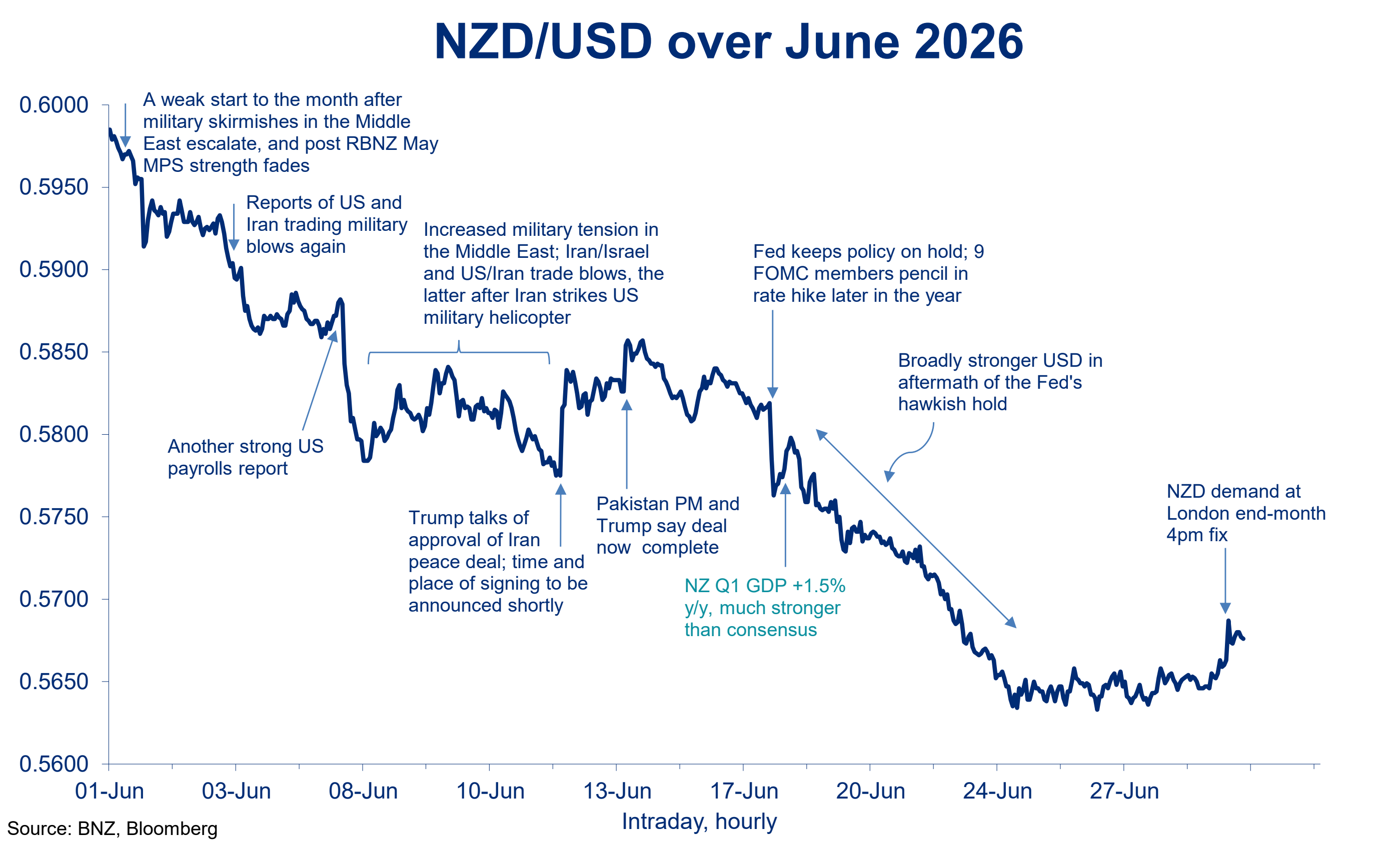
Research

Financial Markets Wrap

1 July 2026

Broad weakness in June for the NZD

- **A US-Iran peace deal drove down oil prices, but with otherwise little market impact, as this was well anticipated**
- **US economic data flow remained positive and the Fed provided a hawkish policy update; US curve flattens; USD broadly stronger**
- **NZD showed a sharp and steady decline, with monthly falls accentuated as late-May strength reversed; NZD lower on all key crosses**



Source: BNZ, Bloomberg

Quick Outlook		June Ranges
NZD/USD	Looking oversold after its beating through June but lingering two-way risks over the near-term. A July RBNZ rate hike with a message of more hiking to come would be supportive but is no sure thing. An RBNZ on hold could reignite selling pressure.	0.5625 – 0.5990
NZD/AUD	In a bottoming out phase as we near the start of a NZ monetary policy tightening cycle, while there is a good chance that the RBA's mini-hiking cycle is over. Relative NZ/AU economic performance is also converging. Low absolute short-end NZ-AU rate spreads remain a drag, but gradual appreciation over the next year is the path of least resistance.	0.8160 – 0.8345
NZD/GBP	Looking oversold after its recent poor run, so skewed positive risk from this low level. NZ-UK short rate spreads should lift as the RBNZ tightens policy, while we see the BoE on hold. Lingering UK political risk overhangs GBP as well.	0.4260 – 0.4450
NZD/EUR	Downside risk limited from here after NZD's poor run in June. NZ-EU short rate spreads should lift from here as the RBNZ tightening cycle kicks off.	0.4940 – 0.5135
NZD/JPY	Skewed positive risk from current level as long as RBNZ kicks off tightening cycle, driving higher NZ-JP rate spreads. BoJ is only hiking at a pedestrian rate, leaving real JP rates deeply negative.	91.0 – 95.4

Stronger US economic data and a more hawkish Fed update had a greater market impact than positive developments in the Middle East. The USD was broadly stronger, while the NZD and AUD were the worst-performing major currencies as commodity prices plunged. For the NZD, there was also an unwinding of its late-May strength, as the market faded the extent of rate hikes priced into the curve, leading to lower NZ-global rate spreads.

June began with increased military activity in the Middle East, with the US and Israel trading blows with Iran. This marked a shift in US tactics, with Washington flexing its military muscle in an effort to pressure Iran into accepting a peace deal as President Trump lost patience. In one skirmish, Iran fired on a US military helicopter in the Strait, setting off two days of tit-for-tat strikes. Ultimately, this late-stage escalation served to accelerate a peace deal around mid-month.

A signed Memorandum of Understanding triggered the immediate and permanent termination of military operations on all fronts, including Lebanon. It also began the process for the US to remove its naval blockade and, regarding the Strait of Hormuz, for Iran to make “arrangements using its best efforts for the safe passage of commercial vessels with no charge, for 60 days only”. This qualifier created some lingering uncertainty over whether some form of fee arrangement to use the Strait would ultimately prevail.

Oil and gas began shipping through the Strait of Hormuz, but against a backdrop of intermittent drone attacks by Iran and US retaliation, making for a shaky ceasefire. Brent crude fell more than 20% over the month to under USD73 per barrel, leaving prices near the levels prevailing before military action first began at the end of February.

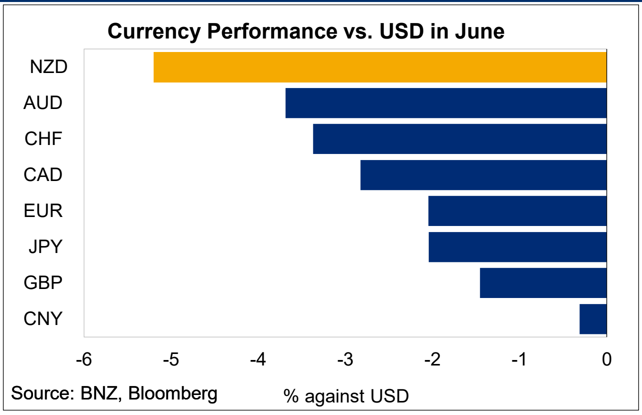
US-Iran peace talks in Switzerland showed progress, with both sides agreeing on a roadmap toward a final deal within 60 days. Many remained sceptical that any nuclear agreement could be reached within this period. The US Treasury Department issued a 60-day licence authorising the sale of Iranian oil on the international market, marking a sweeping shift after years of punitive sanctions.

Apart from the plunge in oil prices and associated falls in other commodities, the market reaction to the peace deal was limited, as investors had been anticipating an imminent reopening of the Strait of Hormuz for some time.

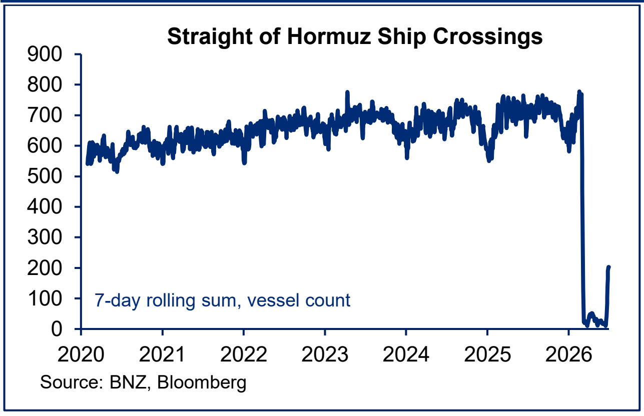
US economic developments were more impactful for markets, with the run of positive data surprises continuing and driving Citigroup’s US economic surprise index to its highest level since 2023. US payrolls rose by 172k in May, almost double the consensus estimate, while prior months were revised up by a further 93k, underscoring continued labour market resilience. Manufacturing and services PMIs remained relatively stronger in the US than in Europe and other regions, consistent with the US economy continuing to outperform. US inflation remained elevated. Higher gasoline prices drove headline rates higher, while annual inflation in the core PCE deflator rose to 3.4% y/y, its highest level since late 2023.

The Fed left policy unchanged and removed the implicit easing bias from the Statement, as expected. However, there was a hawkish tilt, with the projections showing that nine of 19 FOMC members expected a rate hike later this year. Governor Warsh declined to submit a forecast and was unwilling to provide any forward guidance, signalling a new style as chair. But he talked tough during the press conference, delivering an unambiguous message that the committee was focused on restoring price stability.

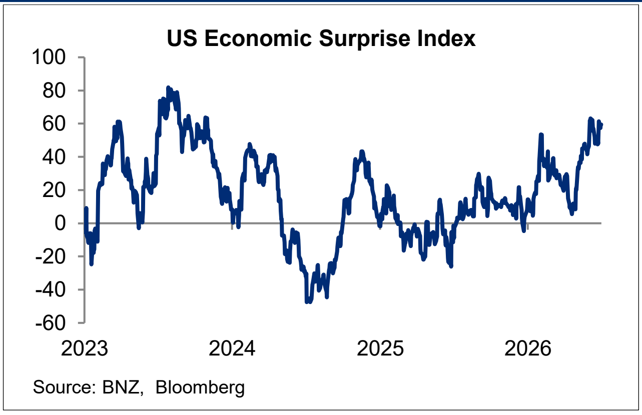
USD broadly stronger in June; NZD and AUD perform worst



Strait of Hormuz ship crossings jump higher



Run of positive US economic data continues



The market priced in a rising chance of imminent Fed rate hikes. By month-end, it had fully priced a hike by October and a good chance of a second hike by March next year. There was a notable flattening of the US Treasury curve, with higher short-term rates and flat-to-lower longer-term rates, the latter also influenced by lower oil prices.

Domestically, there was a lack of top-tier data, but Q1 GDP rose 0.8% q/q, as the market expected. Upward revisions to historical data suggested the economy had stronger momentum than widely assumed ahead of the US-Iran conflict, with annual growth of 1.5% y/y, notably above the 1.0% consensus. Growth for Q2 is widely expected to be weak, with some chance of a negative print. Weaker PMI and PSI data for May corroborated that view. The ANZ Business Outlook survey showed increasing optimism across a range of activity indicators.

Following the significant repricing of RBNZ rate hike expectations in late May after the more hawkish MPS, June began with that move fading. This trend intensified after the peace deal and the collapse in oil prices. By month-end, the market priced only 59bps of rate hikes this year, down from 77bps at the beginning of the month. For maturities between 2 and 10 years, NZ swap rates closed the month down about 20bps, while NZGB yields fell 16-21bps.

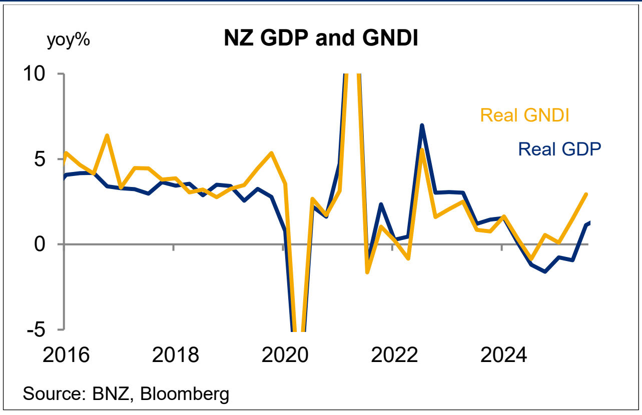
In currency markets, the USD was broadly stronger over the month, driven by the factors noted above: US economic resilience and the Fed's hawkish update. The USD DXY index rose 2.2% and reached its highest level in over a year. There was also independent NZD weakness, accentuated by the reversal of Kiwi strength evident at the end of May. As a result, the NZD was weaker on all the key crosses.

NZD/USD closed the month down 5.2% to 0.5677. The high for the month, 0.5989, was reached on the first trading day, while the low, 0.5626, was recorded on the 26th, with the pair declining more or less steadily through the month. The significant depreciation unwound strength seen earlier in the year, taking the NZD to its lowest level since November. Lower NZ-global rate spreads were a key driver of the weakness, including on the crosses.

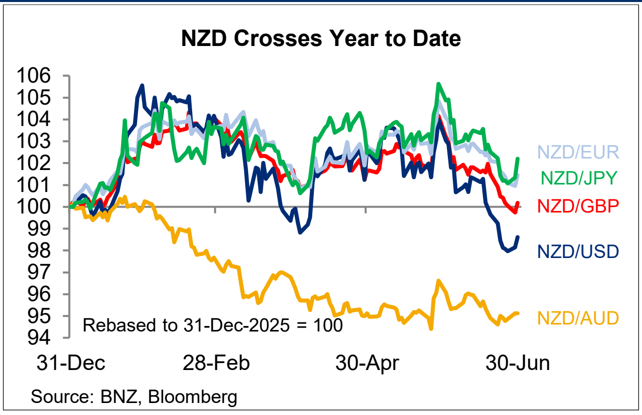
The AUD also recorded a sizeable fall, down 3.7%. NZD/AUD still fell 1.6% to slightly above 0.82, accentuated by the late-May surge which unwound. The RBA left its cash rate at 4.35%, following three successive rate hikes, but retained its tightening bias. RBA Governor Bullock said, "I can't rule out that if inflation doesn't respond in the way we expect it to do, then we might have to do more... I'm just not ruling that out." In line with the global theme, the market pared the extent of further tightening priced into the curve, with less than a 50% chance of another hike this year.

CNY fell by less than other majors, reflecting its low-beta status and management by the PBoC. China activity data for May showed the first annual fall in retail sales since the pandemic and a deeper fall in investment, driven by the slump in the property sector. Trade data continued to portray a very strong export sector, the only engine of growth firing in the economy. NZD/CNY fell nearly 5% to trade at levels not seen since the GFC in 2009.

NZ economy had positive growth momentum through Q1



NZD/USD now lower YTD, while mixed on the crosses



NZD/JPY fell 3.2% to 92.3. The BoJ lifted its policy rate by 25bps to a 31-year high of 1.0%, as expected. The vote was 7-1, with PM Takaichi's recent Board appointee, Asada, dissenting in favour of keeping policy unchanged. The Bank's plan to stop tapering its bond purchases from April next year was also as expected. Deputy Governor Uchida said the central bank would continue to raise its policy rate towards neutral levels but provided no indication on the timing of future moves, which will be data dependent. The market remained alert to the risk of official intervention, with USD/JPY edging pushing up through 162, taking the yen to at a fresh 40-year low.

NZD/EUR fell 3.2% to 0.4970, unwinding most of its gain this year. The ECB raised interest rates by 25bps for the first time since September 2023, taking its deposit rate to 2.5%, and said it would continue to set policy on a meeting-by-meeting, data-dependent basis as it monitors the inflationary spillover from the Iran conflict. Inflation projections were raised for each year, including the core rate, which is still expected to be above target at 2.2% in 2028. President Lagarde said, "we are beginning to see a broadening of inflation throughout the economy", pushing back against suggestions that this was a pre-emptive move.

GBP showed no obvious impact from the political crisis enveloping PM Starmer, with most of the damage done in May after Labour was heavily punished in the local elections. Greater Manchester mayor Andy Burnham won the Makerfield by-election with a large majority, securing a UK parliamentary seat and a route to challenge PM Starmer's leadership. Starmer resigned after his position became untenable but remained PM until the formalities of electing a new leader were concluded. The BoE left its policy rate unchanged at 3.75%, with Greene joining Pill in voting for a 25bps rate hike, taking the vote to 7-2. Committee members noted the uncertainty around energy prices. Governor Bailey said the recent fall in oil prices was encouraging, but that the situation remains unpredictable. NZD/GBP fell 3.8% to 0.4280.

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Monthly Performance Table

	end-Jun	end-May	Change
Currencies			
NZD/USD	0.5677	0.5988	-5.2%
NZD/AUD	0.8204	0.8335	-1.6%
NZD/EUR	0.4970	0.5135	-3.2%
NZD/GBP	0.4281	0.4450	-3.8%
NZD/JPY	92.28	95.36	-3.2%
NZD/CNY	3.853	4.050	-4.9%
TWI	65.3	67.8	-3.7%
AUD/USD	0.6920	0.7185	-3.7%
EUR/USD	1.1422	1.1660	-2.0%
GBP/USD	1.3260	1.3456	-1.5%
USD/JPY	162.59	159.27	2.1%
USD/CNY	6.79	6.77	0.3%
USD/CAD	1.4198	1.3796	2.9%
USD DXY	101.16	98.94	2.2%
Asia dollar index	91.48	92.34	-0.9%
Equity Markets			
MSCI AC Wrld, loc.	3,227	3,228	0.0%
MSCI World, loc.	18,097	18,103	0.0%
MSCI EM, USD	4,755	4,820	-1.4%
US S&P 500	7,499	7,580	-1.1%
Euro STOXX 600	641.7	626.0	2.5%
Germany DAX	24,996	25,105	-0.4%
France CAC 40	8,404	8,183	2.7%
UK FTSE 100	10,497	10,409	0.8%
Aust S&P/ASX 200	8,779	8,732	0.5%
Japan Topix	3,995	3,957	0.9%
China CSI 300	4,979	4,892	1.8%
NZX50	13,622	13,245	2.8%
Volatility: VIX	16.45	15.32	7.4%
3-mth Money Market Futures			
NZD Dec-26	96.84	96.62	0.22
AUD Dec-26	95.47	95.36	0.11
USD Dec-26	95.96	96.17	-0.21
EUR Dec-26	97.42	97.39	0.03
GBP Dec-26	96.02	95.92	0.09
CAD Dec-26	97.53	97.43	0.09

	end-Jun	end-May	Change
NZ Rates			
OCR	2.25	2.25	0.00
NZ 90day BB	2.72	2.62	0.09
NZ 2yr swap	3.33	3.51	-0.19
NZ 5yr swap	3.65	3.86	-0.21
NZ 10yr swap	4.00	4.20	-0.20
NZ Govt (5/28)	3.31	3.52	-0.21
NZ Govt (5/31)	3.84	4.05	-0.21
NZ Govt (5/36)	4.36	4.52	-0.16
NZ Govt (5/41)	4.74	4.89	-0.15
Global 10 year bond rates			
US	4.47	4.44	0.03
Canada	3.38	3.41	-0.04
UK	4.76	4.81	-0.06
France	3.65	3.55	0.10
Germany	2.86	2.94	-0.08
Italy	3.63	3.65	-0.02
Spain	3.34	3.35	-0.01
Portugal	3.24	3.30	-0.05
Ireland	3.03	3.10	-0.07
Japan	2.67	2.66	0.01
Australia	4.72	4.83	-0.11
Commodities (USD)			
WTI Crude	69.50	87.36	-20.4%
Brent Crude	72.92	92.05	-20.8%
R/B CRB Index	353.6	380.5	-7.1%
Gold spot	4,008	4,540	-11.7%
Silver spot	58.60	75.30	-22.2%
Copper	619.3	638.9	-3.1%
Iron Ore	99.04	105.24	-5.9%
Thermal coal	129.65	131.25	-1.2%
Corn	436.0	475.0	-8.2%
Wheat	589.3	623.5	-5.5%
SGX-NZX Dairy WMP	3,540	3,675	-3.7%
SGX-NZX Milk Price '26	9.80	9.84	-0.4%

Source: BNZ, Bloomberg

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