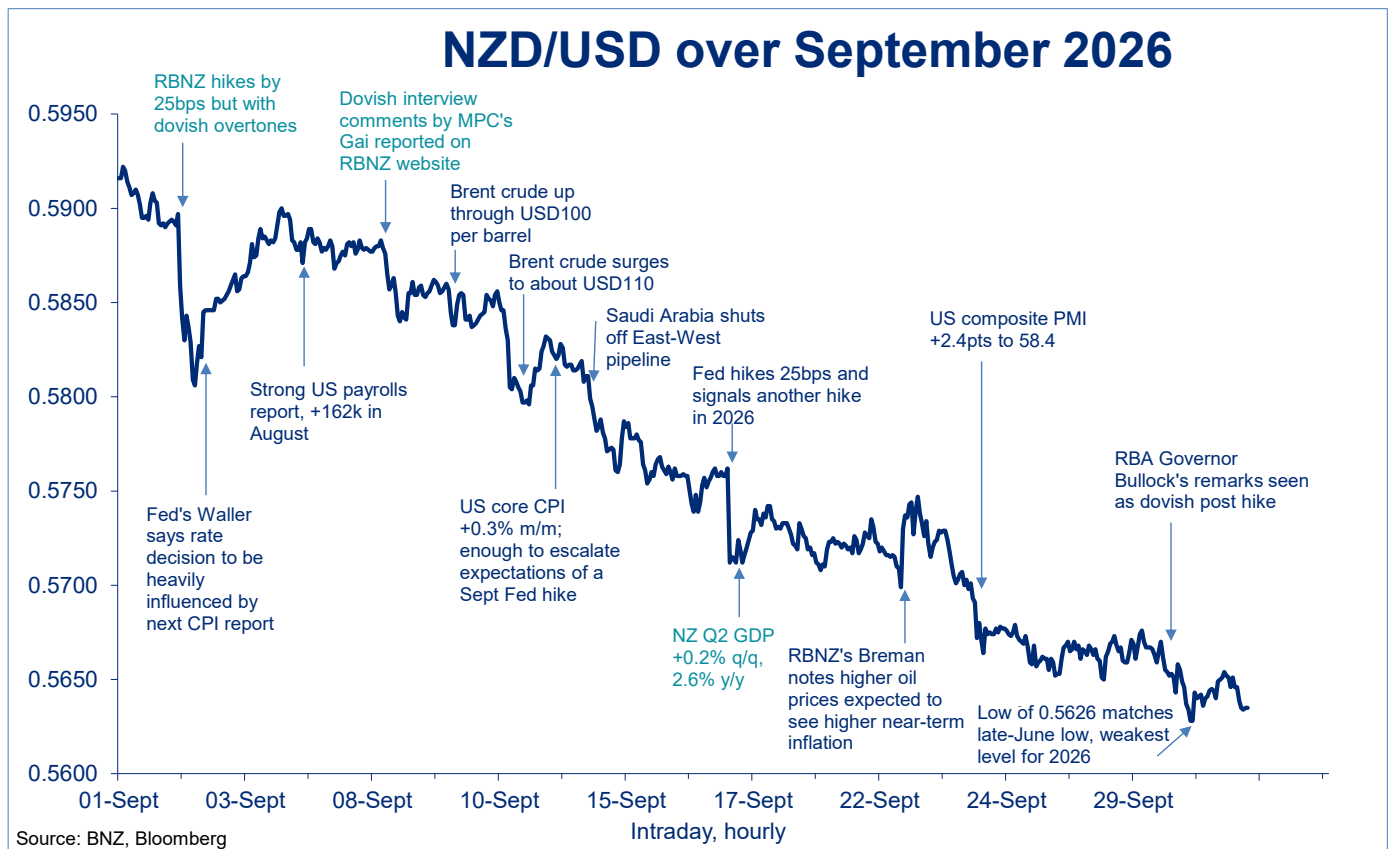


Financial Markets Wrap

1 October 2026

NZD shows a steady slide south in September

- Higher energy prices, strong US economic data and tighter global monetary policy drove global rates to fresh multi-decade highs.
- The USD strengthened but the NZD significantly underperformed, weighed by the RBNZ's ill-fated decision to signal a pause in the rate hike cycle after only two hikes, seeing NZ rate increases lag global moves.
- The NZD fell to new milestone lows on many crosses and the NZ TWI fell nearly 4% to a 15-year low.



Quick Outlook		September Ranges
NZD/USD	After September's slump the hurdle for some recovery, even a dead-cat bounce, is low. A hawkish pivot by the RBNZ at the late-October MPR would undo some of the damage. But hard to get enthused about that prospect or performance ahead of the 7-Nov general election.	0.5625 – 0.5930
NZD/AUD	The negative 150bps spread between NZ and Australian 3-month rates remains a significant headwind for the cross and is inviting for short NZD/AUD positions. A move sub-0.80 still can't be ruled out and, at best, the cross might consolidate for a few months.	0.8005 – 0.8260
NZD/GBP	Negative NZ-UK rate spreads remain a drag, but the gap should close, with the RBNZ likely to hike much more than the UK over coming quarters. The NZ economy also looks better placed for growth than the UK. Flat to slightly positive bias over coming quarters.	0.4245 – 0.4370
NZD/EUR	The cross-rate should find support by higher NZ-EU short rate spreads as the RBNZ is seen to deliver more tightening relative to the ECB. Flat to slightly positive bias over coming quarters.	0.4965 – 0.5100
NZD/JPY	Our updated projections show the cross-rate stabilising around the high 80s, following the recent slump. NZ-JP rate spreads should increase from here, while sentiment for the yen has improved following the support from the US Treasury to stem speculative trading behaviour.	88.2 – 94.7

Renewed military action in the Middle East, strong US economic data, and tighter global monetary policy from the G3 central banks all conspired to push global rates to fresh multi-decade highs. Global equities recorded only a modest decline. It was a bad month for the RBNZ to signal a possible pause in the tightening cycle after only its second hike, with the NZD slumping as a result and adding to inflationary pressure. The NZD weakened broadly, sending the TWI down by about 4% to a 15-year low.

The US-Iran conflict remained a key source of geopolitical risk for global energy markets. Early in the month, military action resumed after a hiatus of about one month, with Iran and the US exchanging tit-for-tat strikes around the Strait of Hormuz. The conflict's regional dimensions broadened as the Iran-aligned Houthis attacked energy infrastructure in Saudi Arabia and shipping routes near the Red Sea. Later in the month, US and Iranian officials resumed indirect contact through mediators on the sidelines of the UN General Assembly, marking the first meaningful diplomatic engagement since talks collapsed in June. However, no peace deal emerged, with neither side prepared to concede to the other's demands.

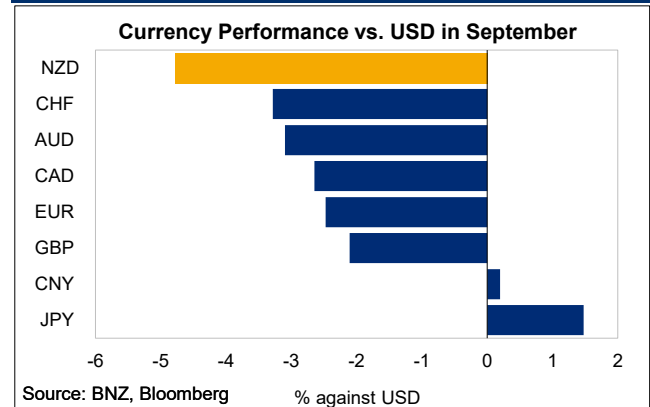
Brent crude traded as high as USD110 per barrel before ending the month around USD103.50, up 14%. Refined petroleum products posted even larger gains, with diesel and jet fuel prices rising sharply as supply concerns intensified. President Trump toyed with the idea of banning US diesel exports, adding to anxiety in energy markets and concerns about inflation.

Key US economic data were stronger than expected, and Citigroup's US economic surprise index rose sharply over the month. The run of positive surprises began with a blockbuster US non-farm payrolls report early in the month, showing a 162k increase in August and a cumulative 55k of upward revisions for the previous two months. August retail sales were also much stronger than expected, pointing to solid consumer spending growth in Q3 despite a weaker housing market and higher gasoline prices. The composite PMI surged 2.4pts from an already elevated level to 58.4.

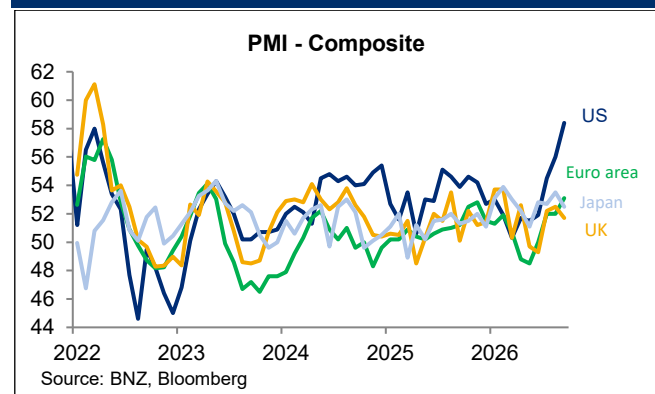
The US headline CPI for August was in line with expectations at 3.4% y/y, with the 0.4% monthly increase driven by higher energy prices. However, the core measure rose 0.3% m/m, above the consensus forecast of 0.2%, supporting the case for a Fed hike.

The US Fed tightened monetary policy for the first time since mid-2023, raising the Fed Funds target range by 25bps to 3.75–4%. The decision was unanimous. The dot plot of rate projections showed that 12 of 18 submitters expected one further hike later this year. At the press conference, Chair Warsh's opening remarks came across as hawkish. He repeated his Jackson Hole observation that it was difficult to characterise financial conditions as restrictive and that inflation was too high and had remained so for too long, adding that inflation risks were tilted to the upside.

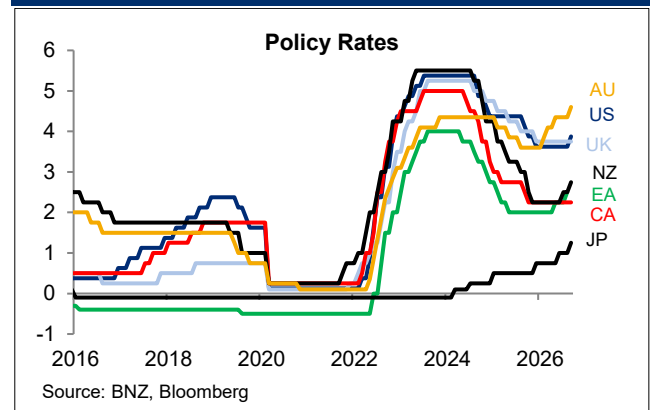
NZD clearly underperforms in September



Strong lift in US PMI highlights economic exceptionalism



Synchronised global policy tightening cycle underway



The backdrop of higher energy prices, stronger US economic data, and central banks delivering the expected rate hikes, as noted below, added further impetus to the global bond bear market already under way this year. Rates reached new multi-decade highs across many countries. US Treasury yields rose 39–59bps over the month, with the smallest increase at the long end of the curve (30 years) and the largest in the belly (5 years). The US 10-year yield traded as high as 5.30%, a level not seen since 2007, and ended the month near the top of its range.

In other global news, the most significant outcome of the meeting between Presidents Trump and Xi in the US was the extension of the existing tariff truce until January 2027. This provided additional time to negotiate a broader trade agreement and reduced the immediate risk of renewed tariff escalation.

In domestic news, the RBNZ raised the OCR by 25bps to 2.75% early in the month, following the first rate hike of this cycle in July. The Bank maintained a tightening bias, with the statement noting that the “Committee remains vigilant and will respond as necessary” to achieve its inflation target. The projected rate track was almost identical to that published in May, showing the OCR gradually rising to 3.3% over the forecast period. This appeared to be a deliberate attempt to preserve an unchanged policy outlook, with the track consistent with a pause in October, another 25bps hike in December, and a likely final hike next year.

The market viewed the RBNZ’s update as dovish relative to expectations, particularly because it showed no intention of taking policy into restrictive territory relative to the Bank’s assumed policy-relevant neutral rate of 3.5%. That interpretation was reinforced by subsequent comments from MPC members, which suggested a relaxed attitude towards tightening policy to bring inflation down, with some members seemingly more concerned about economic growth.

Later in the month, NZ’s Q2 GDP data came in stronger than the RBNZ had estimated, rising 0.2% q/q, while upward revisions lifted annual growth to 2.6%, well above the RBNZ’s assumed 2.1%.

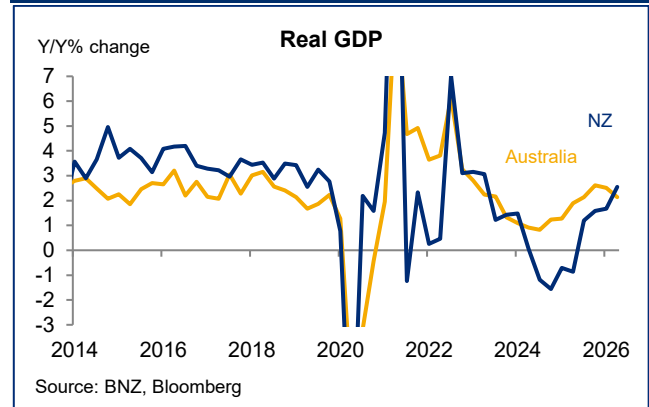
In the wake of the RBNZ’s update, market pricing for an October rate hike fell to as low as 5bps before global developments took over. Higher oil prices, a much weaker NZD, tighter global monetary policy, and the stronger GDP print meant that, by month-end, the market was pricing 16bps of tightening for the October meeting and four full hikes by the middle of next year. Global forces were largely responsible for the hefty rise in rates across the curve, with NZ’s 2-year swap rate closing at 4.05%, up 33bps, and the 10-year rate at 4.76%, up 32bps.

The government’s pre-election economic and fiscal update delivered a positive surprise through improved projected fiscal metrics over the coming years, including a \$4b reduction in the bond programme to \$30b for the current fiscal year. Monthly changes in NZGB yields were not materially out of line with movements in swap rates.

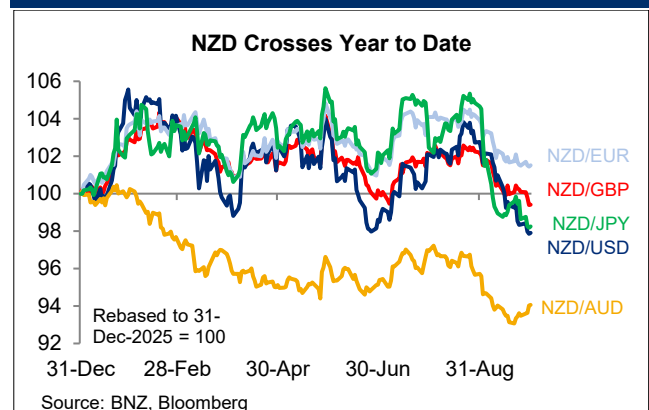
In currency markets, the USD strengthened broadly over the month, supported by higher oil prices, stronger US data, and a greater rise in US rates than elsewhere in the developed world. The DXY index rose by 2%, although the strong rebound still left it just shy of its mid-year highs.

Against the backdrop of a stronger USD, the NZD’s broader underperformance reflected the RBNZ’s dovish policy stance. For example, NZ 3-month bank bill futures for March 2027 rose by less than their US, Canadian, UK, and euro area counterparts. NZD/USD closed the month at 0.5635, down 4.8%, following a steady decline throughout the month. The monthly low of 0.5626 was reached on the 30th, matching the 2026 low traded in late June, while the high of 0.5929 was recorded on the 1st.

NZ annual GDP growth leapfrogs Australia



NZD now lower on all crosses for 2026 except against EUR



All NZD crosses were notably weaker, driving the NZ TWI down by nearly 4% over the month to a 15-year low of 64.1.

The yen was the strongest of the major currencies despite the backdrop of higher global bond yields, which is normally yen-negative. US Treasury Secretary Bessent publicly jawboned in favour of a stronger yen, saying, “I have asymmetric information. I am the house now,” in a warning to speculators trying to take him on. The BoJ raised its policy rate by 25bps to a 31-year high of 1.25%, although its tone was dovish. In a display of political influence, both of PM Takaichi’s recent appointees to the Board voted to hold rates, while Governor Ueda was reluctant to provide clarity on the timing of any future hikes. USD/JPY fell 1½% over the month to 157.40, while NZD/JPY plunged by more than 6% to 88.7 after reaching a 2026 low of 88.2.

NZD/CNY fell 5% to 3.78, its lowest level since 2009. This occurred despite the PBoC controlling the pace of yuan appreciation, particularly after USD/CNY fell below 6.70, which for now might be regarded as a floor.

NZD/AUD fell 1.8% to 0.8110 after reaching a 13-year low of 0.8006. Australian data released ahead of the RBA’s late-September meeting were strong enough to shift the consensus towards expecting another rate hike. The RBA voted unanimously to raise the cash rate for a fourth time this year, lifting it by 25bps to a 15-year high of 4.6%. The Bank maintained a tightening bias, with the Statement

noting that “the Board will continue to do what it considers necessary to bring inflation sustainably back to target, including increasing the cash rate target further if needed”. Governor Bullock sounded slightly dovish, noting that the Board had considered holding rates steady at the meeting and expressing hope that the tightening already delivered would prove sufficient, although she added, “I’m not going to give forward guidance”.

NZD/EUR and NZD/GBP both fell by close to 2½%, to 0.4970 and 0.4250, respectively. Earlier 2026 lows in NZD/EUR held, while NZD/GBP traded at a fresh 2026 low. The ECB raised rates by a further 25bps to 2.50% and struck a hawkish tone, highlighting the risk that the

inflation shock would persist and revising its headline and core inflation forecasts higher for 2027 and 2028. The European PMI survey was strong, with output rising at its fastest pace in more than three years and solid expansion across both the manufacturing and services sectors. Inflationary pressures intensified in September, with input costs and output prices both increasing at their fastest rates in four months.

The BoE voted 6–3 to leave policy unchanged, although comments from most members who favoured holding rates were more hawkish.

jason.k.wong@bnz.co.nz

Monthly Performance Table

	end-Sept	end-Aug	Change		end-Sept	end-Aug	Change
Currencies				NZ Rates			
NZD/USD	0.5634	0.5916	-4.8%	OCR	2.75	2.50	0.25
NZD/AUD	0.8113	0.8256	-1.7%	NZ 90day BB	3.23	3.06	0.17
NZD/EUR	0.4972	0.5093	-2.4%	NZ 2yr sw ap	4.05	3.72	0.33
NZD/GBP	0.4247	0.4367	-2.7%	NZ 5yr sw ap	4.42	4.07	0.36
NZD/JPY	88.66	94.50	-6.2%	NZ 10yr sw ap	4.76	4.44	0.32
NZD/CNY	3.780	3.976	-5.0%				
TWI	64.1	66.7	-3.9%	NZ Govt (5/28)	3.85	3.61	0.24
AUD/USD	0.6944	0.7166	-3.1%	NZ Govt (5/31)	4.50	4.18	0.32
EUR/USD	1.1329	1.1617	-2.5%	NZ Govt (5/36)	5.04	4.74	0.31
GBP/USD	1.3263	1.3549	-2.1%	NZ Govt (5/41)	5.38	5.13	0.25
USD/JPY	157.42	159.74	-1.5%				
USD/CNY	6.71	6.72	-0.2%	Global 10 year bond rates			
USD/CAD	1.4233	1.3856	2.7%	US	5.29	4.75	0.54
USD DXY	101.45	99.43	2.0%	Canada	3.99	3.74	0.26
Asia dollar index	93.37	93.45	-0.1%	UK	5.42	5.06	0.36
				France	4.86	4.18	0.68
Equity Markets				Germany	3.59	3.32	0.26
MSCI AC Wld, loc.	3,270	3,293	-0.7%	Italy	4.61	4.15	0.46
MSCI World, loc.	18,441	18,580	-0.7%	Spain	4.13	3.78	0.36
MSCI EM, USD	4,743	4,767	-0.5%	Portugal	4.01	3.67	0.34
US S&P 500	7,652	7,686	-0.5%	Ireland	3.70	3.47	0.23
Euro STOXX 600	634.9	651.1	-2.5%	Japan	3.05	2.94	0.11
Germany DAX	25,199	26,258	-4.0%	Australia	5.35	5.09	0.26
France CAC 40	7,965	8,335	-4.4%				
UK FTSE 100	10,606	10,824	-2.0%	Commodities (USD)			
Aust S&P/ASX 200	8,789	9,076	-3.2%	WTI Crude	90.42	85.76	5.4%
Japan Topix	4,109	4,156	-1.1%	Brent Crude	103.53	90.49	14.4%
China CSI 300	4,358	4,625	-5.8%	R/B CRB Index	410.3	410.6	-0.1%
NZX50	13,834	13,917	-0.6%	Gold spot	4,157	4,437	-6.3%
Volatility: VIX	16.34	14.92	9.5%	Silver spot	60.43	66.58	-9.2%
				Copper	662.2	659.4	0.4%
3-mth Money Market Futures				Iron Ore	93.43	99.08	-5.7%
NZD Mar-27	96.16	96.38	-0.22	Thermal coal	146.50	141.75	3.4%
AUD Mar-27	95.04	95.23	-0.19	Corn	500.8	537.8	-6.9%
USD Mar-27	95.39	95.79	-0.39	Wheat	675.8	774.0	-12.7%
EUR Mar-27	96.72	97.03	-0.31	SGX-NZX Dairy WMP	3,740	3,810	-1.8%
GBP Mar-27	95.44	95.71	-0.27	SGX-NZX Milk Price '27	10.04	9.95	0.9%
CAD Mar-27	96.90	97.23	-0.33				
Source: BNZ, Bloomberg							

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

India Power
Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

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

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.