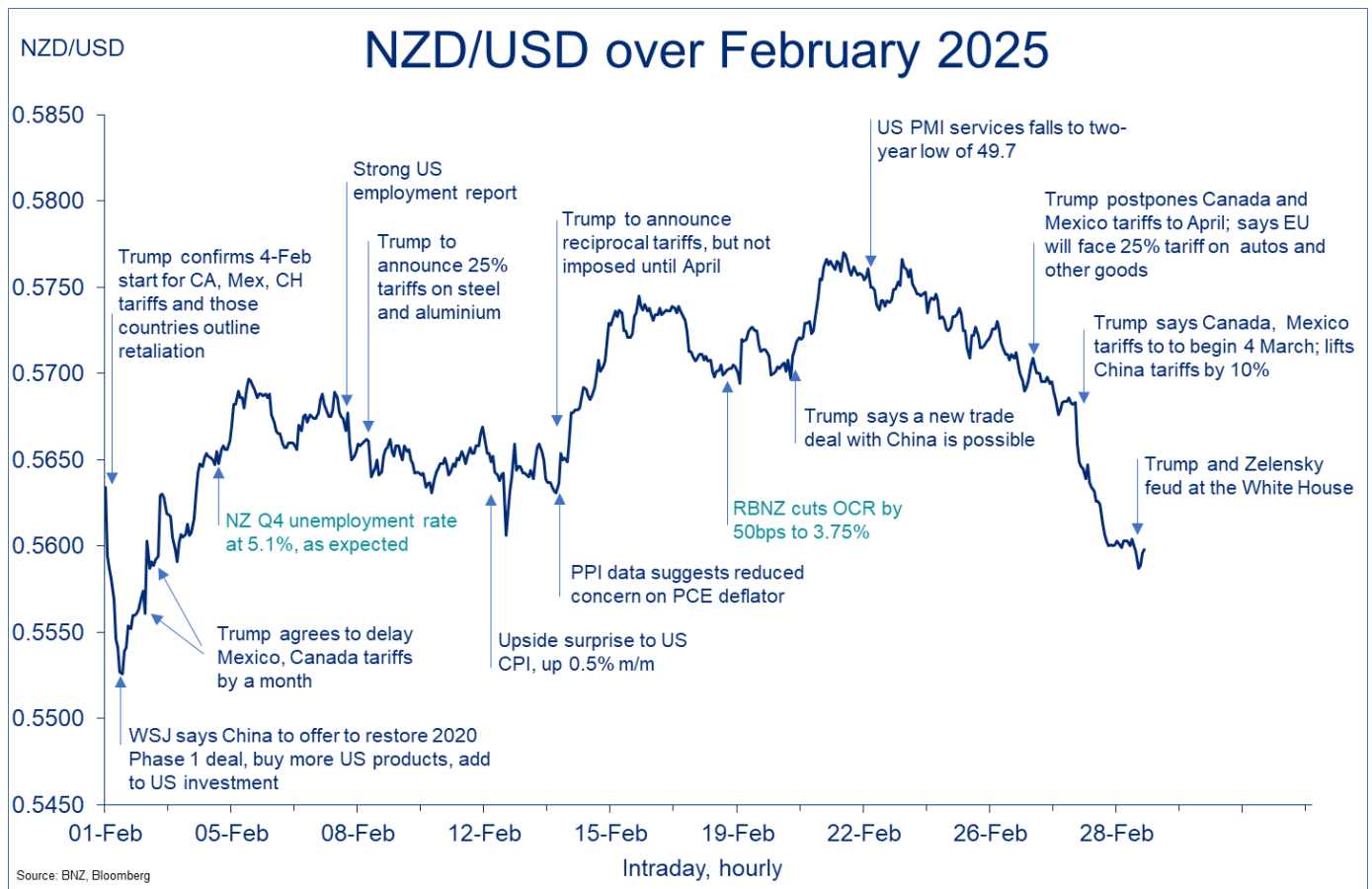


# Financial Markets Wrap

3 March 2025

## NZD falls in February as Trump teases on tariffs

- February was peppered with various threats by Trump to raise import tariffs, with the only ones enacted being those for China
- Heightened policy uncertainty overhung the market, while weaker US data and lower US rates were a drag on the USD
- Still, the yuan weakened, and the NZD underperformed; NZD/USD fell 0.7% and the NZD was weaker on the major crosses



Source: BNZ, Bloomberg

Quick Outlook		February ranges
<b>NZD/USD</b>	Short-term outlook remains at the whim of Trump’s tariff announcements. Downside risk to the NZD will prevail if all the proposed tariffs go ahead – they are worse than aired during the election campaign. Scope for recovery if proposed tariffs are significantly watered down.	0.5515-0.5770
<b>NZD/AUD</b>	Stuck in a tight trading range over the past five months. Our projections are consistent with ongoing retests below 0.90 and little scope for recovery. However, the AUD would suffer more than the NZD on more aggressive tariff moves against China.	0.8950 – 0.9080
<b>NZD/GBP</b>	NZD is much more at risk than GBP on Trump’s tariff agenda, but we are fairly neutral on the outlook with the cross-rate trading at a nine-year low.	0.4445 – 0.4580
<b>NZD/EUR</b>	Both NZD and EUR are likely to see some downside spillover risk from Trump’s tariff agenda. But with the cross-rate trading at the bottom of its range, we see more potential for upside than downside risk over the next six months.	0.5380 – 0.5500
<b>NZD/JPY</b>	Further BoJ tightening is likely over the coming year, which contrasts with the global trend, and is yen supportive. The yen’s safe-haven characteristics in a trade war also appeals. Still looking for downside in the cross over the medium-term but prone to volatile trading episodes.	83.7– 87.5

During February there was a rolling set of threats made by President Trump to impose tariffs, almost none of which eventuated, apart from lifting tariffs on Chinese imports. Nevertheless, the threats overhung the market, seeing a lift in “policy uncertainty”, and weighing on confidence. US rates fell against other markets on weaker economic data, partly caused by policy uncertainty, and this weighed on the USD. Still, the NZD and AUD underperformed, with some spillover from a weaker yuan. NZD/USD underperformed, with a fall of less than 1%, and falls on all the key crosses. For equities, the MSCI World Index showed a fall of less than 1% after reaching fresh record highs around mid-month.

The new month began with President Trump proposing tariffs on the United States’ three largest trading partners under the auspices of a national emergency regarding illegal immigration and drugs entering the US – these were 25% import tariffs for Canada and Mexico, with a reduced 10% tariff carved out for Canadian energy imports, and an increased 10% tariff rate across the board for China. For Canada and Mexico, a 30-day reprieve was given, but the proposed lift in tariffs for China was actioned, and late in the month another 10% lift was proposed, effective early March. China retaliated, but the scope was limited and was seen as a largely symbolic move, to avoid a full-blown trade war.

Later, President Trump signed an executive order for 25% tariffs on all US steel and aluminium imports, effective from 12 March, and said he would also likely impose tariffs on cars, semi-conductors and pharmaceutical imports of around 25%. President Trump also signed an action plan on developing reciprocal tariffs. The levies would be applied on a country-by-country basis and include retaliation against non-tariff barriers. Under the proposal, value-added taxes (VAT or GST) would be retaliated against. Details remain sketchy but at face value NZ would face an across the board 15% import tariff, the same GST rate applied locally. These reciprocal tariffs could be imposed after trade reports are completed by 1 April.

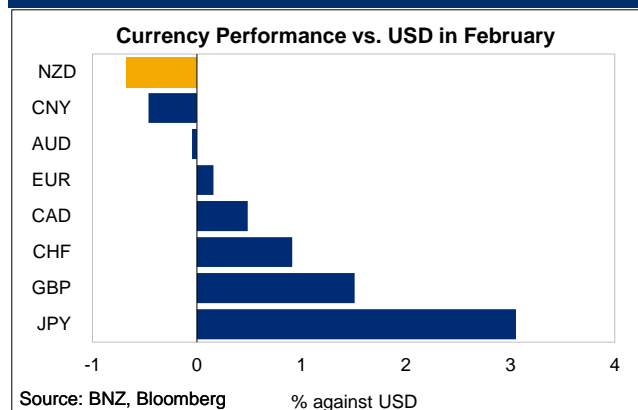
The US economic dataflow deteriorated, driving Citigroup’s US economic surprise index into negative territory. Weaker data included retail sales, consumer confidence, and many housing market indicators. The PMI services index fell below 50 to 49.7, its lowest level in two years, with the report noting increased uncertainty about the business environment, especially cuts in government spending and tariffs. The strong January employment report, which showed upward revisions to payrolls and a drop in the unemployment rate to 4.0%, was an exception. CPI and PPI inflation data positively surprised, but of some comfort the core PCE deflator rose by 0.3% m/m, seeing the annual measure fall to 2.6%.

Weaker US activity data and uncertainty about the policy outlook supported the US Treasuries market, driving the 10-year rate down to a fresh low for 2025, with a monthly fall of 33bps to 4.21%. The 2-year rate fell 21bps to 3.99%, as the market priced in increased scope for easier monetary policy this year.

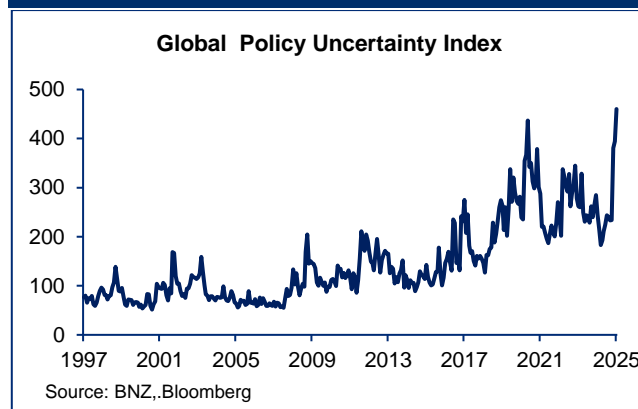
Geopolitically, the US engaged with Russia on ending the Ukraine war and left Europe’s leaders on the sidelines. The move helped drive European gas prices down around 25% from its peak in early February. Oil prices continued to edge lower and Brent crude ended the month down 5%, at around USD73 per barrel.

In NZ, monthly indicators pointed to the economy recovering in January, with solid gains in the PMI and PSI, pushing them into expansion territory and gains in ANZ’s Truckometer and job ads. NZ retail sales volumes increased 0.9% in the December quarter, adding to the narrative that the economy was better in Q4 after the horror performance of Q2/Q3 last year.

**NZD underperforms in February**



**Policy uncertainty has risen to uncharted heights**



**US economic dataflow sours versus expectations**



NZ labour market data showed weak employment in Q4, the unemployment rate rising to a fresh four-year high of 5.1%, and softer wage inflation. The RBNZ’s 50bps cut to the OCR to 3.75%, guidance of a slowdown in the pace of easing this year, and projections of a terminal rate of 3.1% didn’t surprise. The accompanying statement outlined CPI inflation was near the 2% midpoint of the target band, economic activity was subdued, and spare capacity was weighing on domestic price pressures.

With RBNZ rate cuts well priced, the 2-year swap rate closed the month little changed at 3.43%. Against a backdrop of much lower US rates, NZGB yields were down less than 10bps, resulting in a notable widening of NZ-US rate spreads.

In currency markets, weaker than expected US economic data, which drove down US rates against other markets, weighed on the USD and the DXY index fell 0.7%. The NZD traded a low of 0.5516 on the first trading day of the month after President Trump confirmed a 4-February start date for 25% import tariffs on Canada and Mexico (subsequently deferred). The NZD traded a high of 0.5773 on 21-February. The NZD lurched down towards the end of the month as tariff headlines returned, with some spillover from a weaker yuan, and NZD/USD closed down 0.7% to just below 0.56.

The NZD underperformed and was weaker on all the key crosses. The yen was the strongest of the majors, as Japanese rates tracked higher, seeing the 10-year JGB rate trade at a 15-year high around 1.45%. Japan GDP rose 0.7% in Q4, making the country the strongest of the G10, while headline CPI inflation rose to 4.0%, the highest in the G10. The data supported the narrative of the BoJ needing to continue along the path of tightening monetary policy, against the global trend. NZD/JPY fell over 3½% to below 84.3.

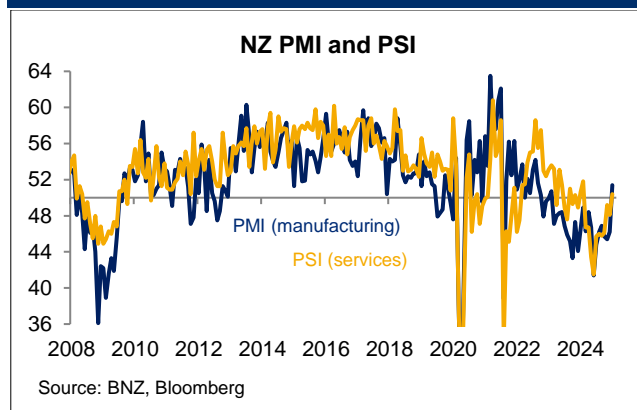
NZD/AUD showed a modest 0.6% fall for the month, taking it down to just below 0.9020. There was a temporary foray below 0.90, but the move wasn’t sustained. The RBA kicked off an easing cycle, with a widely anticipated 25bps cut in the cash rate to 4.1%. Market reaction was limited to the extent that the cut was expected to be met with some cautious language about the policy outlook and that message was delivered. Australian labour market data continued to paint a picture of a tight labour market, with a solid 44k gain in employment in January, although not strong enough to prevent a tick up in the unemployment rate to 4.1%.

USD/CNY rose ½% to 7.28. Despite the increased tariff impost, the Chinese government refrained from using the yuan as an offsetting weapon, playing with a straight bat to limit yuan weakness. On a positive note, President Xi met with leaders of the IT industry, including Jack Ma, signalling a more business-friendly tack for Chinese leadership. Furthermore, there was speculation that President Trump would like to strike a wide-ranging deal with President Xi,

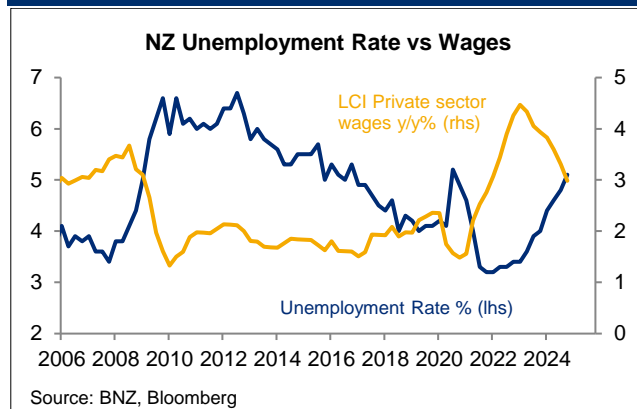
one that goes beyond just reworking the existing trading relationship.

GBP was the second strongest performer after the yen and NZD/GBP fell over 2% to 0.4450, reaching a fresh-nine year low in the process. As widely expected, the BoE cut its policy rate for a third time by 25bps to 4.5% but surprisingly the MPC vote was 7-2, with two dissents voting for a larger 50bps cut, including the usually hawkish Catherine Mann. However, the policy outlook statement signalled a “gradual and careful approach” to future rate cuts, the addition of the word “careful” being a change from the previous statement.

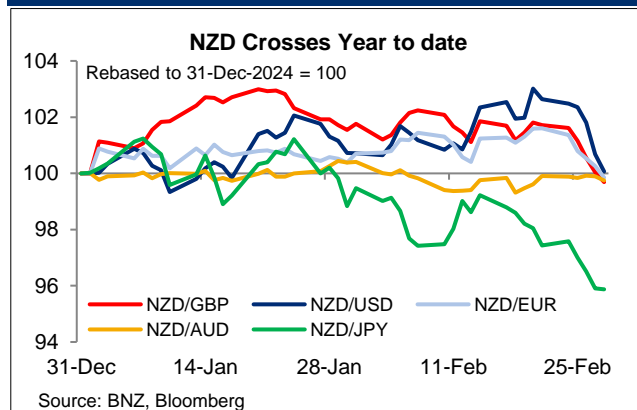
**NZ PMI and PSI rise to expansionary (50+) territory**



**NZ-unemployment rate higher; wages inflation lower**



**NZD flat to weaker on key crosses so far this year**



NZD/EUR fell less than 1% to 0.5395, back to the bottom end of its trading range. Some political risk overhung the euro but in the end the result of the German election was the centre-right bloc winning, with a likely two-party configuration and signs that it wouldn't take long to form a government. The engagement between US and Russia on ending the war in Ukraine, noted earlier, was a supportive factor for the euro although a bad meeting between

President Trump and Ukraine President Zelensky on the last day of the month raised a cloud on any peace deal. Trump threatened to impose 25% tariffs on autos and "other things" for the EU, but with no date set.

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Monthly Performance Table							
	end-Feb	end-Jan	Change		end-Feb	end-Jan	Change
<b>Currencies</b>				<b>NZ Rates</b>			
NZD/USD	0.5597	0.5635	-0.7%	OCR	3.75	4.25	-0.50
NZD/AUD	0.9017	0.9073	-0.6%	NZ 90day BB	3.76	3.93	-0.17
NZD/EUR	0.5395	0.5440	-0.8%	NZ 2yr sw ap	3.43	3.44	-0.01
NZD/GBP	0.4450	0.4547	-2.1%	NZ 5yr sw ap	3.68	3.67	0.00
NZD/JPY	84.29	87.45	-3.6%	NZ 10yr sw ap	4.06	4.09	-0.03
NZD/CNY	4.072	4.087	-0.4%				
TWI	67.1	67.5	-0.6%	NZ Govt (4/27)	3.57	3.64	-0.07
AUD/USD	0.6208	0.6211	0.0%	NZ Govt (5/30)	4.00	4.02	-0.02
EUR/USD	1.0375	1.0359	0.2%	NZ Govt (5/35)	4.50	4.59	-0.09
GBP/USD	1.2579	1.2392	1.5%	NZ Govt (5/41)	4.87	4.96	-0.09
USD/JPY	150.59	155.19	-3.0%				
USD/CNY	7.28	7.24	0.5%	<b>Global 10 year bond rates</b>			
USD/CAD	1.4468	1.4539	-0.5%	US	4.21	4.54	-0.33
USD DXY	107.61	108.37	-0.7%	Canada	2.90	3.06	-0.17
Asia dollar index	89.33	89.81	-0.5%	UK	4.48	4.54	-0.06
				France	3.14	3.20	-0.06
<b>Equity Markets</b>				Germany	2.41	2.46	-0.05
MSCI AC Wrld, loc.	2,447	2,466	-0.8%	Italy	3.54	3.55	-0.02
MSCI World, loc.	14,101	14,233	-0.9%	Spain	3.04	3.07	-0.02
MSCI EM, USD	2,920	2,905	0.5%	Portugal	2.93	2.87	0.06
US S&P 500	5,955	6,041	-1.4%	Ireland	2.68	2.72	-0.04
Euro STOXX 600	557.2	539.5	3.3%	Japan	1.37	1.24	0.13
Germany DAX	22,551	21,732	3.8%	Australia	4.29	4.43	-0.14
France CAC 40	8,112	7,950	2.0%				
UK FTSE 100	8,810	8,674	1.6%	<b>Commodities (USD)</b>			
Aust S&P/ASX 200	8,172	8,532	-4.2%	WTI Crude	69.76	72.53	-3.8%
Japan Topix	2,682	2,789	-3.8%	Brent Crude	73.18	76.76	-4.7%
China CSI 300	3,890	3,817	1.9%	R/B CRB Index	301.8	305.0	-1.0%
NZX50	12,601	12,995	-3.0%	Gold spot	2,858	2,798	2.1%
Volatility: VIX	19.63	16.43	19.5%	Silver spot	31.15	31.30	-0.5%
				Copper	451.5	427.9	5.5%
<b>3-mth Money Market Futures</b>				Iron Ore	102.44	105.12	-2.5%
NZD Jun-25	96.66	96.62	0.04	Thermal coal	102.05	115.50	-11.6%
AUD Jun-25	96.13	96.15	-0.02	Corn	469.5	493.0	-4.8%
USD Jun-25	95.96	95.90	0.06	Wheat	555.8	572.3	-2.9%
EUR Jun-25	97.88	97.86	0.02	SGX-NZX Dairy WMP	3,965	4,125	-3.9%
GBP Jun-25	95.87	95.86	0.01	SGX-NZX Milk Price '25	10.10	10.12	-0.2%
CAD Jun-25	97.45	97.44	0.00				
Source: BNZ, Bloomberg							

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