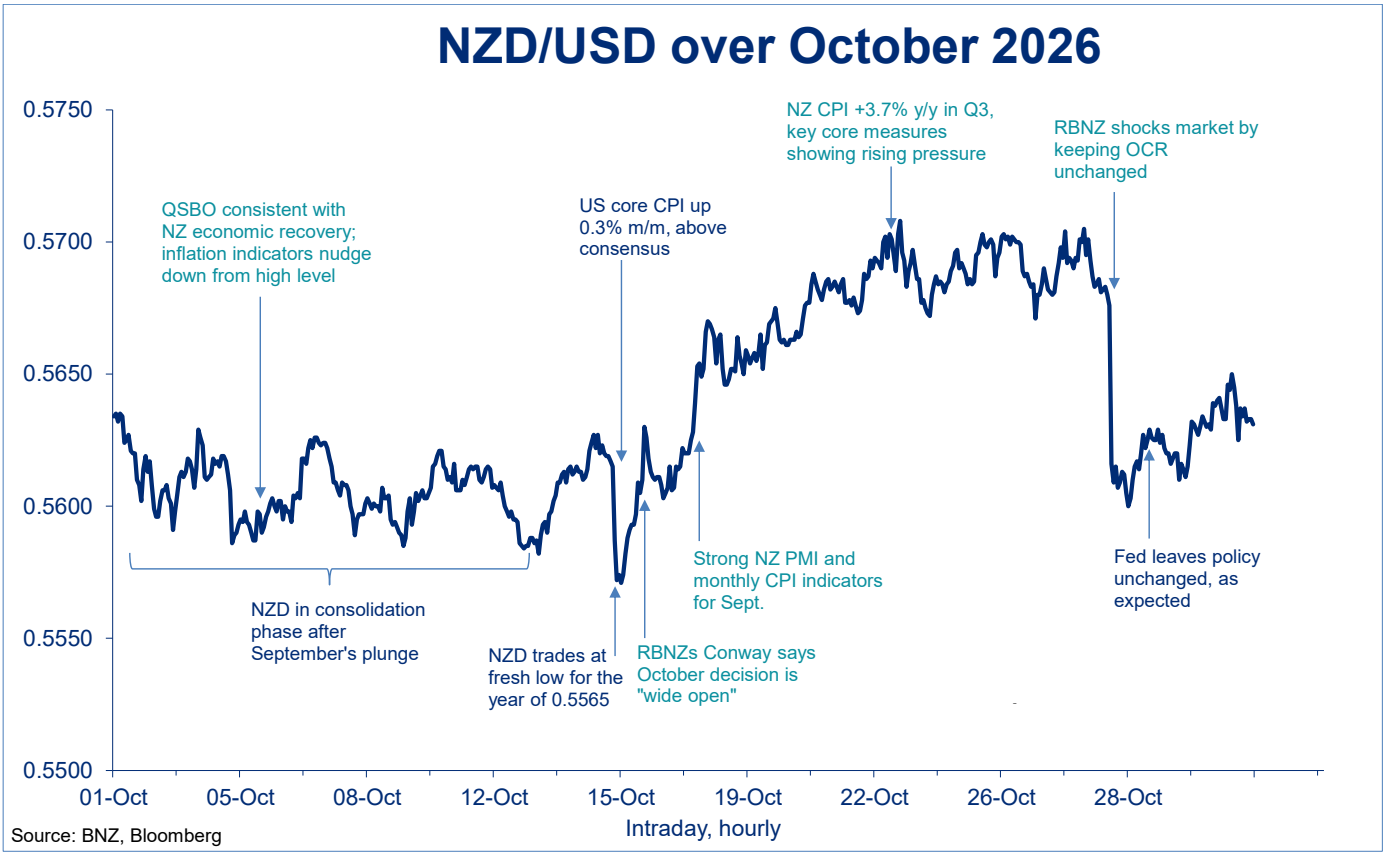
31 October 2026

New milestone lows for the NZD in October

- **Global bond market sentiment turned in October, with long-term rates falling from recent peaks as higher yields attracted buyers back into the market, despite higher oil prices.**
- **During the month the NZ TWI fell to a 15-year low and the NZD hit fresh multi-year lows against the AUD, CNY and GBP. NZD/USD traded at a low of 0.5565 after strong US CPI data, before closing the month little changed at 0.5630.**



Source: BNZ, Bloomberg

	Quick Outlook	October Ranges
NZD/USD	The RBNZ's BoJ-style "take-it-easy" approach to addressing NZ's high inflation backdrop doesn't bode well for the NZD over the near-term although seasonal factors tend to be positive into year-end. The 7-Nov general election also looks to be a close call and political uncertainty is another headwind to navigate. Key multi-year support lies at 0.55.	0.5565 – 0.5710
NZD/AUD	The negative 175bps spread between NZ and Australian 3-month rates remains a significant headwind for the cross and is inviting for short NZD/AUD positions. Hard to be positive over the short-term and no guarantee that the low for the cycle has been reached.	0.7935 – 0.8150
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. Short-term headwinds should ultimately fade.	0.4200 – 0.4280
NZD/EUR	The cross should find support by higher NZ-EU short rate spreads as the RBNZ is seen to deliver more tightening relative to the ECB. French risk premia and a negative terms of trade shock via higher EU gas prices are EUR-negative. Flat to slightly positive bias over coming quarters.	0.4960 – 0.5115
NZD/JPY	Our projections show the cross-rate stabilising around the high 80s. NZ-JP rate spreads should increase from here, while sentiment for the yen improved following the support from the US Treasury to stem speculative trading behaviour.	88.1 – 90.3

Global bond market sentiment turned in October, with long-term rates falling from recent peaks as higher yields attracted buyers back into the market, despite the backdrop of higher oil prices. A more cautious tone among equity investors added further support to bonds. Net movements in currency markets were modest. NZD/USD ended the month flat, having tested a new low for the year. Some NZD crosses fell to fresh multi-year lows after the RBNZ defied prevailing market pricing and left the OCR unchanged.

Oil prices were stronger, with Brent crude up about 14% and peaking at USD118 at the end of the month. The rise largely reflected an increased geopolitical risk premium. The US military deployed more assets to the Middle East, attacks on commercial shipping near the Strait of Hormuz escalated, and Iran-aligned Houthis struck Saudi airports and energy targets, widening the conflict and disrupting supplies through the Red Sea. Fears also grew of a possible escalation of the conflict following the US mid-term elections.

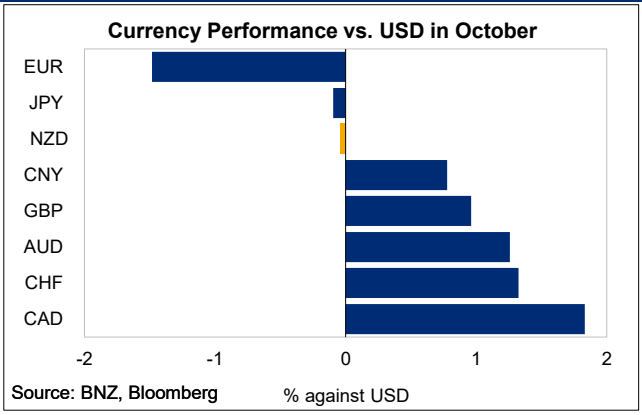
US economic data were mixed. Key labour market indicators were weaker than expected. Non-farm payrolls rose just 29k in September, with net revisions of -60k over the previous two months. The unemployment rate ticked up to 4.2%, while average hourly earnings rose just 0.1% m/m, pushing the annual increase down to a fresh five-year low of 3.0%. The first estimate of Q3 GDP showed annualised growth of 3.4%. Net exports were a significant drag, while real final sales to private domestic purchasers (consumer spending and investment) surged 4.9%, another strong quarter that highlighted robust underlying growth.

September CPI and PPI data were stronger than consensus. Core CPI rose 0.3% m/m and 2.6% y/y, with signs that inflation was becoming more broad-based. Producer prices rose at their fastest pace in more than four years, driven by higher energy costs, while the core rate was up 5.0% y/y.

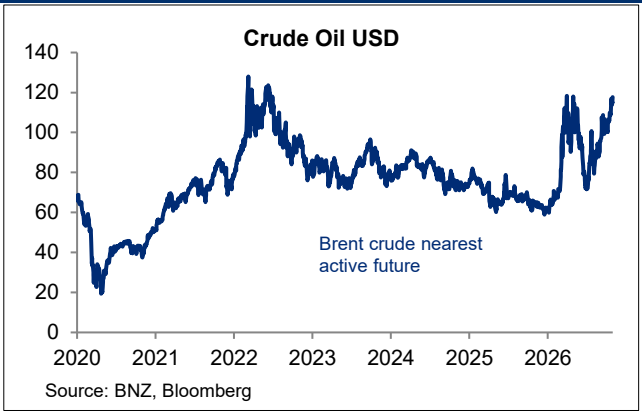
Despite higher inflation, key FOMC members guided the market towards an on-hold decision at the October meeting. After the market had grown more convinced of an October hike, NY Fed President Williams and Vice-Chair Jefferson were wheeled out to suggest there was no urgency to tighten. Policy was duly left on hold at the late-October meeting in a 10-2 vote, with Governor Cook and Cleveland Fed President Hammack favouring a 25bp hike. The proximity of the mid-term elections was likely a factor in the decision. At month-end, the market was pricing about a 75% chance of the second hike of the cycle at the next meeting in December.

US Treasuries traded in a wide range, and the correlation between oil prices and 10-year Treasury yields shifted. Previously, rising oil prices had lifted yields through higher inflation and Fed expectations. During October, however, oil traded increasingly on geopolitical factors, while Treasuries were driven more by real yields, fear of higher oil prices reducing projected growth and shifting risk appetite. The relationship weakened further as concerns about elevated technology valuations prompted investors to rotate out of tech stocks and into safer assets, pulling yields lower even as oil remained elevated. The US 10-year yield peaked at 5.36% before ending the month down 36bps at 4.93%.

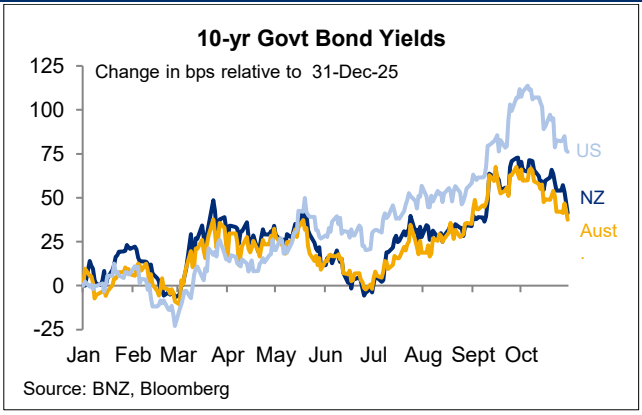
EUR underperforms, NZD flat while CAD and AUD stronger



Oil prices return to close to March/April highs



Global 10-year bond yields fall from recent highs



Domestically, the QSBO's real activity indicators pointed to an ongoing economic recovery, reassuring those concerned about NZ's growth trajectory. Employment intentions strengthened significantly and labour became harder to find. Inflation gauges remained elevated, although they eased slightly from the previous quarter.

The CPI rose 0.7% q/q and 3.7% y/y, slightly below market and RBNZ expectations. However, key core measures showed annual inflation rising to around 3%, and the distribution of price changes was consistent with building underlying inflation pressure.

The rates market grew increasingly confident of an October RBNZ hike after Chief Economist Conway signalled mid-month that the decision was "wide open". The subsequent decision to leave the OCR on hold shocked a market that had almost fully priced a 25bps hike. The 4-3 vote suggested the decision was finely balanced, but it was puzzling given the Bank's acknowledgement that core inflation had risen to the top of the 1-3% target range, price increases had become more broad-based, and GDP growth had been stronger than expected over the first half of the year.

The decision to hold appeared to reflect global risks more than domestic data. The minutes noted that two of the members voting to hold, Gai and Breman, placed material weight on the risk of an abrupt shift in the global environment. All members agreed that tighter monetary policy was likely to be required, and at the press conference Governor Breman said several times that the Bank was likely to raise the OCR at coming meetings.

Against a backdrop of lower global yields and unchanged policy, NZ rates fell across the curve in October. The 2-year swap rate closed down 16bps at 3.90%, while the 10-year rate fell 24bps to 4.51%. NZGBs moved by similar amounts. At month-end, the market was pricing about an 80% chance of a 25bps hike in December, and about 95bps of hikes in total over the next seven meetings.

In currency markets, net movements were modest overall. Although the USD DXY index traded at an 18-month high just below 103, USD performance was mixed, and the DXY's 0.4% monthly gain largely reflected euro weakness, given the euro's hefty weight in the index.

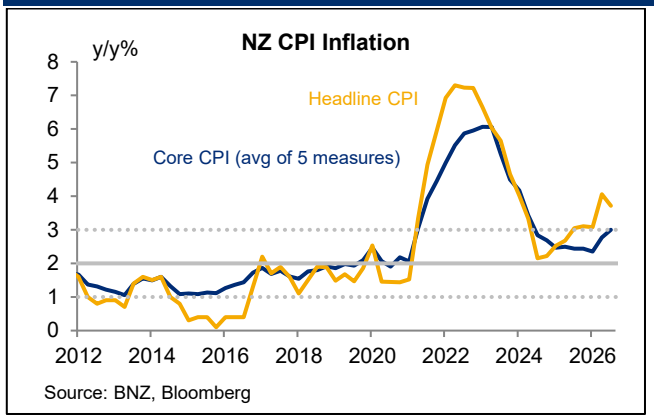
NZD/USD was net flat, closing the month at 0.5630. It hit a year-to-date low of 0.5565 on the 15th following stronger-than-expected US CPI data, and a monthly high of 0.5710 on the 22nd after NZ CPI data showed broadening inflationary pressure. The RBNZ was a key driver of currency volatility: the NZD strengthened after Chief Economist Conway signalled that the October decision was "wide open", then plunged when the Bank left policy unchanged despite the market being well prepared for a hike.

The NZD underperformed, and the NZ TWI fell to 63.6, its lowest level in more than 15 years. The RBNZ's easy policy stance remained a key reason behind the low value of the NZD. The NZD weakened on all key crosses apart from a net flat performance against the JPY and a 1½% gain against the euro. Both the JPY and EUR were hurt by rising oil and gas prices, a terms-of-trade headwind for Japan and the euro area as large energy importers.

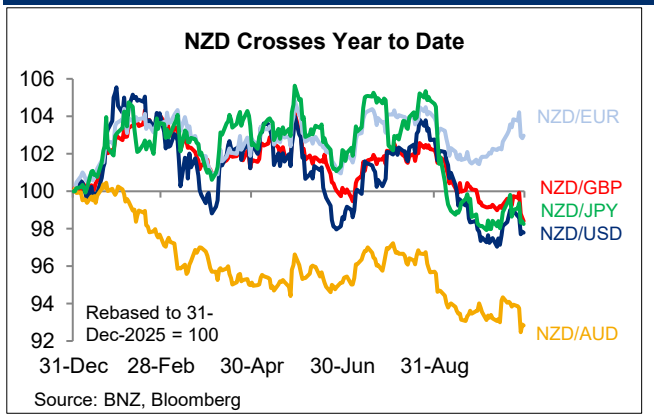
NZD/JPY was relatively flat, with volatility in the cross driven more by the NZD leg. At month-end, the BoJ kept policy steady as anticipated, following its rate hike in September.

The euro was the weakest of the majors. As anticipated, the ECB left policy unchanged and maintained a tightening bias, following its rate hike in September. French fiscal angst was a key driver of euro weakness. France remained in the spotlight, with its 10-year spread to Germany widening further to almost 180bps, a level not seen since the 2011/12 European debt crisis. Domestic unrest added another layer of risk, reinforcing doubts over whether the fragmented government had the political will to secure parliamentary support for sizeable spending cuts and pass a credible 2027 budget.

NZ core CPI inflation rising, with average reaching 3%



NZD/EUR and NZD/AUD at opposite ends, year-to-date



The NZD underperformed other commodity currencies. The CAD was supported by higher oil prices, and the Bank of Canada kicked off its tightening cycle with a 25bps hike. The AUD was well supported by a run of hawkish RBA commentary. Expectations of tighter RBA policy rose after Deputy Governor Hauser signalled that the inflation outlook had deteriorated materially and that inflation expectations were at risk of becoming unanchored. RBA Governor Bullock followed with hawkish soundbites during parliamentary testimony. The combination of a hawkish

RBA rhetoric and an RBNZ on hold drove NZD/AUD down to a fresh 13-year low of 0.7935. The cross closed the month at 0.8010, down 1.3%.

The Chinese yuan continued its gradual appreciation, with USD/CNY falling to a fresh four-year low of 6.65. China's Q3 GDP was stronger than consensus, with growth of 4.5% y/y, up from 4.3% in the previous quarter. Growth averaged 4.6% over the first three quarters of the year, within the government's annual target range of 4.5–5%. During the month, NZD/CNY fell to a fresh 17-year low of 3.725.

NZD/GBP fell 1% to 0.4205, after briefly dipping below 0.42, an 11-year low. There was no BoE meeting during the month, but the market moved to almost fully price an early-November hike to 4%. Higher CPI inflation and robust labour market data, including a surprise fall in the unemployment rate to 4.7% in the three months to August, reinforced expectations that the BoE would kick off a tightening cycle.

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Monthly Performance Table

	end-Oct	end-Sept	Change
Currencies			
NZD/USD	0.5631	0.5634	0.0%
NZD/AUD	0.8008	0.8113	-1.3%
NZD/EUR	0.5045	0.4972	1.5%
NZD/GBP	0.4205	0.4247	-1.0%
NZD/JPY	88.73	88.66	0.1%
NZD/CNY	3.748	3.780	-0.8%
TWI	63.8	64.1	-0.4%
AUD/USD	0.7032	0.6944	1.3%
EUR/USD	1.1161	1.1329	-1.5%
GBP/USD	1.3390	1.3263	1.0%
USD/JPY	157.57	157.42	0.1%
USD/CNY	6.65	6.71	-0.8%
USD/CAD	1.3977	1.4233	-1.8%
USD DXY	101.88	101.45	0.4%
Asia dollar index	93.69	93.37	0.3%
Equity Markets			
MSCI AC Wrld, loc.	3,219	3,270	-1.5%
MSCI World, loc.	18,304	18,441	-0.7%
MSCI EM, USD	4,362	4,743	-8.0%
US S&P 500	7,580	7,652	-0.9%
Euro STOXX 600	646.8	634.9	1.9%
Germany DAX	25,818	25,199	2.5%
France CAC 40	7,969	7,965	0.1%
UK FTSE 100	10,730	10,606	1.2%
Aust S&P/ASX 200	8,908	8,789	1.4%
Japan Topix	3,965	4,109	-3.5%
China CSI 300	3,986	4,358	-8.5%
NZX50	13,797	13,834	-0.3%
Volatility: VIX	19.42	16.34	18.8%
3-mth Money Market Futures			
NZD Mar-27	96.41	96.16	0.25
AUD Mar-27	94.98	95.04	-0.06
USD Mar-27	95.68	95.39	0.28
EUR Mar-27	96.91	96.72	0.19
GBP Mar-27	95.48	95.44	0.04
CAD Mar-27	97.03	96.90	0.14

	end-Oct	end-Sept	Change
NZ Rates			
OCR	2.75	2.75	0.00
NZ 90day BB	3.16	3.23	-0.06
NZ 2yr swap	3.90	4.05	-0.16
NZ 5yr swap	4.19	4.42	-0.23
NZ 10yr swap	4.51	4.76	-0.24
NZ Govt (5/28)	3.72	3.85	-0.13
NZ Govt (5/31)	4.28	4.50	-0.22
NZ Govt (5/36)	4.81	5.04	-0.23
NZ Govt (5/41)	5.17	5.38	-0.21
Global 10 year bond rates			
US	4.93	5.29	-0.36
Canada	3.80	3.99	-0.19
UK	5.28	5.42	-0.14
France	4.97	4.86	0.11
Germany	3.32	3.59	-0.26
Italy	4.51	4.61	-0.10
Spain	3.95	4.13	-0.19
Portugal	3.79	4.01	-0.22
Ireland	3.46	3.70	-0.24
Japan	2.77	3.05	-0.28
Australia	5.12	5.35	-0.23
Commodities (USD)			
WTI Crude	104.12	90.42	15.2%
Brent Crude	117.64	103.53	13.6%
R/B CRB Index	411.1	410.3	0.2%
Gold spot	3,875	4,157	-6.8%
Silver spot	49.10	60.43	-18.7%
Copper	648.2	662.2	-2.1%
Iron Ore	90.77	93.66	-3.1%
Thermal coal	150.45	146.50	2.7%
Corn	447.8	500.8	-10.6%
Wheat	603.5	675.8	-10.7%
SGX-NZX Dairy WMP	3,970	3,740	6.1%
SGX-NZX Milk Price '27	10.41	10.04	3.7%

Source: BNZ, Bloomberg

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