. It traded a high of 0.6099 on the last day of the month, on broad-based USD selling. Apart from increased volatility over a three-day period following the first hint of US involvement in the Iran-Israel war, the NZD was tightly traded. Market reaction to tariff headlines was well contained.

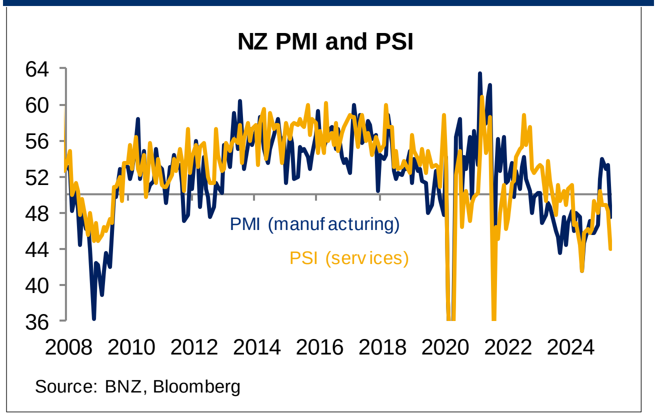
The largest NZD cross rate movement for the month was a more than 2% gain against JPY. Low Japanese rates continued to hamstring the yen, while higher oil prices acted as an additional headwind. Given Japan's reliance on imported oil, higher oil prices act like a negative terms of trade shock, eroding the yen's usual safe-haven characteristics during times of turmoil in the Middle East. The BoJ's policy update didn't surprise, with the policy rate unchanged at 0.5% and a plan to decrease its monthly bond purchases from April 2026 to a quarterly pace of 200 billion yen (from 400 billion).

NZD/AUD was well contained within a 1-cent trading range and closed the month showing little net change, at 0.9260. Australia Q1 GDP was soft, rising by just 0.2% q/q, but the labour market continued to show signs of being well-balanced, with the unemployment rate steady at 4.1%, a figure it has barely budged from in over a year. Softer monthly inflation data solidified market expectations for another 25bps rate cut at the July meeting, being close to fully priced.

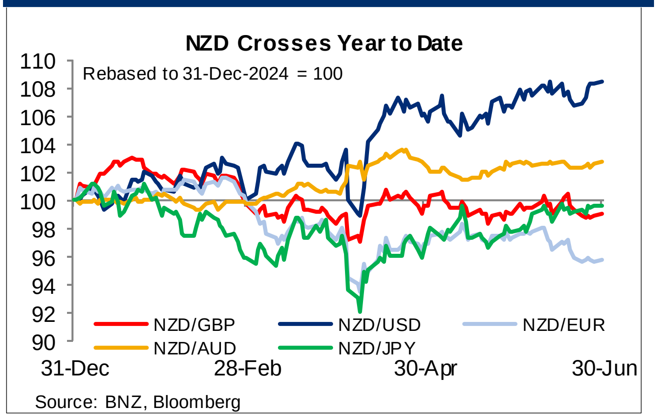
NZ GDP recovering after period of very weak growth



NZ PMI and PSI much weaker in May



NZD flat to higher on most crosses this year



European currencies outperformed for the month, being the key beneficiary of investor flows out of the US. Stronger euro area economic data supported the move (see chart at bottom of page 2). NZD/EUR fell 1½% to 0.5175. The ECB cut its policy rates by 25bps for an eighth time, taking the deposit rate down to 2.0%, as expected. President Lagarde said that policy was well positioned and said, “I think we are getting to the end of a monetary policy cycle". Bloomberg followed with a sourced report saying that ECB officials envisage pausing the easing cycle at the next meeting in July, adding that some officials see the easing cycle as maybe already finished, while others still back another move.

NZD/GBP was relatively flat at 0.4440. The BoE held rates at 4.25%, but the 6-3 vote split on the MPC surprised markets. Deputy Governor Ramsden joined the dovish camp, reinforcing expectations for an August cut. UK economic activity data were on the softer side of expectations, consistent with the economy struggling to gain traction in Q2 following decent growth in Q1.

China activity data for May were a mixed bag. On the bright side, retail sales rose 6.4% y/y, the fastest pace in nearly 18-months, supported by cash subsidies for the government’s consumer goods trade-in programme and more online sales promotions. Both industrial production and investment came in slightly weaker than expected. Official PMI data for June, released at the end of the month, were relatively flat near the 50 mark. USD/CNY fell ½% to 7.16, with the yuan making a fresh high for the year in the process. NZD/CNY rose 1½%.

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Monthly Performance Table

Currencies	end-Jun	end-May	Change	NZ Rates	end-Jun	end-May	Change
NZD/USD	0.6098	0.5966	2.2%	OCR	3.25	3.25	0.00
NZD/AUD	0.9265	0.9274	-0.1%	NZ 90day BB	3.29	3.32	-0.03
NZD/EUR	0.5173	0.5257	-1.6%	NZ 2yr swap	3.19	3.29	-0.10
NZD/GBP	0.4440	0.4434	0.1%	NZ 5yr swap	3.57	3.67	-0.10
NZD/JPY	87.80	85.93	2.2%	NZ 10yr swap	4.08	4.14	-0.06
NZD/CNY	4.366	4.300	1.5%				
TWI	69.9	69.2	1.0%	NZ Govt (4/27)	3.31	3.43	-0.12
AUD/USD	0.6582	0.6433	2.3%	NZ Govt (5/30)	3.86	3.96	-0.10
EUR/USD	1.1787	1.1348	3.9%	NZ Govt (5/35)	4.54	4.56	-0.02
GBP/USD	1.3734	1.3456	2.1%	NZ Govt (5/41)	4.97	5.03	-0.06
USD/JPY	144.02	144.06	0.0%				
USD/CNY	7.16	7.20	-0.5%	**Global 10 year bond rates**			
USD/CAD	1.3608	1.3740	-1.0%	US	4.23	4.40	-0.17
USD DXY	96.88	99.33	-2.5%	Canada	3.27	3.20	0.07
Asia dollar index	93.04	92.27	0.8%	UK	4.49	4.65	-0.16
				France	3.28	3.16	0.13
Equity Markets				Germany	2.61	2.50	0.11
MSCI AC Wrld, loc.	2,561	2,464	3.9%	Italy	3.48	3.48	0.00
MSCI World, loc.	14,697	14,158	3.8%	Spain	3.24	3.09	0.15
MSCI EM, USD	3,298	3,107	6.1%	Portugal	3.05	2.97	0.08
US S&P 500	6,205	5,912	5.0%	Ireland	2.92	2.78	0.13
Euro STOXX 600	541.4	548.7	-1.3%	Japan	1.43	1.49	-0.06
Germany DAX	23,910	23,997	-0.4%	Australia	4.16	4.26	-0.10
France CAC 40	7,666	7,752	-1.1%				
UK FTSE 100	8,761	8,772	-0.1%	**Commodities (USD)**			
Aust S&P/ASX 200	8,542	8,435	1.3%	WTI Crude	65.11	60.79	7.1%
Japan Topix	2,853	2,802	1.8%	Brent Crude	67.61	63.90	5.8%
China CSI 300	3,936	3,840	2.5%	R/B CRB Index	297.3	290.4	2.4%
NZX50	12,603	12,419	1.5%	Gold spot	3,303	3,289	0.4%
Volatility: VIX	16.73	18.57	-9.9%	Silver spot	36.11	32.98	9.5%
				Copper	503.0	467.8	7.5%
3-mth Money Market Futures				Iron Ore	94.30	95.64	-1.4%
NZD Dec-25	96.93	96.88	0.05	Thermal coal	109.90	100.80	9.0%
AUD Dec-25	96.92	96.84	0.08	Corn	409.3	423.3	-3.3%
USD Dec-25	96.33	96.20	0.14	Wheat	538.3	548.3	-1.8%
EUR Dec-25	98.20	98.26	-0.05	SGX-NZX Dairy WMP	3,755	4,010	-6.4%
GBP Dec-25	96.39	96.18	0.20	SGX-NZX Milk Price '26	9.75	9.90	-1.5%
CAD Dec-25	97.62	97.64	-0.02				

Source: BNZ, Bloomberg

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