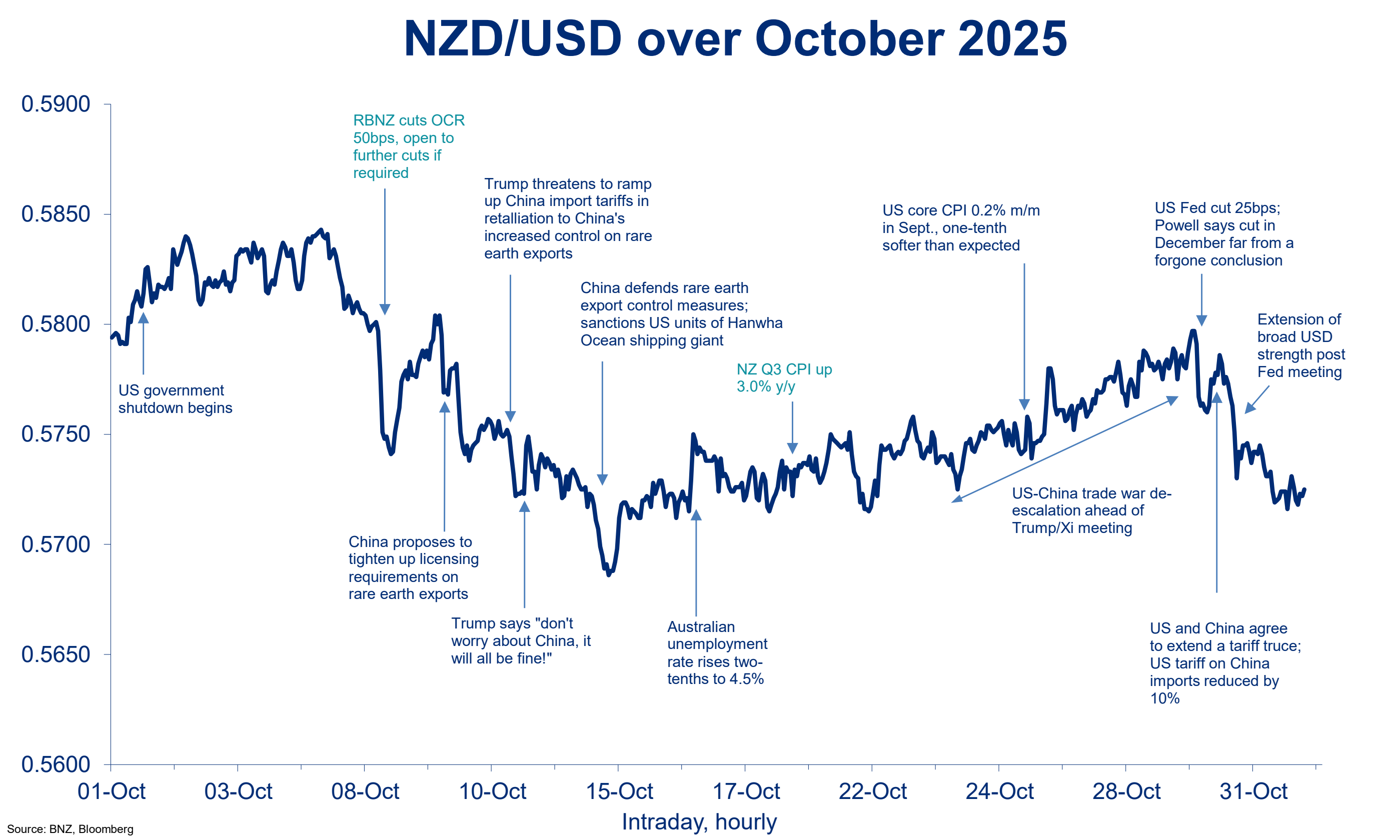
Financial Markets Wrap

1 November 2025

Mixed NZD performance in October

- **A dovish 50bp cut by the RBNZ caused only temporary NZD weakness in October**
- **The USD was broadly stronger, and NZD/USD fell just over 1%; the NZD recovered from a mid-month malaise and ended mixed on the key crosses**
- **JPY underperformed on political uncertainty and the BoJ remaining on the sidelines; NZD/JPY rose 3%**



Source: BNZ, Bloomberg

	Quick Outlook	October Ranges
NZD/USD	Seasonal factors are positive for the NZD over November/December, and this could ease the path for a modest recovery into year end. However, the Fed could be a swing factor, after Powell's warning that a December easing is far from a forgone conclusion.	0.5685 – 0.5845
NZD/AUD	Relative RBNZ/RBA policy settings and expectations are a major headwind. We wouldn't rule out the 2022 low just above 0.87 being tested before some support sets in.	0.8740 – 0.8865
NZD/GBP	NZ-UK negative rate differentials have been a major headwind, but the tide is turning, with much more scope for BoE than RBNZ easing from here. We see some stabilisation around 0.44.	0.4250 – 0.4385
NZD/EUR	With the cross rate near a 15-year low we find it hard to be bearish. Our central view is a new trading range around current depressed levels, with ECB policy on hold and the RBNZ easing cycle almost complete.	0.4885 – 0.5000
NZD/JPY	The BoJ is reluctant to tighten policy, a persistent drag on the yen. Recent political uncertainty has given the BoJ more cover to hold policy steady. Even if the BoJ does deliver a hike in December or January, it won't be a game changer. Only mild downside NZD/JPY bias from here.	85.3 – 88.8

US-China trade tensions dominated headlines in October, although the impact on markets was mild as investors anticipated a clear path to negotiation. Ultimately, the standoff ended with an extension of the trade war détente. The US government shutdown led to a lack of official data, while global equity markets reached new record highs, buoyed by accommodative policy and the ongoing AI boom. The US dollar strengthened broadly, causing NZD/USD to fall just over 1%. The NZD was mixed on the major crosses, even after the RBNZ delivered a dovish 50 basis point cut, as it recovered from multi-year lows.

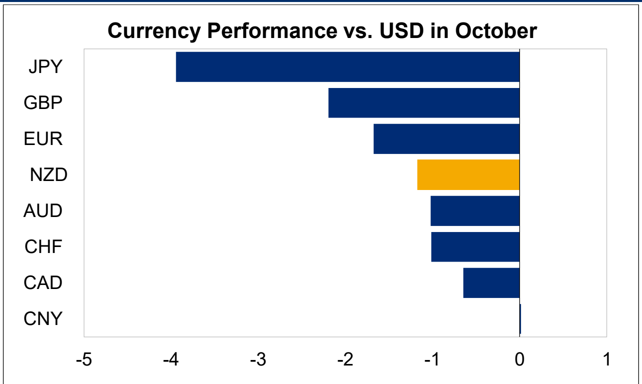
The US-China trade war intensified before easing later in the month. The escalation began when China extended its licensing requirements for rare earth exports, tightening market control by including more elements, magnets, processing equipment, and downstream products. In response, President Trump threatened to impose an additional 100% tariff on Chinese imports starting 1 November and considered export controls on critical software. The market reaction was muted, as the extended timeframe allowed room for negotiation. After a single-day slump in US equities, with the S&P 500 falling 2.7%, Trump posted on social media, “Don’t worry about China, it will all be fine!...the U.S.A. wants to help China, not hurt it!!!”

Ultimately, US-China trade negotiations produced a positive outcome, resulting in a one-year truce. Following a meeting between Presidents Trump and Xi, Trump agreed to reduce China’s import tariffs by 10% (half of the additional 20% rate linked to fentanyl trade) and withdrew the threat of an additional 100% tariff after China agreed to pause its new export controls on rare earth minerals for a year. China also committed to purchasing US soybeans and other agricultural products. A broader US-China trade deal was expected to be signed “pretty soon,” with both leaders agreeing to meet again in April.

The US government shutdown commenced on 1 October after Republicans and Democrats failed to reach an agreement to fund the federal government for the new fiscal year. By the end of the month, the shutdown remained in place, with no end in sight. A significant number of federal workers were furloughed, and thousands lost their jobs permanently. The shutdown delayed the release of official data; however, September’s CPI figures were published, given their importance in contracts, revealing core CPI inflation of 0.2% m/m and 3.0% y/y, both one-tenth softer than expected. The lack of data contributed to reduced market volatility, though private sector releases continued to provide a mix of upward and downward surprises.

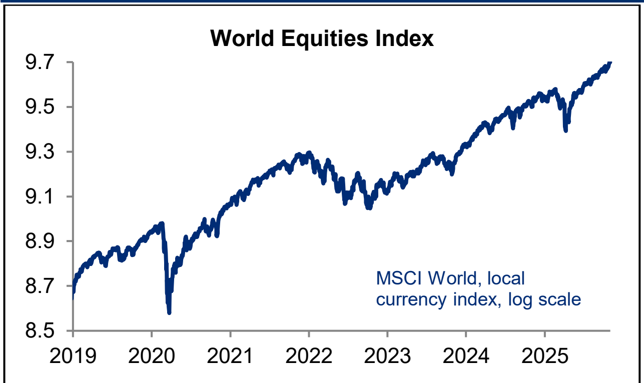
The US Federal Reserve cut rates by 25 basis points for the second consecutive meeting, bringing the Fed Funds target range to 3.75–4.0%. There were two dissenting votes at opposite ends of the spectrum: Governor Miran advocated for a larger 50 basis point cut, while Kansas City Fed President Schmid voted for no change. The Fed also announced that it would stop shrinking its portfolio of assets (ending quantitative tightening) beginning 1 December. At the press conference, Chair Powell acknowledged the challenge for policy as downside risks to employment had increased, while short-term inflation risks remained to the upside. Overall, he struck a hawkish tone, emphasising that “a further reduction in the policy rate at the December meeting is not a foregone conclusion, far from it.”

USD broadly stronger in October; JPY, GBP underperform



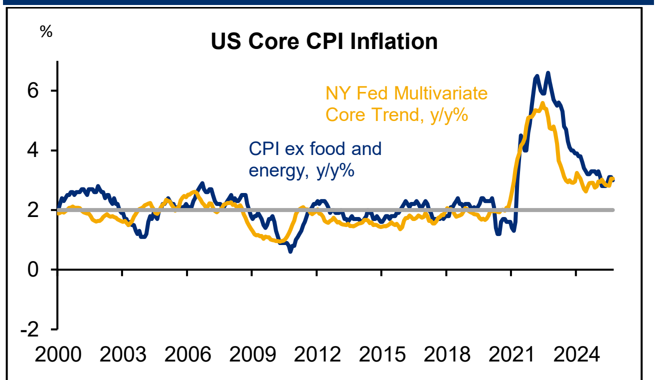
Source: BNZ, Bloomberg

World equities power on up to fresh record highs



Source: BNZ, Bloomberg

US annual core CPI inflation settling around 3%



Source: BNZ, Bloomberg

The market absorbed Powell’s comments about the December meeting, ultimately pricing in “only” 17bps of cuts by the end of the month, compared to earlier expectations of another rate cut as a near certainty. The US 10-year Treasury yield ended the month down 7bps at 4.08%, after dipping as low as 3.93% during a period of heightened risk aversion. This volatility coincided with concerns over a couple of regional US banks that had disclosed issues with loans involving alleged fraud. This news followed the recent collapse of subprime auto lender Tricolour and auto parts supplier First Brands. However, investors concluded that these were isolated incidents and not indicative of broader systemic risk.

The RBNZ's policy update was more dovish than anticipated, delivering a 50bps cut to the OCR to 2.5% and providing forward guidance that "the Committee remains open to further reductions in the OCR as required." The larger rate cut was attributed to risk management considerations rather than a reaction to new data. Notably, the RBNZ downplayed the 0.9% contraction in Q2 GDP, stating that the Committee had only marginally revised its assessment of current spare capacity in light of new GDP and activity data. The justification for the 50bps cut rested on the risk of prolonged spare capacity in the economy and associated downside risks to medium-term inflation and activity.

New Zealand's Q3 CPI data showed headline inflation rising to 1.0% q/q and 3.0% y/y, close to market expectations. For the quarter, the seasonally adjusted figure increased by 0.7% q/q, matching the rise in Q2 and suggesting annualised inflation remains near the top end of the target range. Key core inflation measures stayed firmly in the upper half of the target band.

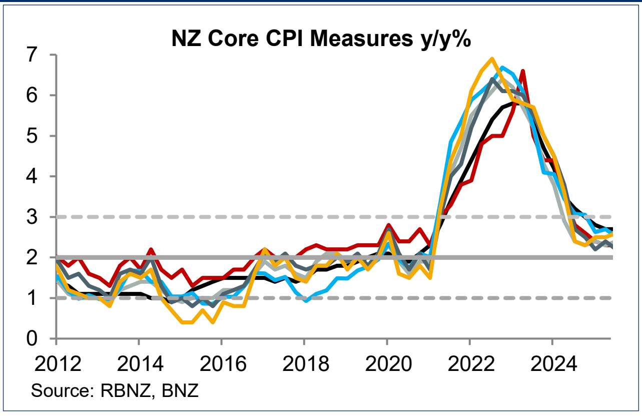
NZ activity data released during the month indicated sluggish growth. Both the PMI and PSI recorded higher Q3 averages compared to Q2 but still signalled that economic growth was struggling to gather momentum.

Following the RBNZ's dovish policy announcement, NZ rates dropped to new cycle lows across the curve. At one stage, the OIS market was pricing the OCR as low as 2.08%, implying a greater likelihood of a terminal rate of 2% rather than 2.25%, before pricing reversed and by month end was at 2.16%. The 2-year swap rate fell to 2.44% at its lowest, ultimately ending the month down 7bps at 2.56%. The 5-year and 10-year swap rates closed the month slightly lower but remained well above their multi-year lows recorded in mid-October.

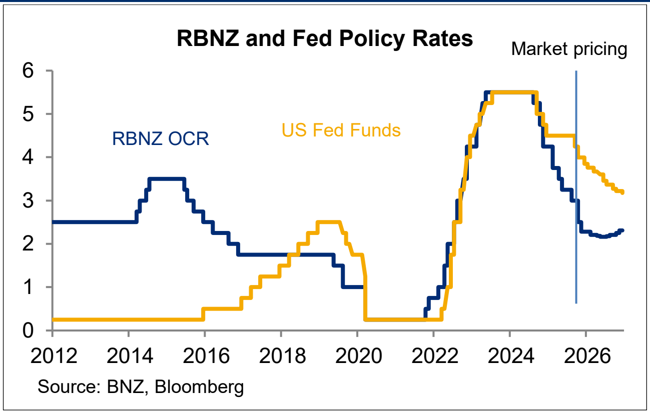
In currency markets, the USD strengthened broadly, with the DXY index rebounding to a three-month high. Currency volatility remained subdued, and NZD/USD traded within a band of less than two cents. The NZD hit a fresh five-month low of 0.5683 on the 14th after US-China trade tensions escalated, with China defending its extended rare earth export controls and sanctioning the US units of Hanwha Ocean shipping giant. The month's high of 0.5845 occurred on the 7th, prior to the RBNZ's dovish rate cut and the flare-up in US-China trade tensions. NZD/USD finished the month at 0.5725, down 1.2%.

The JPY and GBP were the two weakest major currencies. NZD/JPY climbed 3% to 88.2. The yen notably weakened after the surprise selection of Takaichi as the new LDP leader—a known advocate of both monetary and fiscal policy stimulus. Takaichi secured the position of Japan's Prime Minister through a parliamentary vote, supported by a coalition with Ishin and six other opposition lawmakers. Although she has since softened her stance on easy monetary policy, the market remained cautious given her established reputation on the issue. Near the end of the month, the BoJ left its policy unchanged, as expected, seemingly unconcerned by inflation remaining above 2%, though two hawkish members once again voted for a rate hike.

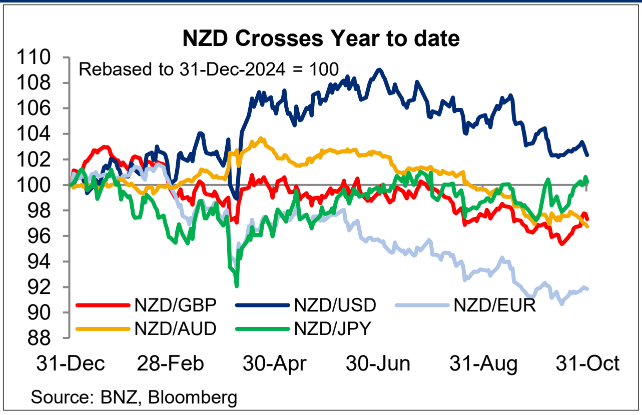
NZ annual core CPI measures settling in top half of range



RBNZ easing cycle seen nearly over; Fed has more to do



NZD higher vs. USD, JPY this year; other crosses weaker



In the UK, labour market and CPI inflation data were favourable for further easing. Private sector wage inflation moderated to a three-and-a-half-year low, while the unemployment rate rose to a four-year high of 4.8%. Although CPI inflation remained elevated, both the annual headline and core measure were two-tenths below market expectations, at 3.8% and 3.5% respectively. This prompted markets to increase the likelihood of the BoE easing again this year, resulting in lower UK rates relative to peers. The narrowing of NZ-UK rate spreads contributed to a 1% rise in NZD/GBP for the month, closing 0.4355 after rebounding from a ten-year low just above 0.4250.

NZD/AUD saw some volatility throughout the month, reflecting the RBNZ's dovish pivot and variable Australian economic data. On one hand, Australia's unemployment rate unexpectedly climbed to a four-year high of 4.5%; on the other, Q3 CPI inflation was much higher than anticipated, with the quarterly trimmed mean up 3.0% y/y and indicating increased domestic inflation pressures. By month-end, markets had priced in little chance of further RBA easing this year and reduced expectations for easier policy early next year. NZD/AUD dropped to a three-year low of 0.8737 before finding support and finishing the month down slightly at 0.8750—a solid performance considering NZ-Australian rate spreads falling deeper into negative territory.

The ECB kept policy unchanged for a third consecutive meeting, with President Lagarde reiterating that policy was "in a good place" as inflation stabilised close to 2%. During the month, attention turned to French political instability following the unexpected resignation of PM Lecornu after less than a month in office. Political stability was eventually restored when he returned to the role, having been granted more flexibility by President Macron to negotiate the budget. NZD/EUR increased by 0.5% to 0.4960, recovering from a 15-year low of 0.4882.

The end of the Ukraine-Russia war remained distant, and the US imposed sanctions on Russia's largest oil producers. This action drove oil prices higher after they had dropped to a five-month low. Brent crude ended the month down "only" 3% at USD65, after having traded as low as USD60.

The Chinese yuan was the only major currency we track that held its ground against the USD for the month. USD/CNY fell to its lowest level this year at 7.096 before ending the month around 7.12. The PBoC was active in the market, attempting to prevent yuan strength, with USD/CNY trading near the lower edge of the band for most of the month.

China's GDP exceeded expectations, growing by 1.1% quarter-on-quarter and 4.8% year-on-year in Q3. The data revealed a lopsided economy, with China becoming increasingly reliant on exports to offset weak domestic demand. Monthly activity indicators for September showed stronger industrial production, supported by the export uptick, but continued weakness in retail sales and surprisingly weak investment, due to the property market. NZD/CNY declined by over 1% during the month to 4.08.

Finally, the gold market was highly active, with strong momentum driving the spot price to a record high of USD4,381 per ounce. This year's rapid rise in gold prices reflected increased speculative inflows into ETFs and central bank buying, including strong demand from China. Expectations of easier US monetary policy, inflation concerns, geopolitical risks, and currency debasement from monetary and fiscal policy all contributed to the rally. Toward the end of the month, gold's parabolic ascent ended, with the spot price closing near USD4,000.

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Monthly Performance Table

Currencies	end-Oct	end-Sept	Change
NZD/USD	0.5726	0.5794	-1.2%
NZD/AUD	0.8747	0.8761	-0.2%
NZD/EUR	0.4963	0.4937	0.5%
NZD/GBP	0.4355	0.4310	1.0%
NZD/JPY	88.19	85.70	2.9%
NZD/CNY	4.076	4.131	-1.3%
TWI	66.5	66.7	-0.4%
AUD/USD	0.6546	0.6613	-1.0%
EUR/USD	1.1537	1.1734	-1.7%
GBP/USD	1.3148	1.3443	-2.2%
USD/JPY	154.02	147.95	4.1%
USD/CNY	7.12	7.12	0.0%
USD/CAD	1.4012	1.3921	0.7%
USD DXY	99.80	97.78	2.1%
Asia dollar index	91.60	91.95	-0.4%
Equity Markets			
MSCI AC Wrld, loc.	2,846	2,768	2.8%
MSCI World, loc.	16,222	15,812	2.6%
MSCI EM, USD	3,812	3,659	4.2%
US S&P 500	6,840	6,688	2.3%
Euro STOXX 600	571.9	558.2	2.5%
Germany DAX	23,958	23,881	0.3%
France CAC 40	8,121	7,896	2.9%
UK FTSE 100	9,717	9,350	3.9%
Aust S&P/ASX 200	8,882	8,849	0.4%
Japan Topix	3,332	3,138	6.2%
China CSI 300	4,641	4,641	0.0%
NZX50	13,548	13,292	1.9%
Volatility: VIX	17.44	16.28	7.1%
3-mth Money Market Futures			
NZD Mar-26	97.62	97.57	0.05
AUD Mar-26	96.50	96.59	-0.09
USD Mar-26	96.41	96.51	-0.10
EUR Mar-26	98.02	98.01	0.00
GBP Mar-26	96.46	96.25	0.20
CAD Mar-26	97.85	97.77	0.08

NZ Rates	end-Oct	end-Sept	Change
OCR	2.50	3.00	-0.50
NZ 90day BB	2.52	2.79	-0.27
NZ 2yr swap	2.56	2.63	-0.07
NZ 5yr swap	3.07	3.11	-0.04
NZ 10yr swap	3.66	3.70	-0.03
NZ Govt (4/27)	2.59	2.71	-0.12
NZ Govt (5/30)	3.25	3.36	-0.10
NZ Govt (5/35)	4.06	4.19	-0.14
NZ Govt (5/41)	4.63	4.76	-0.12
Global 10 year bond rates			
US	4.08	4.15	-0.07
Canada	3.12	3.18	-0.06
UK	4.41	4.70	-0.29
France	3.42	3.53	-0.11
Germany	2.63	2.71	-0.08
Italy	3.38	3.53	-0.15
Spain	3.14	3.26	-0.12
Portugal	2.99	3.11	-0.12
Ireland	2.86	2.95	-0.09
Japan	1.66	1.64	0.02
Australia	4.30	4.30	0.00
Commodities (USD)			
WTI Crude	60.98	62.37	-2.2%
Brent Crude	65.07	67.02	-2.9%
R/B CRB Index	302.5	300.6	0.6%
Gold spot	4,003	3,859	3.7%
Silver spot	48.69	46.65	4.4%
Copper	508.9	485.7	4.8%
Iron Ore	106.14	103.45	2.6%
Thermal coal	104.15	106.20	-1.9%
Corn	431.5	415.5	3.9%
Wheat	534.0	508.0	5.1%
SGX-NZX Dairy WMP	3,445	3,625	-5.0%
SGX-NZX Milk Price '26	9.75	9.90	-1.5%

Source: BNZ, Bloomberg

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