

Research Markets Today

19 May 2025

Events Round-Up

NZ: Manufacturing PMI, Apr: 53.9 vs. 53.2 prev.
 JN: GDP (q/q%), Q1: -0.2 vs. -0.1 exp.
 NZ: RBNZ 2yr inflation expectations, Q2: 2.29 vs. 2.06 exp.
 US: Housing starts (k), Apr: 1361 vs. 1363 exp.
 US: Building permits (k), Apr: 1412 vs. 1450 exp.
 US: U. of Mich. consumer sent., May: 50.8 vs. 53.4 exp.
 US: U. of Mich. 5-10yr inflation exp., May: 4.6 vs. 4.4 exp.

Good Morning

Late in Friday's trading session, Moody's downgraded the US credit rating from Aaa to Aa1, resulting in a weak close for US Treasuries, which immediately jumped 5bps. The S&P500 had already closed up 0.7% before the announcement but US index ETFs trading after the close fell about 1%. The USD barely fell after making overnight gains after the NZ close. The NZD closed the week around 0.5580.

The University of Michigan's consumer survey was ugly, with consumer sentiment falling to 50.8, its second lowest reading in the history of the survey that dates back to 1978, although the recent move to exclusively being an online survey might be biasing the figures downward relative to its long history. Tariffs were mentioned by nearly three-quarters of consumers. Equal appalling, inflation expectations continued to shoot higher, with the year-ahead figure jumping to 7.3%, its highest level since 1981 and the 5-years-ahead figure rising to 4.6%, the highest since 1991.

The market isn't putting a great deal of weight on this survey, with US equities stronger through much of Friday's trading session, although US Treasury yields reversed course after the survey was released and began to push higher, with higher inflation expectations having more influence than consumer sentiment.

Late in the trading session, around 15 minutes before the bond market closed and after the equity market had closed, Moody's downgraded the US credit rating one notch from Aaa to Aa1, bringing it into line with S&P and Fitch Ratings' downgrades to the US back in 2011 and 2023 respectively. This resulted in an extension of the sell-off of US Treasuries, with the 10-year rate jumping about 5bps

on the news. The ratings agency said "persistent, large fiscal deficits will drive the government's debt and interest burden higher" and "we do not believe that material multi-year reductions in mandatory spending and deficits will result from current fiscal proposals under consideration."

The US 10-year rate closed the week at 4.48%, up 6bps from the NZ close, while the 2-year rate was 5bps higher at 4%.

Earlier in the session, President Trump's "one big, beautiful" tax and spending bill failed early in the process, being voted down 21-16 by the Budget Committee. The bill would extend most of the 2017 tax cuts and make little inroads into cutting spending and thereby sustain budget deficits at unsustainably high levels near 7% of GDP, keeping the debt to GDP ratio on an escalating path. This is meant to be the easy part of the process, and it is rare for such a bill to fail at this step. There are much bigger hurdles to face further in the process, such as the Senate, which will need to agree to it to become law. The lack of agreement at this stage portends a long and messy Budget process and can only add to market concerns about US fiscal policy and the looming vote on the debt ceiling in August.

The S&P500 closed up 0.7%, taking its weekly gain to 5.3%, a five-day positive run that was kicked off by Trump's backdown on Chinese import tariffs last Monday, although US S&P500 ETFs trading after the close fell about 1% in response to the credit rating downgrade. Still, the equity market was the biggest beneficiary of the tariff backdown early in the week which saw economists revise up US growth estimates and reduce the probability of economic recession. By contrast, over the week, the 10-year Treasury yield rose by 10bps, while various USD indices rose by 0.4-0.7% for the week.

Net currency moves on Friday were small, with dollar weakness during the Asian trading session reversing course in the overnight session. The NZD closed the week around 0.5880, extending the consolidation phase evident since mid-April. The AUD ended the week just over 0.64 and NZD/AUD was slightly higher, at just over 0.9180, failing to make a sustained break above 0.92 Friday evening. Other NZD cross movements were also modest.

In news on tariffs, President Trump said letters will be sent out to some countries over the next two to three weeks on new tariff rates they'll be facing. He said it wasn't possible

to meet all countries to negotiate tariffs. The implication is that if you're not in the queue for negotiating then you'll just have to pay up. The FT reported that the US and EU have begun serious trade talks, finally breaking a deadlock.

Japan's GDP for Q1 contracted 0.2% q/q, at the lower end of consensus, following growth averaging just over ½% for the previous three quarters, while real private consumption was flat, following barely positive growth in Q4. The soft data played to the view of the BoJ remaining cautious regarding any future rate hikes.

In the domestic rates market, the outperformance of the previous day's session reversed, and NZ rate spreads to Australia and US widened. Curves flattened, with higher short-term rates and lower long-term rates. The 10-year NZGB yield fell 3bps to 4.61%. The 2-year swap rate rose 2bps to 3.19% from a low of 3.11% early in the day. The 10-year swap rate fell 3bps to 4.11%. While much of the damage was done earlier in the session, not helping matters was the RBNZ's survey of expectations showing 2-years ahead CPI inflation expectations rising to 2.29%, from 2.06%, to reach its highest level in a year. This follows the lift in actual inflation over the past six months and adds to the caution the RBNZ will need to exercise in deciding how low to take the OCR this year.

NZ's manufacturing PMI rose less than a point to 53.9 in April, the fourth consecutive month in expansionary territory. Activity is not surging, but a manufacturing

recovery seems to be underway with the PMI having improved substantially from its low of 41.4 last June. That said, there remain questions around how sustainable it is given uncertainty stemming from offshore.

In the day ahead we'll get NZ's performance of services index and PPI data. China activity data for April will be released this afternoon, with interest in the early impact of the ramp up in US import tariffs.

For the week ahead, economic releases of interest will be the global PMIs and CPI inflation for Canada, Japan and the UK. Also of note, the RBA meets tomorrow and a 25bps rate cut has been fully priced, and the NZ Budget will be released on Thursday.

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Coming Up

| | | Period | Cons. | Prev. | NZT |
|----|---------------------------------|--------|-------|-------|-------|
| NZ | Performance of services index | Apr | 49.1 | 10:30 | |
| NZ | PPI output (q/q%) | 1Q | -0.1 | 10:45 | |
| CH | Retail sales (y/y%) | Apr | 5.9 | 5.9 | 14:00 |
| CH | Industrial production (y/y%) | Apr | 5.7 | 7.7 | 14:00 |
| CH | Fixed assets invest. (YTD y/y%) | Apr | 4.2 | 4.2 | 14:00 |

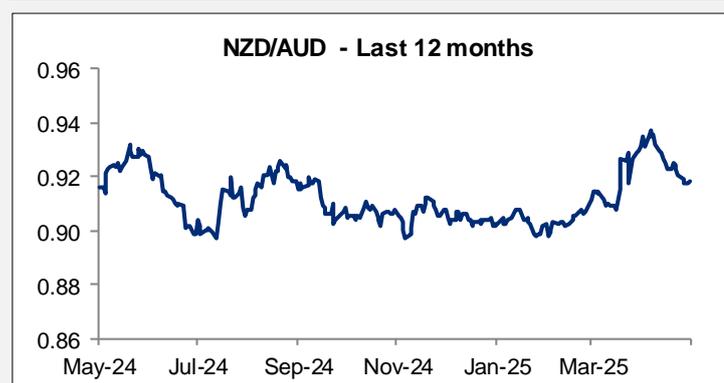
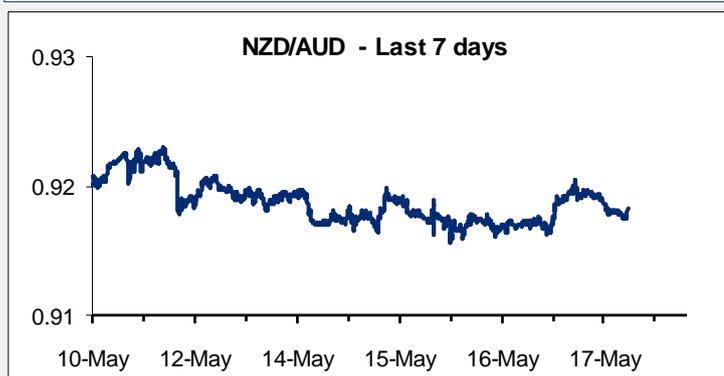
Source: Bloomberg, BNZ

| Currencies | | | | | Equities | | | | | Commodities | | | | |
|------------------------------|--------|---------------------------------|--------|--------|-----------------------|-----------|---------------|---------------------|--------|-------------|-------------------------|-----------------------------------|--------|---------|
| FX Majors | | Indicative overnight ranges (*) | | | Other FX | | Major Indices | | | | | Price (Near futures, except CRB) | | |
| | Last | % Day | Low | High | | Last | % Day | | Last | % Day | % Year | | Last | Net Day |
| NZD | 0.5881 | +0.1 | 0.5867 | 0.5918 | CHF | 0.8376 | +0.2 | S&P 500 | 5,958 | +0.7 | 12.4 | Oil (Brent) | 65.41 | +1.4 |
| AUD | 0.6405 | +0.0 | 0.6388 | 0.6432 | SEK | 9.776 | +0.5 | Dow | 42,655 | +0.8 | 6.6 | Oil (WTI) | 62.49 | +1.4 |
| EUR | 1.1164 | -0.2 | 1.1131 | 1.1217 | NOK | 10.379 | -0.3 | Nasdaq | 19,211 | +0.5 | 15.1 | Gold | 3187.2 | -1.2 |
| GBP | 1.3283 | -0.2 | 1.3251 | 1.3329 | HKD | 7.814 | +0.1 | Stoxx 50 | 5,428 | +0.3 | 7.2 | HRC steel | 895.0 | -0.6 |
| JPY | 145.64 | +0.0 | 144.92 | 146.10 | CNY | 7.214 | +0.1 | FTSE | 8,685 | +0.6 | 3.1 | CRB | 296.1 | +0.1 |
| CAD | 1.3968 | +0.1 | | | SGD | 1.300 | +0.2 | DAX | 23,767 | +0.3 | 27.1 | Wheat Chic. | 539.0 | -1.4 |
| NZD/AUD | 0.9183 | +0.1 | | | IDR | 16,445 | -0.5 | CAC 40 | 7,887 | +0.4 | -3.4 | Sugar | 17.52 | -0.8 |
| NZD/EUR | 0.5268 | +0.3 | | | THB | 33.37 | +0.3 | Nikkei | 37,754 | -0.0 | -2.7 | Cotton | 64.89 | -0.8 |
| NZD/GBP | 0.4428 | +0.2 | | | KRW | 1,400 | +0.2 | Shanghai | 3,367 | -0.4 | 6.8 | Coffee | 365.7 | -2.5 |
| NZD/JPY | 85.65 | +0.1 | | | TWD | 30.13 | -0.1 | ASX 200 | 8,344 | +0.6 | 6.8 | WM powder | 4365 | -0.3 |
| NZD/CAD | 0.8214 | +0.2 | | | PHP | 55.65 | -0.2 | NZX 50 | 12,787 | -0.7 | 9.3 | Australian Futures | | |
| NZ TWI | 68.64 | +0.1 | | | | | | VIX Index | 17.24 | -3.3 | +43.8 | 3 year bond | 96.39 | 0.06 |
| | | | | | | | | | | | | | | |
| Interest Rates | | | | | | | | | | | | | | |
| Rates | | Swap Yields | | | Benchmark 10 Yr Bonds | | | NZ Government Bonds | | | NZ BKBM and Swap Yields | | | |
| | Cash | 3Mth | 2 Yr | 10 Yr | | Last | Net Day | | Last | Chg | | Last | Chg | |
| USD | 4.50 | 4.85 | 3.79 | 3.95 | USD | 4.48 | 0.05 | 15-Apr-27 | 3.32 | 0.02 | BKBM 1-mth | 3.46 | -0.01 | |
| AUD | 4.10 | 3.80 | 3.51 | 4.36 | AUD | 4.45 | -0.08 | 15-May-28 | 3.54 | 0.00 | BKBM 3-mth | 3.34 | -0.02 | |
| NZD | 3.50 | 3.34 | 3.19 | 4.11 | NZD | 4.61 | -0.03 | 20-Apr-29 | 3.72 | -0.01 | 1 year | 3.15 | 0.00 | |
| EUR | 2.25 | 2.13 | 2.01 | 2.53 | GER | 2.59 | -0.03 | 15-May-30 | 3.93 | -0.01 | 2 year | 3.19 | 0.02 | |
| GBP | 4.25 | 4.58 | 3.83 | 4.13 | GBP | 4.65 | -0.01 | 15-May-31 | 4.13 | -0.02 | 3 year | 3.32 | 0.01 | |
| JPY | 0.48 | -0.03 | 0.71 | 1.23 | JPY | 1.46 | -0.02 | 15-May-32 | 4.30 | -0.03 | 5 year | 3.58 | -0.01 | |
| CAD | 2.75 | 4.97 | 2.38 | 2.91 | CAD | 3.17 | 0.02 | 14-Apr-33 | 4.41 | -0.03 | 7 year | 3.83 | -0.02 | |
| | | | | | | | | | | | | | | |
| Policy Meeting Run | | | | | | | | | | | | | | |
| NZD AUD USD | | | | | | | | | | | | | | |
| | 1st | 3.25 | 3.85 | 4.33 | | 15-May-35 | 4.61 | -0.03 | | | | 10 year | 4.11 | -0.03 |
| | 2nd | 3.07 | 3.78 | 4.31 | | 15-May-36 | 4.71 | -0.03 | | | | 15 year | 4.38 | -0.03 |
| | 3rd | 2.94 | 3.57 | 4.24 | | 15-May-37 | 4.83 | -0.03 | | | | NZ Inflation-Indexed Bonds | | |
| | 4th | 2.87 | 3.49 | 4.11 | | 15-May-41 | 5.06 | -0.02 | | | | Sep-30 | 2.09 | -0.05 |
| | 5th | 2.86 | 3.36 | 3.99 | | 15-May-51 | 5.25 | -0.02 | | | | Sep-35 | 2.73 | -0.06 |
| | | | | | | 15-May-54 | 5.29 | -0.02 | | | | Sep-40 | 3.06 | -0.06 |

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
 Rates at NY close
 Source: Bloomberg

NZD exchange rates

| 17/05/2025 | NY close | Prev. NY close |
|------------|----------|----------------|
| USD | 0.5881 | 0.5877 |
| GBP | 0.4428 | 0.4417 |
| AUD | 0.9183 | 0.9174 |
| EUR | 0.5268 | 0.5253 |
| JPY | 85.65 | 85.61 |
| CAD | 0.8214 | 0.8204 |
| CHF | 0.4926 | 0.4913 |
| DKK | 3.9307 | 3.9190 |
| FJD | 1.3387 | 1.3406 |
| HKD | 4.5956 | 4.5877 |
| INR | 50.29 | 50.28 |
| NOK | 6.1037 | 6.1208 |
| PKR | 165.67 | 165.42 |
| PHP | 32.72 | 32.76 |
| PGK | 2.4043 | 2.3640 |
| SEK | 5.7493 | 5.7161 |
| SGD | 0.7648 | 0.7627 |
| CNY | 4.2423 | 4.2358 |
| THB | 19.55 | 19.61 |
| TOP | 1.3747 | 1.3793 |
| VUV | 71.46 | 71.02 |
| WST | 1.6300 | 1.6258 |
| XPF | 62.91 | 62.80 |
| ZAR | 10.6119 | 10.5888 |



NZD/USD Forward Points

| | BNZ buys NZD | BNZ sells NZD |
|----------|--------------|---------------|
| 1 Month | 6.19 | 6.55 |
| 3 Months | 18.11 | 18.84 |
| 6 Months | 37.60 | 39.60 |
| 9 Months | 53.10 | 56.66 |
| 1 Year | 64.79 | 68.82 |

NZD/AUD Forward Points

| | BNZ buys NZD | BNZ sells NZD |
|----------|--------------|---------------|
| 1 Month | 5.43 | 6.34 |
| 3 Months | 16.69 | 18.18 |
| 6 Months | 33.27 | 37.80 |
| 9 Months | 45.57 | 52.97 |
| 1 Year | 57.74 | 67.17 |

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