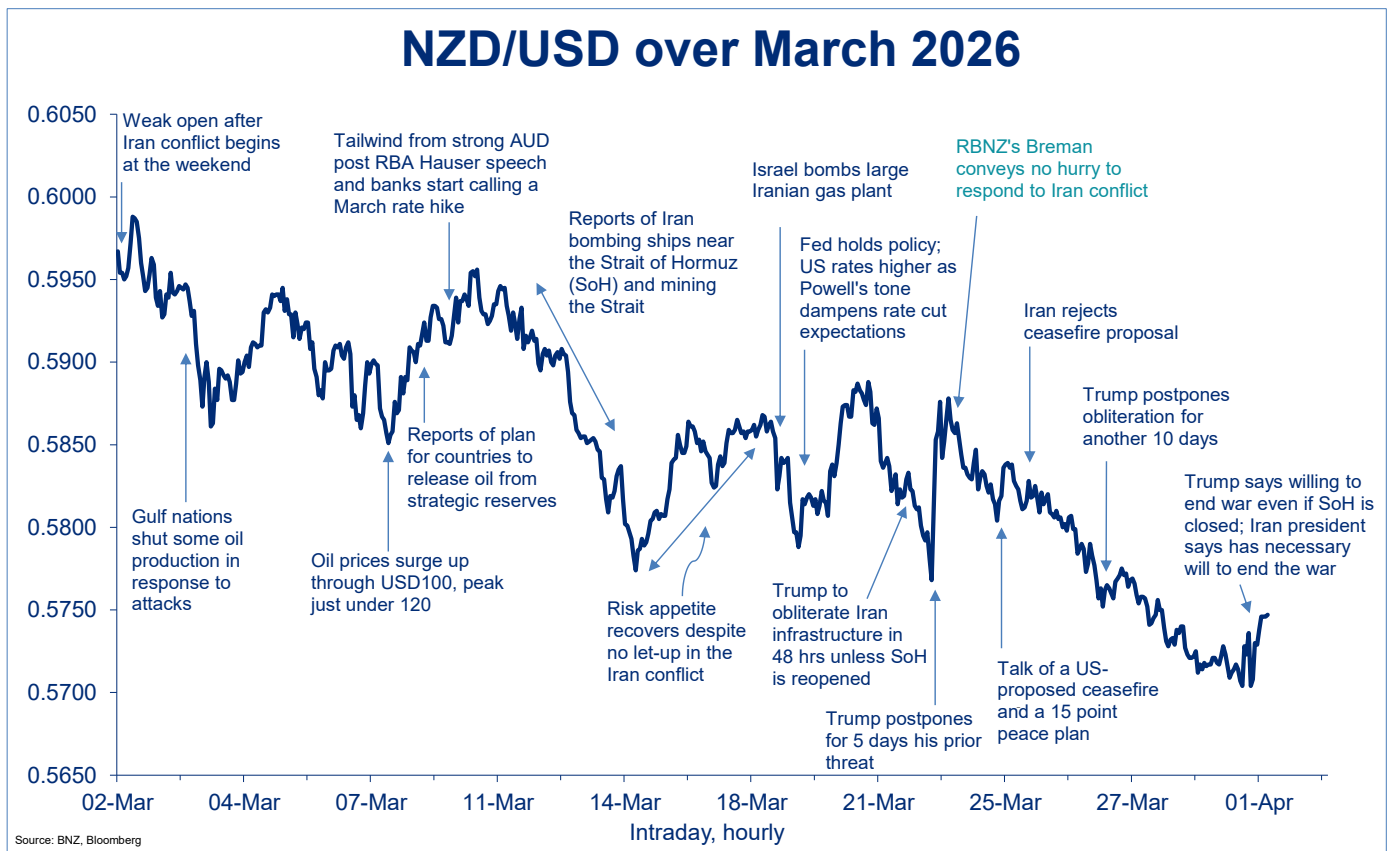


# Financial Markets Wrap

1 April 2026

## Iran conflict drives NZD lower through March

- The Iran conflict erupted just before March and was the primary driver of financial markets throughout the month
- As the conflict escalated, oil prices spiked, global equities tumbled, and global interest rates surged on renewed inflation fears
- NZD/USD dropped over 4%, and the NZD weakened against all key currencies



Quick Outlook		March Ranges
<b>NZD/USD</b>	Risk skewed to the downside for as long as the Strait of Hormuz remains closed and key 0.55 support level threatened under this scenario. Can recover sharply when the SoH reopens and/or the conflict ends, but unlikely to match pre-conflict level for a while.	0.5700 – 0.5995
<b>NZD/AUD</b>	Not convinced the low has been reached for this cycle, particularly if the RBA keeps hiking rates while the RBNZ remains on the sideline. Of some support though, Australia seems more exposed to the hit to Asia and the global economy at present than NZ.	0.8230 – 0.8455
<b>NZD/GBP</b>	Downside risk imparted and to continue, due to the Iran conflict, via the weaker risk sentiment and global growth outlook channels. Can recover when the conflict nears an end.	0.4315 – 0.4460
<b>NZD/EUR</b>	As above, downside risk imparted and to continue, due to the Iran conflict, via the weaker risk sentiment and global growth outlook channels. Can recover when the conflict nears an end.	0.4950 – 0.5125
<b>NZD/JPY</b>	Weaker risk sentiment and the prospect that our risk appetite index can fall a lot further is negative for the cross rate so this remains the near-term bias. Can recover when the conflict nears an end.	90.7 – 94.2

Throughout March, the primary driver for financial markets was the ongoing conflict in the Middle East. Cash remained one of the few safe havens, as global equity markets experienced significant declines (MSCI World Index down 5.6%) largely due to concerns about weaker global growth. Meanwhile, global interest rates rose sharply amid fears of increased inflationary pressures. Crude oil prices rose in the order of 50-65%, with Middle Eastern blends and refined petroleum products registering even stronger gains. The US dollar showed broad-based strength, while the NZD underperformed. NZD/USD dropped 4.2% to about 0.5750, and all major NZD cross rates weakened.

Following the close of markets at the end of February, the US and Israel jointly launched a military strike against Iran, initially targeting a location where Iranian leaders, including Supreme Leader Ayatollah Ali Khamenei, were assembled. The attack resulted in the deaths of several high-ranking Iranian officials. In response, Iran retaliated vigorously, turning the conflict into a multi-theatre crisis affecting energy and maritime security. The situation rapidly spread throughout the Gulf region and began to impact the global economy.

Iran effectively shut down the Strait of Hormuz, a crucial shipping route for oil and gas exports from the Middle East, warning that any vessels attempting to cross would be targeted. Iran engaged its Gulf neighbours, attacking military bases, US embassies, and infrastructure assets across the region. The most significant strike was on the Ras Laffan Industrial City complex, which reduced Qatar’s LNG export capacity by 17% for an estimated 3-5 years.

Mid-month, tensions escalated further with US strikes on Iran’s export network, including Kharg Island, and continued attacks on Gulf energy assets. These disruptions intensified supply stresses, impacting broader shipping and global fuel availability. Asian countries were especially affected, with 80–85% of their imported energy needs relying on transit through the Strait of Hormuz.

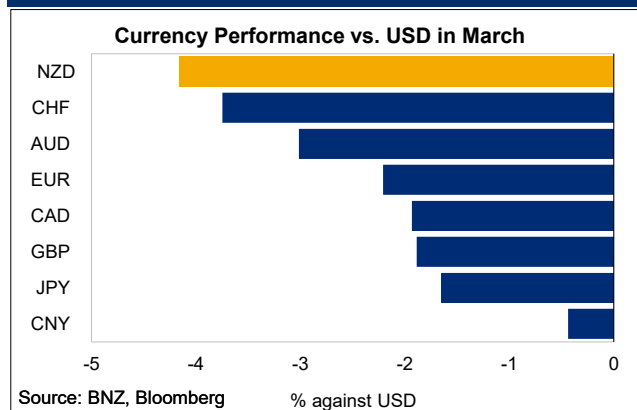
Towards the end of the month, the US deployed additional military personnel to the Middle East to increase available options, including ground troops. This move coincided with heightened diplomatic efforts to resolve the conflict, notably the US proposing a 15-point peace plan to Iranian leaders, which was firmly rejected. Despite President Trump’s frequent assertions that the war would soon end, the reality was a continued escalation as March progressed.

Economic data released during this period had little influence on market movements, as most reports predated the conflict. Prior to the outbreak, the US labour market showed signs of deterioration, with nonfarm payrolls falling by 92k in February, much weaker than consensus forecasts, and a downward revision of 69k for the previous two months. CPI figures were broadly in line, but core services sector inflation remained persistently high. The Fed’s preferred inflation measure, the core PCE deflator, was running at a robust 0.4% m/m rate.

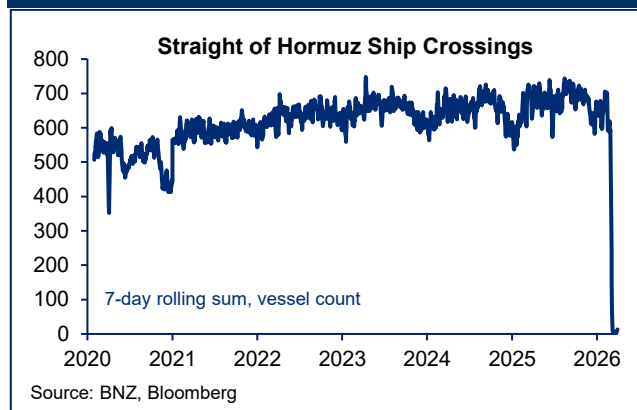
There was strong interest in how central banks would adjust their policy outlook in response to the conflict. The US Federal Reserve kept policy unchanged, with only one dissenting vote; Governor Miran continued to advocate for lower rates. Chair Powell noted that it was too early to assess the full economic impact of events in the Middle East and rising energy prices, and his remarks at the press conference tempered market expectations for imminent rate cuts.

The ECB also left its policy rates unchanged, signalling no immediate urgency to alter borrowing costs. However, post-meeting comments from Governing Council members took a more hawkish tone, expressing caution about potential second-round effects from higher energy prices and not ruling out a possible rate hike at the upcoming April meeting.

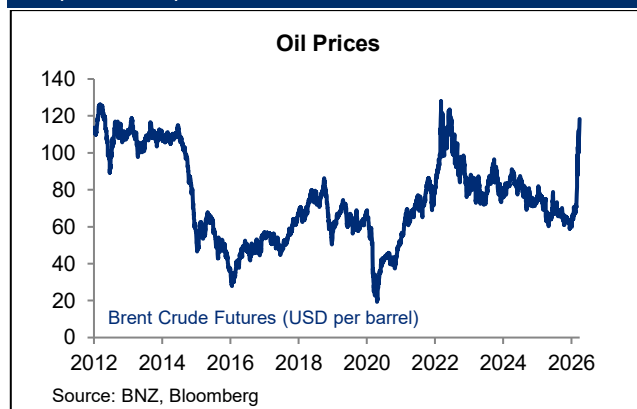
**NZD underperforms in March; USD broadly stronger**



**Important Strait of Hormuz effectively closed**



**Sharp lift in oil prices**



While the BoE kept policy unchanged, the decision was unexpectedly unanimous, with even the typically dovish members of the MPC altering their stance. The MPC removed its easing bias and emphasised that it “stands ready to act as necessary.” Following a significant market reaction to the policy update, Governor Bailey made unscheduled remarks to the media, warning against drawing strong conclusions about potential rate hikes.

The BoJ also left its policy unchanged, as tensions in the Middle East and uncertainty over oil prices introduced additional risks. The central bank maintained its inflation forecasts and reiterated that it would raise borrowing costs if its inflation trajectory stays on course. Governor Ueda kept the possibility of an April rate hike open during the press briefing.

The RBA increased its cash rate by 25bps, as widely expected, bringing it to 4.1%. However, the decision was closer than anticipated, decided by a 5-4 vote. While initially perceived as dovish, RBA Governor Bullock clarified that the close vote reflected debate over the timing rather than the necessity of the hike. Her update was seen as hawkish, as she repeatedly stressed that inflation remained too high and the board was concerned about secondary effects from rising energy costs, driven by the Middle East conflict.

RBNZ Governor Breman’s scheduled speech focused on the impact of the Middle East conflict on NZ’s economy. The tone was typical of a central bank’s response to a supply shock: to look through the initial inflationary effects and respond to second round impacts. This suggested a reluctance to react immediately with rate hikes, but indicated that a more forceful response might be necessary later.

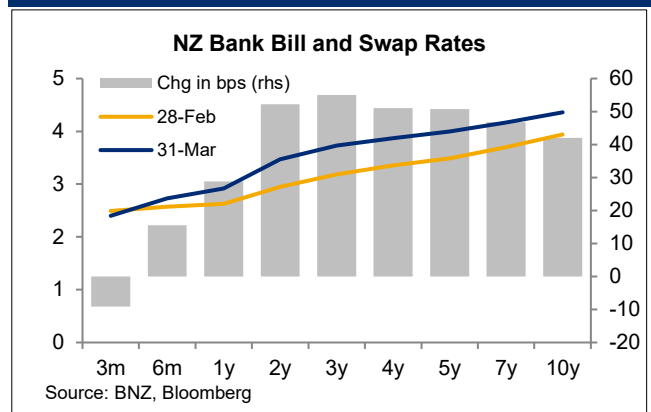
Regarding NZ economic data released during the month, Q4 GDP growth was weaker than expected at 0.2% q/q, though it was consistent with the narrative of the economy being in recovery. The manufacturing PMI remained strong at 55.0, but the services index fell by 2.7 points to 48.0, indicating continued sluggishness in the services sector. March readings for business and consumer confidence, which provided an early indication of the Iran conflict’s impact, both showed significant declines.

In global rates markets, expectations of higher inflation led to speculation that central banks would need to tighten monetary policy, causing rates to rise across yield curves. Additional pressure came from concerns over fiscal accounts. NZ swap rates ended the month up 42–52bps. By the end of the month, the OIS market was pricing in 67bps of rate hikes through 2026, up from 30bps at the start of the month. NZ’s rate increases were at the lower end of the global rates sell-off, while European rates saw the largest moves.

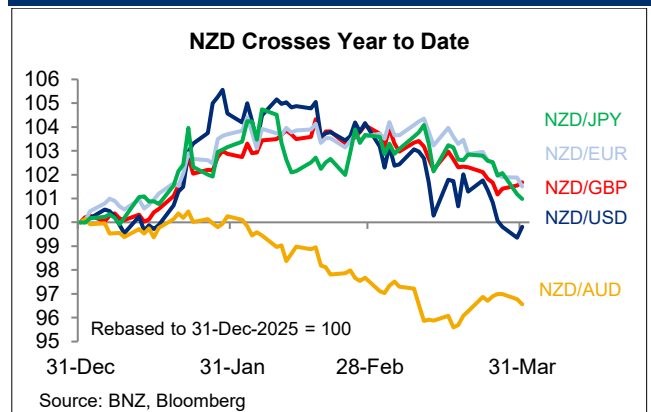
In currency markets, the US dollar strengthened broadly. It benefited from safe-haven flows, the unwinding of short-USD positions established before the conflict, and the US economy’s status as a net energy exporter. The USD DXY index gained 2½% over the month.

The NZD was the weakest among the major currencies tracked, with NZD/USD ending the month down 4.2% to about 0.5750. The NZD declined steadily throughout the month, reflecting the conflict’s escalation. The monthly high was 0.5995 on 2 March, the first trading day, before the market began to fully price in the conflict’s implications. The low of the month was 0.5700 on 31 March.

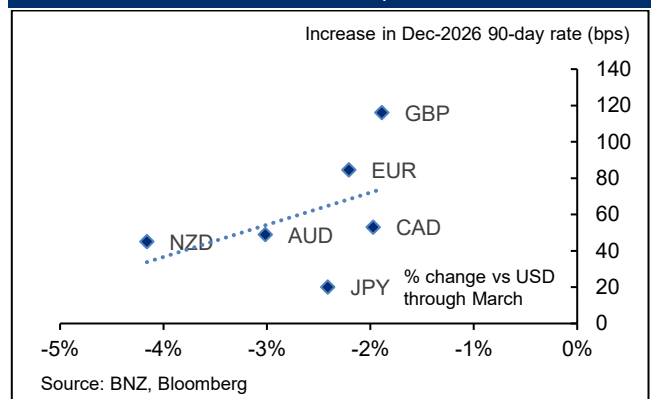
**NZ swap rates 2-10 years surge over the month**



**NZD and most crosses lower through March**



**Correlation between FX and rates performance in March**



As illustrated by the chart above, there was a positive correlation between currency performance and the movement in rates for the month, as measured by December 2026 3-month bills. The underperformance of the NZD reflected a decline in risk appetite during March and was also attributable to more moderate rate increases compared to other regions. The Japanese yen stood out as an outlier, largely due to the BoJ's continued reluctance to implement rate hikes, despite ongoing rhetoric to eventually raise rates.

With the NZD underperforming, all major NZD currency pairs declined over the month. NZD/AUD reached a new

13-year low near 0.8230 mid-month before recovering, ultimately closing the month down just over 1% at 0.8330. NZD crosses against EUR, GBP, and JPY were 2-2½% lower, though the NZD retained positive year-to-date gains, following its stronger performance prior to the conflict.

After a period of notable strength over the previous ten months, the PBoC allowed the yuan to take a breather, resulting in a modest monthly gain in USD/CNY. The net effect was a near-4% decline in NZD/CNY, bringing it down to a level not seen since 2009 and settling below 4.

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Monthly Performance Table							
	end-Mar	end-Feb	Change		end-Mar	end-Feb	Change
<b>Currencies</b>				<b>NZ Rates</b>			
NZD/USD	0.5747	0.5996	-4.2%	OCR	2.25	2.25	0.00
NZD/AUD	0.8328	0.8427	-1.2%	NZ 90day BB	2.54	2.49	0.06
NZD/EUR	0.4973	0.5075	-2.0%	NZ 2yr sw ap	3.47	2.95	0.52
NZD/GBP	0.4345	0.4448	-2.3%	NZ 5yr sw ap	4.00	3.49	0.51
NZD/JPY	91.17	93.60	-2.6%	NZ 10yr sw ap	4.36	3.94	0.42
NZD/CNY	3.958	4.116	-3.8%				
TWI	66.0	67.6	-2.4%	NZ Govt (5/28)	3.55	3.08	0.47
AUD/USD	0.6901	0.7115	-3.0%	NZ Govt (5/31)	4.25	3.78	0.47
EUR/USD	1.1554	1.1815	-2.2%	NZ Govt (5/36)	4.73	4.33	0.40
GBP/USD	1.3227	1.3481	-1.9%	NZ Govt (5/41)	5.10	4.74	0.36
USD/JPY	158.73	156.10	1.7%				
USD/CNY	6.89	6.86	0.4%	<b>Global 10 year bond rates</b>			
USD/CAD	1.3915	1.3646	2.0%	US	4.32	3.94	0.38
USD DXY	99.96	97.61	2.4%	Canada	3.47	3.13	0.35
Asia dollar index	91.13	93.30	-2.3%	UK	4.91	4.23	0.68
				France	3.72	3.22	0.51
<b>Equity Markets</b>				Germany	3.00	2.64	0.36
MSCI AC Wrld, loc.	2,799	2,985	-6.2%	Italy	3.91	3.27	0.64
MSCI World, loc.	15,859	16,805	-5.6%	Spain	3.50	3.06	0.44
MSCI EM, USD	3,830	4,403	-13.0%	Portugal	3.45	3.00	0.45
US S&P 500	6,529	6,879	-5.1%	Ireland	3.25	2.91	0.34
Euro STOXX 600	583.1	633.9	-8.0%	Japan	2.35	2.11	0.24
Germany DAX	22,680	25,284	-10.3%	Australia	4.97	4.65	0.32
France CAC 40	7,817	8,581	-8.9%				
UK FTSE 100	10,176	10,911	-6.7%	<b>Commodities (USD)</b>			
Aust S&P/ASX 200	8,482	9,199	-7.8%	WTI Crude	101.38	67.02	51.3%
Japan Topix	3,498	3,939	-11.2%	Brent Crude	118.35	72.48	63.3%
China CSI 300	4,450	4,711	-5.5%	R/B CRB Index	372.4	312.7	19.1%
NZX50	12,912	13,723	-5.9%	Gold spot	4,668	5,279	-11.6%
Volatility: VIX	25.25	19.86	27.1%	Silver spot	75.17	93.79	-19.9%
				Copper	561.4	600.5	-6.5%
<b>3-mth Money Market Futures</b>				Iron Ore	105.48	97.94	7.7%
NZD Dec-26	96.70	97.15	-0.45	Thermal coal	142.45	115.80	23.0%
AUD Dec-26	95.19	95.68	-0.49	Corn	457.8	448.5	2.1%
USD Dec-26	96.37	96.95	-0.58	Wheat	616.3	591.5	4.2%
EUR Dec-26	97.18	98.03	-0.84	SGX-NZX Dairy WMP	3,680	3,845	-4.3%
GBP Dec-26	95.64	96.80	-1.16	SGX-NZX Milk Price '26	9.82	9.71	1.1%
CAD Dec-26	97.26	97.79	-0.53				
Source: BNZ, Bloomberg							

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