

Financial Markets Wrap

1 October 2025

Roasted Kiwi

- For a second consecutive month, the NZD was a clear underperformer, struggling after a poor Q2 GDP outturn
- By month-end, the market had priced in the OCR falling just below 2.25%, implying at least another 75bps of cuts
- NZD/USD fell 1.7%, with the NZD showing even larger falls on NZD/AUD and NZD/EUR crosses, to multi-year lows

NZD/USD over September 2025



Quick Outlook		September Ranges
NZD/USD	Downward trend over Q3 looks ominous but we see limited further downside risk at the current level. However, a turnaround will require further Fed easing, and a switch in the dataflow, with more positive NZ data and US data weakening.	0.5755 – 0.6005
NZD/AUD	Relative RBNZ/RBA policy settings and expectations are a major headwind. We might see the 2022 low just above 0.87 be tested before some support sets in.	0.8760 – 0.9030
NZD/GBP	NZ-UK negative rate differentials are a major headwind, limiting scope for near-term recovery, but downside limited to the extent that the cross is probing a decade-low.	0.4300 – 0.4405
NZD/EUR	While the euro is a key beneficiary of any asset allocation out of US assets, with the cross rate at a 15-year low we find it hard to be overly bearish. The cross rate could extend down a little further, but our central view is a new trading range around current depressed level.	0.4925 – 0.5095
NZD/JPY	Clear path ahead for lower NZ-JP rate differentials, which should pave the way for a weaker cross-rate in time. Given recent rhetoric from board members, the next BoJ rate hike could be as soon as late-October, despite lingering political uncertainty	85.7 – 88.1

In September, global equity markets continued their record-breaking run, supported by the Fed restarting an easing cycle. For another month, elevated risk appetite did nothing to support the NZD, and it was at the bottom of the leaderboard for a second consecutive month. A surprisingly weak Q2 GDP print drove an unusually significant market reaction, with the market pricing in a more protracted RBNZ easing cycle and a broadly weaker NZD.

It was a month of two halves for US economic data. Early in the month, there was a series of weak labour market reports. US nonfarm payrolls increased by just 22k in August and the usual two-month revisions showed payrolls fell 13k in June, the first negative month since COVID. A series of various soft labour market reports followed, delivering a consistent message that the US labour market was easing. The annual benchmarking exercise resulted in a 911k downward revision to payrolls for the year ending March, towards the larger end of market expectations.

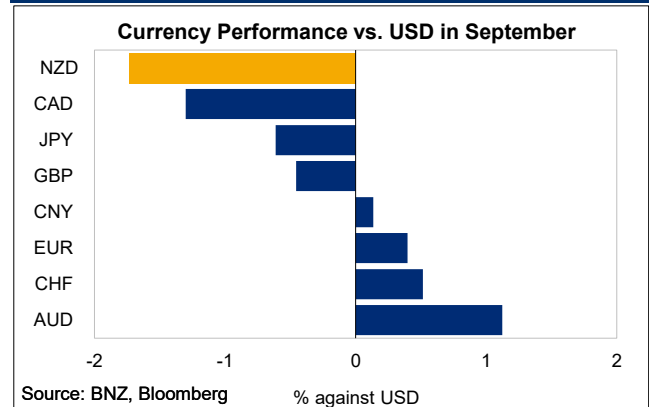
That set the scene for the US Fed to restart its easing cycle, cutting the Fed Funds rate for the first time this year by 25bps, bringing the top end of the target range to 4.25%. US inflation data didn't get in the way of a rate cut, with PPI data coming in well below expectations and annual core CPI inflation holding steady at 3.1%.

Just ahead of the meeting, the Senate voted 48-47 confirming Stephen Miran's appointment to the Fed Board of Governors. He refused to resign his position from the White House, raising a question mark over his independence. That was clearly visible at the meeting as he was the only dissenter, voting for a larger 50bps rate cut. The projections revealed wide-ranging views among committee members regarding the need for further rate cuts. Chair Powell emphasised that downside risks to the labour market were central to the decision to cut rates and noted the FOMC will adopt a meeting-by-meeting approach.

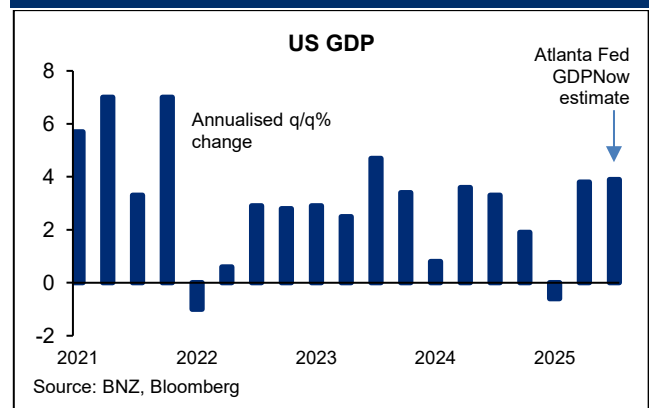
Later in the month, US data were convincingly stronger than expected. Citigroup's US economic surprise index rose sharply, bouncing back towards its early September high, which was the highest level this year. US Q2 GDP was revised up to an annualised 3.8%, driven by an upward revision to consumer spending. Stronger durable goods orders, trade and personal spending data contributed to the Atlanta Fed's GDPNow estimate for Q3 rising to 3.9%, suggesting a second consecutive strong quarter for growth. Initial jobless claims fell back to levels indicating no obvious concern about the health of the labour market. The clear message was that the US economy continued to grow at a respectable pace, despite prevailing heightened policy uncertainty.

Despite the stronger data, by month-end the market was still pricing in a high chance of two further Fed rate cuts over the remaining two meetings of the year, with 44bps priced. The US 10-year Treasury yield traded a range of 3.99%-4.30% and ended the month down 8bps at 4.15%.

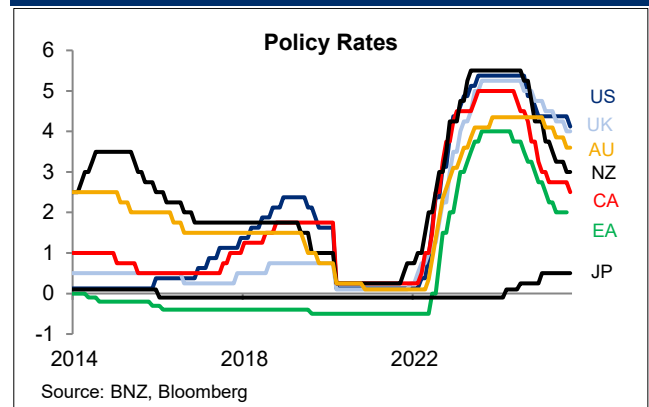
NZD underperforms in September



US GDP running at a robust clip



US Fed restarts easing cycle



In domestic economic news, NZ's merchandise terms of trade rose by 4.1% in Q2, reaching a fresh record high. During the quarter, commodity export prices were flirting with multi-year highs, and this was reflected in dairy farmers set to receive a record nominal milk payout of \$10.16 for the season, with next season's projected payout by Fonterra around a still historically high \$10.00. NZ's current account deficit for the year ending June narrowed to a four-year low of 3.7% of GDP, driven by a strong positive turnaround in NZ's trade balance. Monthly trade data showed merchandise exports up 12.6% in the year to August compared to a lift of only 2.9% for imports.

The market has paid scant regard to NZ's improving external accounts of late but reacted unusually strongly

to historical GDP data. GDP contracted 0.9% in Q2, larger than the consensus pick of 0.3%. Previous data from the relevant quarter, including steep drops in the PMI and PSI for May, had already painted a bleak picture. As such, the incremental value of the GDP report was questionable, especially given recent volatility caused by instability in seasonal factors. Furthermore, the report followed an unusually large 0.9% expansion for Q1 (revised up by one-tenth in the release). Also of note, while real GDP fell 0.6% y/y in Q2, real gross national disposable income rose 2.2% y/y, reflecting an enormous surge of revenue flowing into the export sector.

Timelier data suggest a decent rebound in GDP in Q3, with high frequency indicators like electronic card transactions, meat and milk production, vehicle registrations, merchandise trade, and job ads all showing improvement. Supporting this view, the RBNZ's Kiwi-GDP Nowcast was running at 0.7% q/q by month-end.

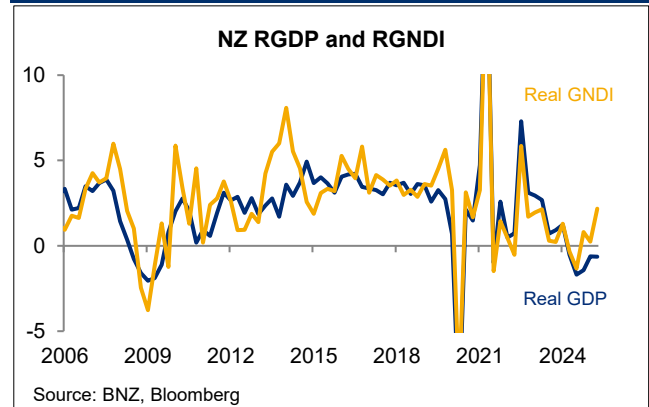
The weak GDP release resulted in the market driving down NZ rates, believing that the RBNZ's easing cycle would be more protracted. At month-end, the market was pricing in full rate cut for the October OCR review and a 30% chance of a larger 50bps cut and three full rate cuts over the rest of the cycle, that would take the OCR down to 2.25%. NZ's 2-year swap rate closed the month down 24bps to 2.63% and the 10-year rate fell 18bps to 3.70%. There was no market reaction to the appointment of Riksbank's First Deputy Governor Dr Anna Breman being appointed as the new RBNZ Governor starting 1 December.

Lower NZ-global rate spreads took their toll on the NZD. In the immediate aftermath of the Fed's rate cut, the NZD spiked up to a high for the month of 0.6007 on 18-September. The low for the month of 0.5754 was reached on 26-September, following a poor week of indigestion post the NZ Q2 GDP release and a string of positive US economic releases. The net change for the month for NZD/USD was a fall of 1.7% to 0.5795.

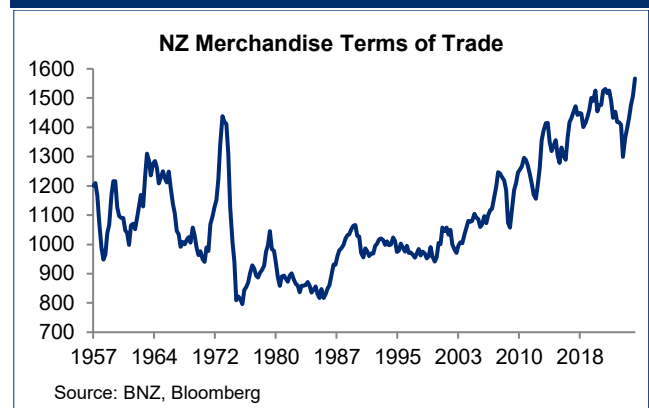
The performance of the USD itself was mixed, leading to the DXY USD index ending the month flat. EUR, AUD and CHF were all stronger, while JPY, CAD and GBP were weaker. Not in doubt was the underperformance of the NZD, leading it to weaken on all the key crosses.

NZD/AUD fell 2.8% to 0.8760, trading at a three-year low. Exacerbating the move lower, Australian economic data were robust. Australian GDP rose 0.6% q/q in Q2 underpinned by firmer consumer spending. The unemployment rate remained relatively low at 4.2% and monthly CPI data were stronger than expected, at 3.0% y/y in August. Of note, the details on housing and services inflation weren't market-friendly and these represented an upside risk to the inflation outlook, with underlying inflation tracking higher than RBA forecasts. The market lost confidence in the prospect of another rate cut this year. The RBA left its cash rate at 3.6%, as expected, and its commentary tilted more hawkish compared to its August statement.

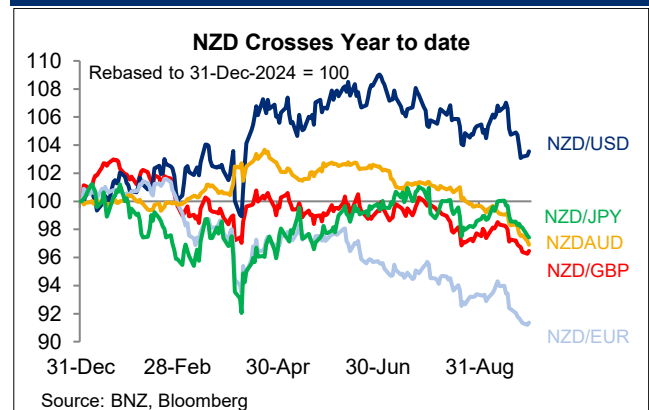
NZ economy not as soft as GDP implies



NZ's terms of trade rockets to a record high



NZD/USD higher this year but crosses all weaker



The Chinese yuan traded at its strongest level for 2025, with USD/CNY trading as low as 7.10. NZD/CNY fell 1.8% for the month. China activity data for August were weaker than expected, with sluggish growth in retail sales, weaker growth in industrial production and investment growth barely positive for the year. Market reaction was contained to the extent that the weak growth backdrop could only encourage further incremental stimulus measures by the government to support the economy.

JPY was on the softer side of the ledger and NZD/JPY fell just over 1% to 85.7. Political uncertainty in Japan lingered, after PM Ishiba stood down as leader, in the face of mounting pressure after the LDP party lost its majority at the July Upper House elections. The BoJ left its policy

target rate unchanged at 0.5% as expected. However, two of the nine members dissented in favour of a 25bp hike, increasing the chance of a hike in October.

The euro continued to benefit from asset allocation flows away from the US and expectations that the ECB easing cycle was effectively over. The ECB left its policy rates unchanged for a second consecutive meeting. ECB President Lagarde said risks to economic growth have become more balanced and the outlook for inflation remains more uncertain than usual. Both the statement and her comments conveyed a neutral policy bias. The usual post-meeting sourced report from Bloomberg said that ECB policymakers are convinced that no further

interest rate cuts are needed to deliver 2% inflation, despite the projected CPI undershoot over the next two years. NZD/EUR fell over 2% to 0.4940, trading at its lowest level in 15-years in the process.

NZD/GBP fell 1.3% to 0.4310, just above the lows reached in early April. The BoE kept policy unchanged, in a 7-2 vote, with the two perennial doves on the committee preferring a 25bps rate cut. Policy guidance was unchanged, with the statement noting “a gradual and careful approach to the further withdrawal of monetary policy restraint remains appropriate”.

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Monthly Performance Table

	end-Sept	end-Aug	Change		end-Sept	end-Aug	Change
Currencies				NZ Rates			
NZD/USD	0.5798	0.5896	-1.7%	OCR	3.00	3.00	0.00
NZD/AUD	0.8763	0.9016	-2.8%	NZ 90day BB	2.80	3.01	-0.21
NZD/EUR	0.4938	0.5045	-2.1%	NZ 2yr sw ap	2.63	2.87	-0.24
NZD/GBP	0.4311	0.4366	-1.3%	NZ 5yr sw ap	3.11	3.31	-0.20
NZD/JPY	85.71	86.70	-1.1%	NZ 10yr sw ap	3.70	3.88	-0.18
NZD/CNY	4.131	4.207	-1.8%				
TWI	66.8	68.0	-1.7%	NZ Govt (4/27)	2.71	2.97	-0.26
AUD/USD	0.6616	0.6540	1.2%	NZ Govt (5/30)	3.36	3.59	-0.23
EUR/USD	1.1739	1.1687	0.4%	NZ Govt (5/35)	4.19	4.35	-0.16
GBP/USD	1.3449	1.3505	-0.4%	NZ Govt (5/41)	4.76	4.91	-0.15
USD/JPY	147.85	147.04	0.6%				
USD/CNY	7.12	7.13	-0.1%	Global 10 year bond rates			
USD/CAD	1.3918	1.3740	1.3%	US	4.15	4.23	-0.08
USD DXY	97.79	97.77	0.0%	Canada	3.18	3.37	-0.19
Asia dollar index	91.95	92.15	-0.2%	UK	4.70	4.72	-0.02
				France	3.53	3.51	0.02
Equity Markets				Germany	2.71	2.72	-0.01
MSCI AC Wld, loc.	2,758	2,670	3.3%	Italy	3.53	3.59	-0.05
MSCI World, loc.	15,757	15,312	2.9%	Spain	3.26	3.33	-0.07
MSCI EM, USD	3,641	3,413	6.7%	Portugal	3.11	3.18	-0.06
US S&P 500	6,679	6,460	3.4%	Ireland	2.95	2.96	-0.01
Euro STOXX 600	558.2	550.1	1.5%	Japan	1.64	1.60	0.05
Germany DAX	23,881	23,902	-0.1%	Australia	4.32	4.28	0.04
France CAC 40	7,896	7,704	2.5%				
UK FTSE 100	9,350	9,187	1.8%	Commodities (USD)			
Aust S&P/ASX 200	8,849	8,973	-1.4%	WTI Crude	62.53	64.01	-2.3%
Japan Topix	3,138	3,075	2.0%	Brent Crude	67.02	68.12	-1.6%
China CSI 300	4,641	4,497	3.2%	R/B CRB Index	300.6	302.4	-0.6%
NZX50	13,292	12,931	2.8%	Gold spot	3,858	3,448	11.9%
Volatility: VIX	16.12	15.36	4.9%	Silver spot	46.65	39.72	17.5%
				Copper	487.1	451.9	7.8%
3-mth Money Market Futures				Iron Ore	103.58	103.20	0.4%
NZD Mar-26	97.57	97.29	0.28	Thermal coal	106.20	111.50	-4.8%
AUD Mar-26	96.59	96.80	-0.21	Corn	416.0	420.3	-1.0%
USD Mar-26	96.51	96.49	0.02	Wheat	507.5	534.3	-5.0%
EUR Mar-26	98.01	98.10	-0.09	SGX-NZX Dairy WM P	3,625	3,715	-2.4%
GBP Mar-26	96.25	96.28	-0.03	SGX-NZX Milk Price '26	9.90	10.10	-2.0%
CAD Mar-26	97.77	97.58	0.19				
Source: BNZ, Bloomberg							

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