

# Financial Markets Wrap

31 May 2026

## NZD outperforms in May

- US-Iran peace negotiations dominated newsflow during May with the market assuming an imminent resolution that helped support risk appetite; a mid-month global bond market sell-off provided only a brief disruption
- Higher US-global rate spreads supported the USD, but the NZD managed a modest gain, with some late-month support from RBNZ guidance on the likelihood of rate hikes over coming meetings; the NZD was stronger on all the key crosses



Quick Outlook		May Ranges
<b>NZD/USD</b>	Some positive momentum can be sustained as long as an imminent reopening of the Strait of Hormuz remains live and as the RBNZ gets closer to kicking off a tightening cycle. Some lingering uncertainty on both forces but the set up is there for positive traction over 2H26.	0.5815 – 0.5995
<b>NZD/AUD</b>	Good chance the low in the cycle has finally been reached, with the short RBA tightening cycle likely almost over and the RBNZ paving the way for a tightening cycle to kick off in Q3. Low absolute short-end NZ-AU rate spreads remain a drag, but gradual appreciation over the next year is the path of least resistance.	0.8140 – 0.8340
<b>NZD/GBP</b>	We remain constructive based on rising NZ-UK rate spreads as the NZ tightening cycle likely kicks off in Q3 and lingering political risk overhanging the UK. PM Starmer is likely to lose a leadership battle and be replaced with a challenger less predisposed to fiscal austerity.	0.4330 – 0.4455
<b>NZD/EUR</b>	ECB is expected to hike in June, but we still see scope for the cross rate to recover on expectations that NZ's tightening cycle will prove to be relatively more aggressive.	0.5015 – 0.5140
<b>NZD/JPY</b>	The lack of intent by the BoJ to hike rates remains a negative force on the yen. Official Japanese intervention is proving futile. The RBNZ kicking off a major tightening cycle would be positive for the cross rate.	91.7 – 95.4

Risk appetite remained elevated through May as markets anticipated a peace deal in the Middle East. Oil prices plunged and global equities surged to fresh record highs, with momentum only briefly interrupted by a major global bond market sell-off in the middle of the month. While the USD found support as markets shifted from expecting the Fed to ease this year to expecting tighter policy, the NZD outperformed, supported by the RBNZ signalling that the OCR may need to rise at upcoming meetings. The NZD traded within a tight range of less than 2 cents but finished strongly and ended 1.3% higher to around 0.5990.

Throughout the month, sentiment around developments in the Middle East was characterised by hope that the war was in its final stages, with a number of parties supporting negotiations to bring the conflict to an end and facilitate the reopening of the Strait of Hormuz. A US plan early in the month to guide ships through the Strait of Hormuz never got off the ground, after Iran launched strikes against US Navy destroyers, which President Trump dismissed as not violating the ceasefire.

At times, negotiations appeared to stall, with Trump describing Iran’s response to a one-page peace plan as “TOTALLY UNACCEPTABLE” and a “piece of garbage”. However, negotiations improved through the second half of the month, and Trump said he had called off a planned bombardment of Iran at the request of Saudi Arabia and other Gulf allies to give diplomacy a chance.

Towards the end of the month, there was talk that the gap between the two warring sides had narrowed, prompting Trump to declare that a peace agreement had been “largely negotiated”, subject to finalisation. By month-end, a memorandum of understanding, the details of which had yet to be revealed, was said to extend the ceasefire by 60 days. Under the reported terms, the Strait of Hormuz would be demined and reopened within 30 days, the US naval blockade would end, and subsequent negotiations would address Iran’s commitment not to pursue a nuclear weapon and the handover of enriched uranium.

Brent crude futures tracked the shifts in sentiment reflected in news headlines and, after trading as high as USD115 early in the month, had plunged to USD92 by month-end, marking a significant 19% decline over May.

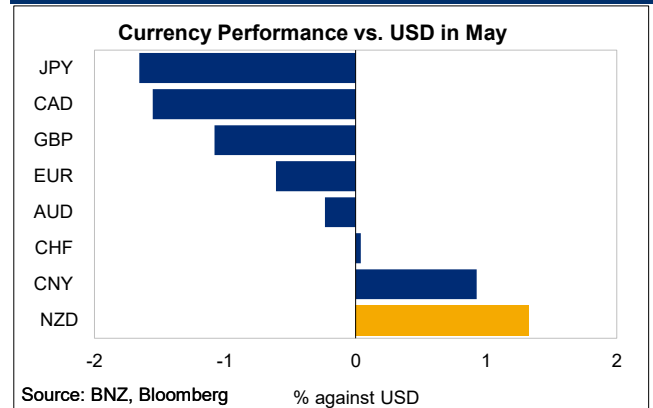
US economic data released during the month painted a picture of rising inflation pressure stemming from earlier war-related energy price surges, set against a backdrop of a still-resilient but softening labour market and fading economic growth momentum. PPI surged 6.0% y/y, with core PPI rising 5.2% y/y, both far above consensus. Headline annual CPI inflation rose to 3.8%, while the core rate increased two-tenths to 2.8%. Non-farm payrolls rose by 115k in April, with the unemployment rate steady at 4.3%. GDP increased at an annualised rate of 1.6% in Q1, and April activity data pointed to a soft start to Q2.

Taken together, the data shifted market pricing decisively towards the possibility of a Fed rate hike by December, a sharp reversal from earlier expectations of cuts. This

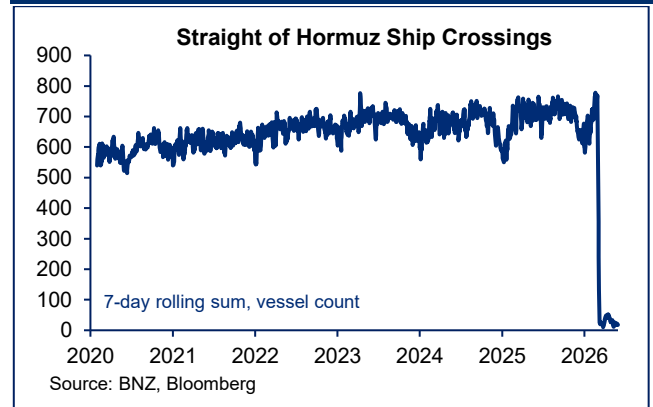
repricing was reinforced by increasingly hawkish comments from FOMC members, including Governor Waller, who had previously been seen as one of the more dovish policymakers. He said the Fed’s next policy statement should “make it clear that a rate cut is not more likely than a rate hike”. Kevin Warsh took over as Fed Chair.

Around the middle of the month, ultra-long global rates traded at multi-decade highs across the UK, Europe, the US and Japan. This reflected a combination of rising inflation expectations and higher term risk premia amid ongoing pressure on fiscal accounts. Market conditions settled later in the month. After trading as high as 5.20%, the US 30-year rate ended the month at 4.97%, up just 1bp. The Treasury curve flattened, with the 2-year rate up 14bps to 4.00% and the 10-year rate up 6bps to 4.44%.

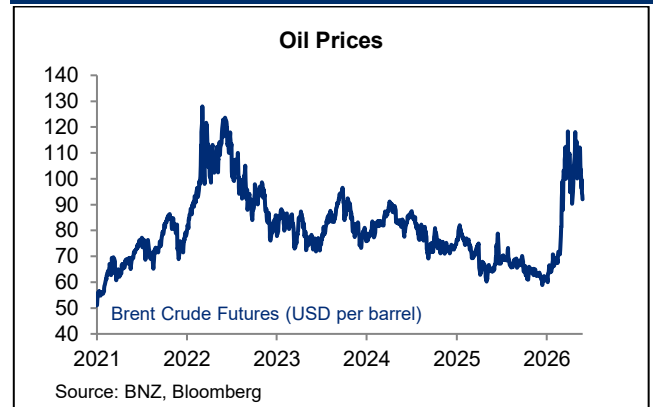
**CNY and NZD outperform in May**



**Strait of Hormuz remained effectively closed**



**Oil prices fall sharply in May**



Turning to NZ, Q1 labour market data were close to expectations, although they largely pre-dated the conflict. The unemployment rate edged down by a tenth to 5.3%. The fourth consecutive strong quarter for real retail sales in Q1 also largely pre-dated the war. The PMI slipped for a fourth successive month in April, to 50.5, remaining in expansion territory, while the Performance of Services Index rose 1.7pts to 48.9 in April, breaking the decline of the past couple of months, albeit still in mildly contractionary territory. The composite index of 48.6 remained consistent with a soft economic backdrop. Monthly CPI data pointed to higher energy-led inflation pressures, although they were softer than expected.

The RBNZ kept the OCR at 2.25%, as universally expected, although the close 3-3 split decision came as a surprise. The external members of the MPC voted for a 25bps hike, while the internal members voted to hold, leaving Governor Breman to cast the deciding vote. However, the difference of opinion reflected only the timing of rate hikes, with the minutes noting that all committee members agreed that increasing the OCR at upcoming meetings would likely be necessary.

Market reaction was contained, reflecting the fact that markets had for some time been anticipating the need for higher rates, with the only real uncertainty being when the RBNZ would ultimately begin the tightening cycle.

The NZ Budget presented a similar set of fiscal projections to those we have become accustomed to, with spending as a percentage of GDP holding steady at its elevated post-COVID run rate and no meaningful progress made in addressing the structural deficit, which continues to sit close to 2½% of GDP. As usual, the forecasts show improvement from T+2, but not over the next fiscal year. On the debt programme, there was no change from the December update to the projected \$34b of NZGB bonds to be issued in 2026/27, and no change to the current FY26 total of \$35b. A positive surprise was that the projected bond programme was reduced by \$2b per annum from T+2, against expectations that the total programme might need to be revised higher.

NZGB and swap rates closed the month down by around 10-20bps across the curve, more closely aligned with the falls seen across Europe and Australia than with the rise in US Treasury yields. By month-end, the OIS market was pricing in a high chance of a 25bps rate hike at the next meeting in July, with three full hikes priced in by year-end.

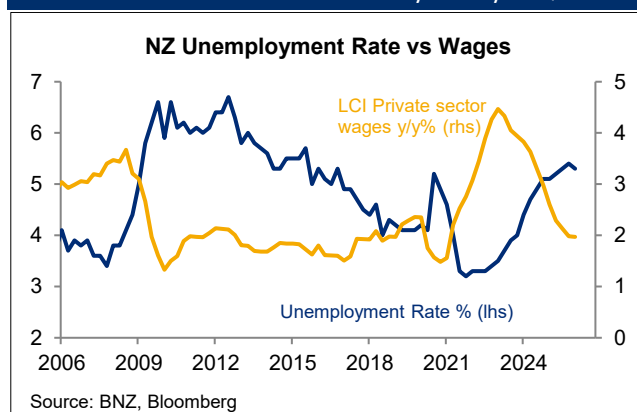
In currency markets, wider US-global rate spreads supported the USD, which made broad gains apart from against the NZD and the Chinese yuan. However, overall market movements were modest, and the USD DXY index rose just under 1.0%.

The NZD traded within a range of less than 2 cents. The low of 0.5815 was reached on the 20th, near the height of the global bond market sell-off. The NZD finished the month strongly and the high of 0.5994 was reached on the

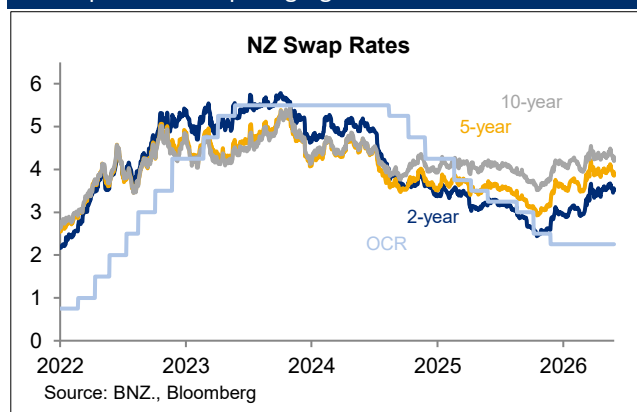
last trading day of the month in the wake of the RBNZ’s hawkish hold and chatter about final decisions around the US-Iran peace plan. The net change over the month was a modest 1.3%, with the NZD ending near 0.5990.

The NZD outperformed all key majors. The only other key currency to strengthen against the USD was the Chinese yuan. USD/CNY fell below 6.80 for the first time in over three years, continuing a trend of yuan appreciation that has persisted throughout the past year. While the PBoC has permitted this appreciation, it continues to closely manage the pace at which the yuan strengthens. The yuan is widely seen as structurally undervalued against the backdrop of its large trade surplus. NZD/CNY traded below 4 at times and closed the month modestly higher at 4.05.

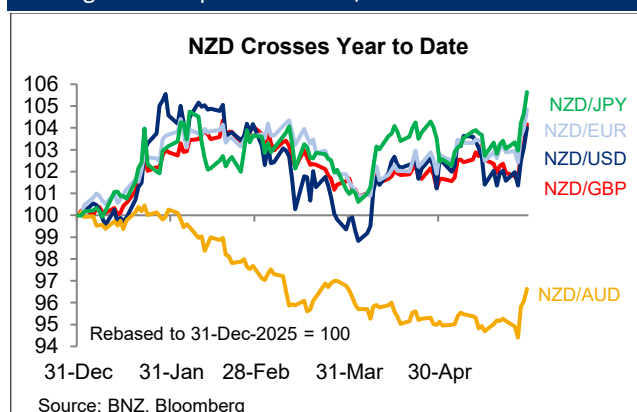
**NZ labour market conditions relatively steady in Q1**



**NZ swap rates anticipating significant lift in OCR**



**NZD higher YTD apart from NZD/AUD cross rate**



China's economic activity data for April were much weaker than expected, with annual retail sales growth barely positive, industrial production growth falling to a three-year low of 4.1% y/y, and fixed asset investment contracting by 1.6% in the first four months of the year compared with the same period a year earlier. The data highlighted that China, like most Asian economies, was suffering from the effects of the Middle East conflict.

NZD/AUD traded to a fresh 13-year low of 0.8138 on the 27th, before sharply reversing following softer-than-expected Australian CPI data for April and the RBNZ signalling imminent rate hikes. Early in the month, the RBA raised its cash rate by 25bps for the third consecutive meeting, taking it to 4.35%, or 210bps above the RBNZ's OCR. While the RBA highlighted upside inflation risks, it also hinted at a possible pause in the tightening cycle pending further developments.

Australian labour market data for April surprised on the downside, with employment falling and the unemployment rate rising two-tenths to 4.5%, helping to pare expectations for further RBA hikes, as did the softer CPI data noted above. NZD/AUD closed the month up 1.6% at 0.8335.

The JPY was the weakest of the major currencies, with the BoJ's ultra easy policy stance continuing to act as a major drag on the yen. Following official currency intervention at the end of April, Japan's Ministry of Finance was active again through May, with suspected intervention and "rate checks" aimed at stemming speculative selling pressure on the yen. At the end of the month, the MoF reported total intervention of 11.73 trillion yen (USD73.6b) between 28 April and 27 May, larger than expected.

Japan's PM Takaichi announced a supplementary Budget package worth just over 3 trillion yen to ease pressure on the economy from higher energy prices. This did little to improve sentiment around Japan's fiscal position, although the government said it would fund the additional Budget without increasing bond issuance. NZD/JPY rose 3% to 95.4.

NZD/EUR gained nearly 2% to 0.5135. A number of ECB Governing Council members pointed to the likely need for the central bank to hike at its early June meeting. ECB President Lagarde was less definitive, saying the current situation was highly uncertain and that she wanted to see the full picture before deciding whether action was needed. By month-end, the market was pricing 22bps of hikes for the June meeting and just over two full hikes for the year.

NZD/GBP rose 2.4% to 0.4450. In the UK, a higher political risk premium followed Labour's bloodbath in the local and regional elections. Pressure mounted on PM Starmer to resign, but he vowed to contest any leadership challenge. Potential replacements were all from the left of the party, with the market seeing increased risk of a shift away from fiscal restraint. He is unlikely to survive a leadership challenge that may emerge within the next few months.

UK inflation and labour market data were softer than expected, helping to pare BoE rate hike expectations. UK GDP grew 0.6% q/q in Q1, as expected, marking a strong start to the year. However, there are suspected issues with seasonal adjustment that may overstate growth at the beginning of the year, only for the figures to weaken over the remainder of the year.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

Monthly Performance Table							
	end-May	end-Apr	Change		end-May	end-Apr	Change
<b>Currencies</b>				<b>NZ Rates</b>			
NZD/USD	0.5988	0.5910	1.3%	OCR	2.25	2.25	0.00
NZD/AUD	0.8335	0.8206	1.6%	NZ 90day BB	2.62	2.63	-0.01
NZD/EUR	0.5135	0.5037	1.9%	NZ 2yr sw ap	3.51	3.61	-0.09
NZD/GBP	0.4450	0.4344	2.4%	NZ 5yr sw ap	3.86	4.02	-0.17
NZD/JPY	95.36	92.56	3.0%	NZ 10yr sw ap	4.20	4.38	-0.18
NZD/CNY	4.050	4.033	0.4%				
TWI	67.8	66.8	1.5%	NZ Govt (5/28)	3.52	3.68	-0.17
AUD/USD	0.7185	0.7202	-0.2%	NZ Govt (5/31)	4.05	4.24	-0.19
EUR/USD	1.1660	1.1732	-0.6%	NZ Govt (5/36)	4.52	4.73	-0.21
GBP/USD	1.3456	1.3603	-1.1%	NZ Govt (5/41)	4.89	5.05	-0.16
USD/JPY	159.27	156.63	1.7%				
USD/CNY	6.77	6.83	-0.9%	<b>Global 10 year bond rates</b>			
USD/CAD	1.3796	1.3582	1.6%	US	4.44	4.37	0.07
USD DXY	98.94	98.06	0.9%	Canada	3.41	3.54	-0.13
Asia dollar index	92.34	92.17	0.2%	UK	4.81	5.01	-0.20
				France	3.55	3.69	-0.14
<b>Equity Markets</b>				Germany	2.94	3.04	-0.10
MSCI AC Wrlld, loc.	3,228	3,063	5.4%	Italy	3.65	3.86	-0.21
MSCI World, loc.	18,103	17,274	4.8%	Spain	3.35	3.50	-0.14
MSCI EM, USD	4,820	4,394	9.7%	Portugal	3.30	3.44	-0.14
US S&P 500	7,580	7,209	5.1%	Ireland	3.10	3.27	-0.16
Euro STOXX 600	626.0	611.3	2.4%	Japan	2.66	2.52	0.14
Germany DAX	25,105	24,292	3.3%	Australia	4.83	5.06	-0.23
France CAC 40	8,183	8,115	0.8%				
UK FTSE 100	10,409	10,379	0.3%	<b>Commodities (USD)</b>			
Aust S&P/ASX 200	8,732	8,666	0.8%	WTI Crude	87.36	105.07	-16.9%
Japan Topix	3,957	3,727	6.2%	Brent Crude	92.05	114.01	-19.3%
China CSI 300	4,892	4,807	1.8%	R/B CRB Index	380.5	395.1	-3.7%
NZX50	13,245	12,903	2.6%	Gold spot	4,540	4,618	-1.7%
Volatility: VIX	15.32	16.89	-9.3%	Silver spot	75.30	73.75	2.1%
				Copper	638.9	592.6	7.8%
<b>3-mth Money Market Futures</b>				Iron Ore	105.37	107.02	-1.5%
NZD Dec-26	96.62	96.46	0.16	Thermal coal	131.25	134.00	-2.1%
AUD Dec-26	95.36	95.09	0.27	Corn	446.8	474.8	-5.9%
USD Dec-26	96.17	96.31	-0.14	Wheat	610.5	636.8	-4.1%
EUR Dec-26	97.39	97.18	0.21	SGX-NZX Dairy WMP	3,675	3,820	-3.8%
GBP Dec-26	95.92	95.59	0.33	SGX-NZX Milk Price '26	9.84	9.83	0.1%
CAD Dec-26	97.43	97.16	0.27				
Source: BNZ, Bloomberg							

# Contact Details

## BNZ Research

**Stephen Toplis**  
Head of Research

**Doug Steel**  
Senior Economist

**Jason Wong**  
Senior Markets Strategist

**Stuart Ritson**  
Senior Interest Rate Strategist

**Matt Brunt**  
Economist

**Mike Jones**  
BNZ Chief Economist

## Main Offices

### Wellington

Level 2, BNZ Place  
1 Whitmore Street  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

### Auckland

80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283 269

### Christchurch

111 Cashel Street  
Christchurch 8011  
New Zealand  
Toll Free: 0800 854 854

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