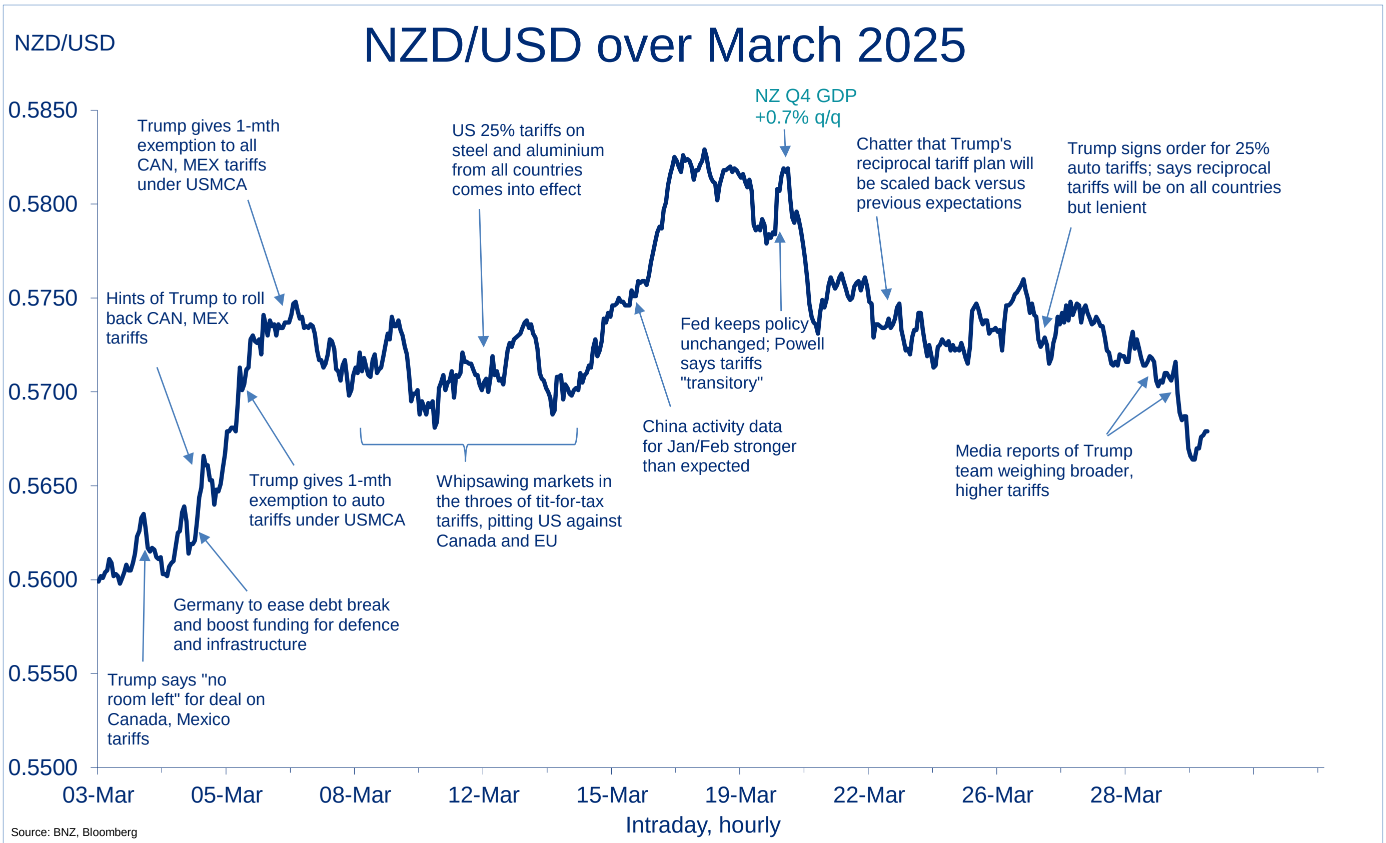
Research

Financial Markets Wrap

1 April 2025

A muddling March on tariff threats

- **Rising US tariffs, and threats of more to come, drove weaker risk appetite and global equity markets**
- **The USD was broadly weaker, with growth concerns outweighing its usual safe-haven characteristics; NZD/USD up 1½%**
- **EUR was a star performer, fuelled by looser fiscal rules; the NZD fell to multi-year lows vs EUR and GBP**



Source: BNZ, Bloomberg

	Quick Outlook	March Ranges
NZD/USD	Short-term outlook remains at the whim of Trump's tariff announcements, although the market increasingly sees new tariffs as a threat to the US economy and the isolationist policy agenda as a reason to pull money out of the US. Our bias is moderately positive for NZD/USD beyond the overt near-term risks.	0.5595-0.5830
NZD/AUD	The cross has been stuck in a two-cents range of around 0.8950-0.9150. We recently removed our downside risk assessment, while maintaining projections for a flat cross rate and seeing little scope for a sustained recovery anytime soon.	0.9005 – 0.9160
NZD/GBP	NZD is more at risk than GBP on Trump's tariff agenda, but we find it hard to get bearish on the cross rate with it trading at a nine-year low.	0.4380 – 0.4490
NZD/EUR	The cross rate justifiably fell on news of Europe loosening fiscal rules to allow increased defence spending, and Germany leading the charge with a massive step up in spending on defence and infrastructure ahead. Now likely in a new, lower, sustainable trading range.	0.5215 – 0.5395
NZD/JPY	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.	83.2– 87.4

President Trump's move to impose more import tariffs was a key theme for March that drove market price action. World equities fell, with the MSCI Index down 5%, led by the US, as investors priced in a weaker US economic outlook. The US Treasuries curve steepened, with the market seeing more scope for Fed rate cuts despite likely higher inflation, with the unemployment rate mandate seen to take precedence. The negative US growth impulse was also a factor in the USD showing broadly based falls. NZD/USD rose by 1½%. European currencies outperformed, supported by the EU's move to loosen fiscal rules.

March began with the market wondering whether President Trump would proceed to implement the threatened 25% tariffs on Canada and Mexico. In the event, these did proceed, although in reduced scope, with tariffs on products compliant with the existing free trade agreement (USMCA) deferred for a month. The 10% lift in tariffs for China proceeded, adding to the 10% lift imposed a month earlier.

China retaliated with targeted 10-15% tariffs for some US agricultural products and added non-tariff measures, including adding some US companies to an export control or "unreliable entity" list. Canada also retaliated, with 25% tariffs on various US imports but the threat by Ontario to impose a tax on electricity sent to the US, or cut off supply completely, was withdrawn.

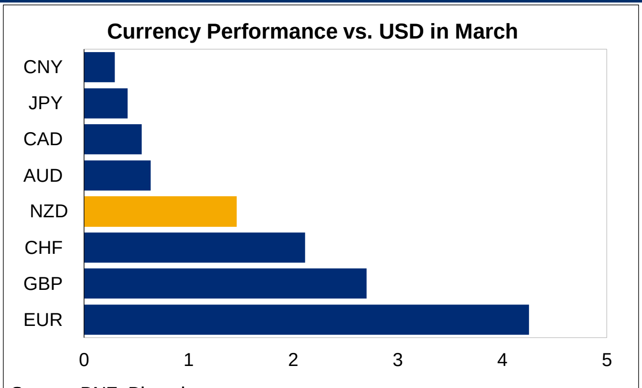
President Trump also imposed 25% tariffs on steel and aluminium from all countries and signalled similar forthcoming tariffs on other commodities. The EU retaliated with some forthcoming targeted countermeasures against US imports and Trump threatened further tariffs on the EU if retaliatory tariffs weren't removed.

Trump put some focus on what he called "Liberation Day", scheduled 2 April, where he would impose like-for-like tariffs against a range of countries. As well as tariffs, intent to slash federal government spending, close down departments and lay off federal workers added to the policy uncertainty thematic. President Trump admitted in an interview that these policies could cause a recession and he and his key staff warned of a period of transition.

On a more positive note, there were moves towards a Ukraine-Russia peace deal, but talks excluded Europe and there was scepticism whether the war would end anytime soon. Towards the end of the month there was some agreement to ban military strikes on energy infrastructure targets and on a ceasefire in the Black Sea, but conditional on Russia seeing some sanctions relief for banks and companies involved in agriculture exports.

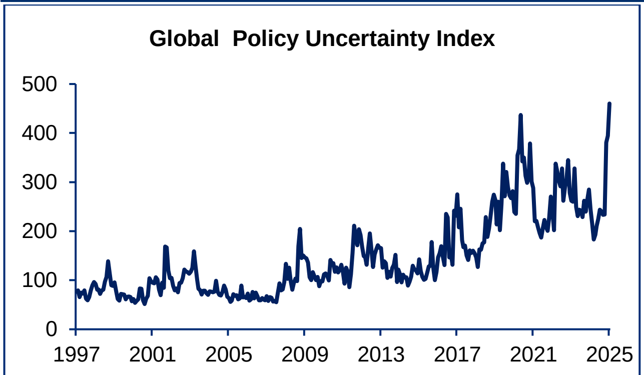
There were increasing signs that policy uncertainty was impacting the US economy, with softer US economic activity indicators and higher surveyed inflation expectations. Notably, consumer confidence plunged, with the expectations component down to levels normally associated with economic recession. Consumer spending looked to be on a much weaker trajectory over Q1, compared to strength last year. However, the data weren't one-sided, with some indicators like the ISM services index and PMI services positively surprising and at level inconsistent with imminent recession. US CPI inflation for February was weaker than expected, with core inflation slipping to 3.1% y/y, but the core PCE deflator, targeted by the Fed, rose two-tenths to 2.8%.

All key major currencies rose against the USD



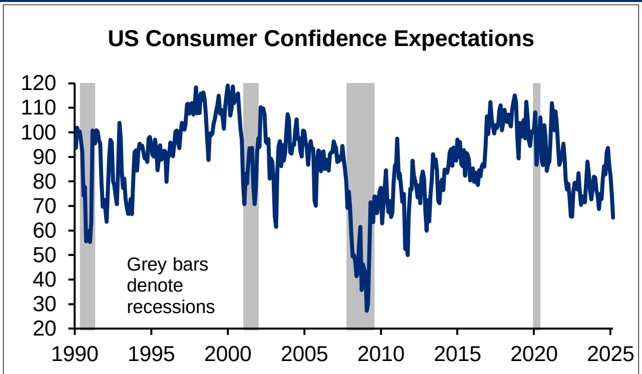
Source: BNZ, Bloomberg

Policy uncertainty has risen to uncharted heights



Source: BNZ.Bloomberg

US consumer confidence plunges



Source: BNZ, Bloomberg

The US Fed kept rates unchanged, noting uncertainty around the economic outlook has increased. Updated forecasts showed downgrades to growth and upgrades to inflation. The median FOMC member expects to cut rates by 50bps this year, unchanged from December, while the distribution of changes showed a bias towards less scope for cutting rates this year. Chair Powell acknowledged that tariffs are already impacting the economy and the base case was that they would have a transitory impact on inflation.

However, market pricing through the month was consistent with a view that the Fed would cut rates by more than previously thought, with 75bps priced for 2025 as at month-end, or three full rates cuts – a message that the market sees the Fed likely to put more weight on a weaker economy and higher unemployment than an expected temporary lift in inflation.

The US Treasuries curve steepened, with the 2-year rate falling 11bps to 3.88% and the 10-year rate flat at 4.21%. By contrast, European yields were much higher, with Germany's 10-year rate up over 30bps in response to Chancellor-in-waiting Merz's plan to loosen the debt brake and unleash a significant easing in fiscal policy, directed at boosting defence and infrastructure spending. The package included theoretically unlimited defence spending and an off-budget €500b infrastructure fund, which will add to German GDP growth potential in the order of 1½-2%. In response to the pullback of US security from Europe, the EU proposed extending €150b in loans to boost defence spending and plans to activate a mechanism allowing countries to spend an additional €650b on defence over four years without triggering budget penalties.

NZ economic data were mixed during the month. GDP data for Q4 showed a 0.7% q/q bounce-back, following back-to-back contractions of 1.1% over the previous two quarters. However, the figures need to be treated with caution, given the recent difficulty in seasonal adjustment. Consumer confidence fell sharply in Q1 while spending data were soft. The manufacturing PMI continued its recovery to an above-average 53.9 while the performance of services index fell to 49.1 in February, back into contractionary territory after poking its head above 50 in January. Overall, the data were a reminder that although the economy is turning, recovery is unlikely to be uniform nor occur in a straight line.

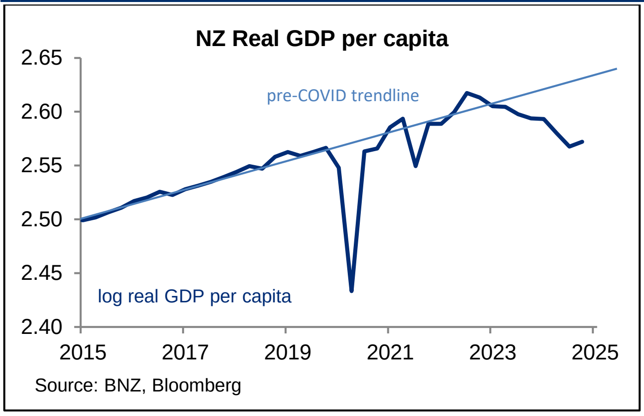
There was no market reaction to RBNZ Governor Orr's unexpected resignation two years into his second five-year term. The market continued to see a high chance of rate cuts over the next two meetings and a terminal OCR rate just over 3%. NZ's swap and NZGB curves steepened, as in the US, but NZ-US rate spreads widened across the curve.

Turning to currency markets, the USD was broadly weaker, despite lower risk appetite, with US growth concerns outweighing its safe-haven attributes. The DXY index fell over 3% for the month, weighed down by a strong gain of more than 4% in EUR/USD, in response to prospects of much easier fiscal policy in the euro area and higher European-US rate spreads.

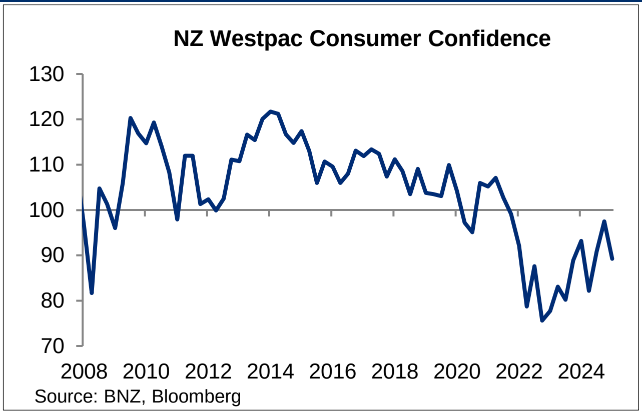
The NZD traded a low of 0.5593 on 3 March, the first trading day of the month, after a weak end to February. It traded its high for the month on 18 March of 0.5831, also its highest level this year, before meeting some resistance. NZD/USD closed the month around 0.5680, up 1½%. Fears about the US economic outlook and higher NZ-US rate spreads contributed to the NZD's performance and came despite our risk appetite index falling 12pts to 50%.

On the crosses, NZD/EUR fell over 2½% to 0.5250, trading at its lowest level in five-years in the process. The key driver for EUR is noted above. In addition, Germany's IFO business survey showed rising business confidence – to an eight-month high – with advances in both current conditions and expectations, consistent with a recovery in the economy.

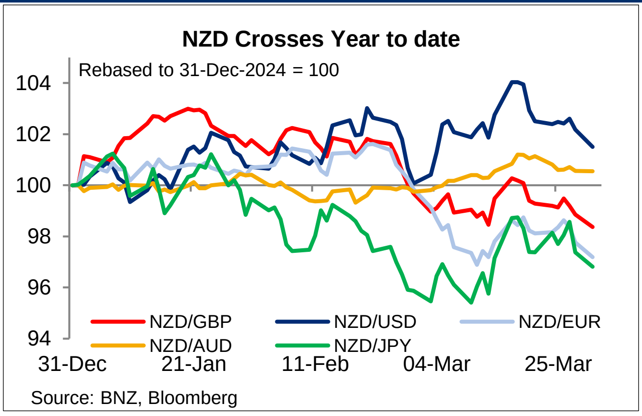
GDP per capita up for first time in nine quarters



NZ-consumer confidence falls in Q1 after trending higher



NZD up against USD and AUD; lower against the rest, YTD



The ECB delivered the expected 25bps cut to its policy rates, taking the deposit rate down to 2.5%, its sixth rate cut since June. Language in the policy statement was changed to suggest that the monetary policy stance had become "meaningfully less restrictive". President Lagarde said that the disinflation process is well on track, but she wouldn't commit on the path ahead for rates, saying that the backdrop is changing "dramatically" from one day to another.

Higher European currencies spilled over into a stronger GBP, seeing NZD/GBP falling over 1%, trading to a fresh nine-year low just below 0.44 in the process. As expected, the Bank of England left policy unchanged in an 8-1 vote, with perennial dove Dhingra voting for a 25bps cut and Mann falling back into the pack after voting for a larger 50bps cut at the previous meeting. The MPC left guidance unchanged at "a gradual and careful approach to the further withdrawal of monetary restraint is appropriate".

NZD/AUD rose 0.8% to 0.9090. The cross met some resistance at a six-month high just over 0.9160 before slipping back into its well-established tight trading range since October. Data continued to point to a tight Australian labour market, with the unemployment rate steady at 4.1%, while inflation continued to show signs of moderating, greasing the path towards further RBA rate cuts this year.

Despite facing higher tariffs, there was no sign of China using a weaker yuan as a weapon to offset the tariff impost. USD/CNY fell slightly to 7.26. Key China activity data for the first two months of the year were stronger than consensus, supported by fiscal stimulus, with the pick-up in retail sales to 4.0% y/y pleasing to see. The government also released a 30-point plan to boost domestic consumption described as the "most comprehensive" since the 1970s.

NZD/JPY rose 1% to 85.1. Data continued to show a stronger inflation pulse, including higher wage inflation, which supported the view of sustainable inflation ahead and supporting the case for further BoJ rate hikes. The Bank of Japan kept its policy rate steady which was in line with expectations. Although domestic conditions would support a further tightening in monetary policy, the Bank remained cautious given the escalating trade tensions and potential impact on the global economy. Governor Ueda indicated the BoJ is not in a rush to hike rates for now.

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Monthly Performance Table

Currencies	end-Mar	end-Feb	Change
NZD/USD	0.5679	0.5597	1.5%
NZD/AUD	0.9090	0.9017	0.8%
NZD/EUR	0.5250	0.5395	-2.7%
NZD/GBP	0.4396	0.4450	-1.2%
NZD/JPY	85.15	84.29	1.0%
NZD/CNY	4.119	4.072	1.2%
TWI	67.5	67.1	0.7%
AUD/USD	0.6247	0.6208	0.6%
EUR/USD	1.0817	1.0375	4.3%
GBP/USD	1.2919	1.2579	2.7%
USD/JPY	149.97	150.59	-0.4%
USD/CNY	7.26	7.28	-0.3%
USD/CAD	1.4389	1.4468	-0.5%
USD DXY	104.21	107.61	-3.2%
Asia dollar index	89.64	89.33	0.3%
Equity Markets			
MSCI AC Wrld, loc.	2,339	2,447	-4.4%
MSCI World, loc.	13,401	14,101	-5.0%
MSCI EM, USD	2,939	2,920	0.7%
US S&P 500	5,612	5,955	-5.8%
Euro STOXX 600	533.9	557.2	-4.2%
Germany DAX	22,163	22,551	-1.7%
France CAC 40	7,791	8,112	-4.0%
UK FTSE 100	8,583	8,810	-2.6%
Aust S&P/ASX 200	7,843	8,172	-4.0%
Japan Topix	2,659	2,682	-0.9%
China CSI 300	3,887	3,890	-0.1%
NZX50	12,270	12,601	-2.6%
Volatility: VIX	22.28	19.63	13.5%
3-mth Money Market Futures			
NZD Sep-25	96.77	96.78	-0.01
AUD Sep-25	96.38	96.31	0.07
USD Sep-25	96.19	96.18	0.02
EUR Sep-25	97.98	98.01	-0.04
GBP Sep-25	95.96	96.04	-0.08
CAD Sep-25	97.71	97.58	0.13

NZ Rates	end-Mar	end-Feb	Change
OCR	3.75	3.75	0.00
NZ 90day BB	3.60	3.76	-0.16
NZ 2yr swap	3.37	3.43	-0.06
NZ 5yr swap	3.66	3.68	-0.01
NZ 10yr swap	4.10	4.06	0.04
NZ Govt (4/27)	3.55	3.57	-0.02
NZ Govt (5/30)	4.01	4.00	0.02
NZ Govt (5/35)	4.59	4.50	0.09
NZ Govt (5/41)	5.00	4.87	0.13
Global 10 year bond rates			
US	4.21	4.21	0.00
Canada	2.97	2.90	0.07
UK	4.68	4.48	0.20
France	3.45	3.14	0.31
Germany	2.74	2.41	0.33
Italy	3.87	3.54	0.33
Spain	3.37	3.04	0.33
Portugal	3.26	2.93	0.32
Ireland	3.02	2.68	0.34
Japan	1.49	1.37	0.11
Australia	4.42	4.29	0.13
Commodities (USD)			
WTI Crude	71.48	69.76	2.5%
Brent Crude	74.74	73.18	2.1%
R/B CRB Index	309.3	301.8	2.5%
Gold spot	3,124	2,858	9.3%
Silver spot	34.09	31.15	9.4%
Copper	503.4	451.5	11.5%
Iron Ore	100.99	101.75	-0.7%
Thermal coal	103.00	102.05	0.9%
Corn	457.3	469.5	-2.6%
Wheat	537.0	555.8	-3.4%
SGX-NZX Dairy WMP	3,965	3,965	0.0%
SGX-NZX Milk Price '25	10.11	10.10	-1.0%

Source: BNZ, Bloomberg

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