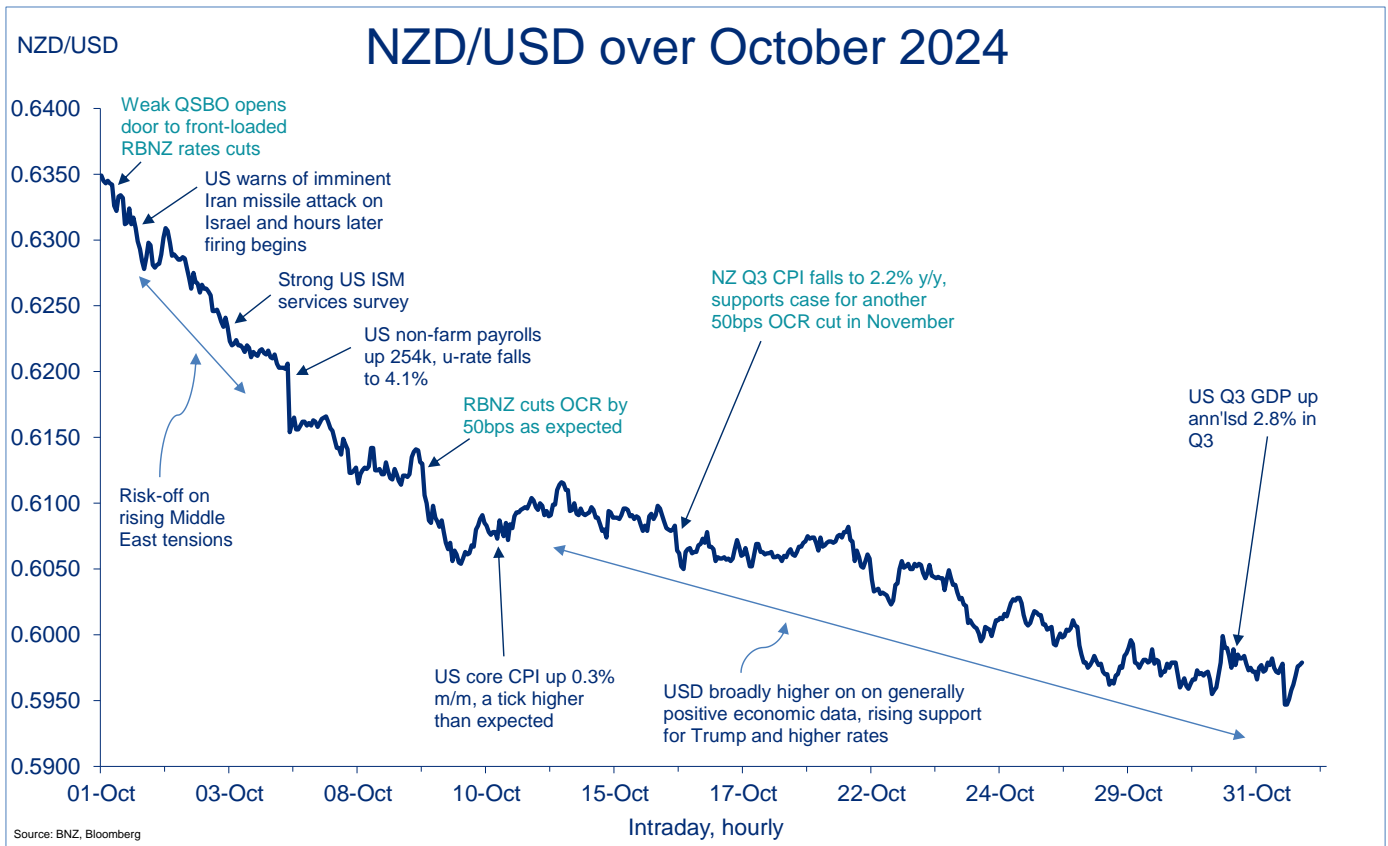


Financial Markets Wrap

1 November 2024

NZD slumps in October

- Stronger than expected US economic data and rising odds of a Trump victory drove higher US rates and a higher USD
- The NZD was the worst performing of the majors, down nearly 6%
- Lower NZ-global rate spreads added to NZD downside pressure, contributing to weaker cross rates



| Quick Outlook | | October ranges |
|----------------|--|-----------------|
| NZD/USD | Pricing now reflects some chance of a Trump victory at the election, but the result will still likely determine the course of the currency through November. A Trump win would likely see further NZD downside pressure while a decent recovery could ensue on a Harris victory. | 0.5940-0.6350 |
| NZD/AUD | Continues to look over-valued, more so with further NZ-Australia rate spread compression. Risk remains skewed to the downside alongside further compression in interest rate differentials, as the RBNZ cuts rates against unchanged RBA monetary policy. | 0.9015 – 0.9190 |
| NZD/GBP | More upside than downside risk over the next six months, given the extent of easing already priced into the NZ curve relative to the UK and with the cross rate near the bottom end of the range. | 0.4580 – 0.4750 |
| NZD/EUR | We continue to have little conviction on direction and see the range-trading environment of the past year continuing. Risks skewed slightly higher with the cross currently near the range-bottom. | 0.5470 – 0.5705 |
| NZD/JPY | Further BoJ tightening likely against the global trend over the coming year is yen supportive. Still look for downside in the cross over the medium-term but prone to volatile trading episodes. | 89.8– 92.0 |

Two key themes for October were stronger than expected US economic data and rising odds of Trump winning the US presidential election. Both factors drove higher US rates and a broadly stronger USD. US equities were torn between the higher rates and higher growth backdrop, with the net result being a 1% loss in the S&P500, contributing to a 1% fall in the World Index. The NZD underperformed, losing most of its gains through August-September, down a chunky 6% against the USD. NZ rates rose by less than global rates, resulting in further NZ-global rates compression, and contributing to NZD weakness.

US economic data mostly surprised to the upside, suggesting that the economy was tracking along nicely. Some of the most positive surprises were seen in top-tier data. US nonfarm payrolls increased by 254k in September alongside an upward revision of 72k across the previous two months. The unemployment rate fell to 4.1% and average hourly earnings increased 4% from a year earlier. The US ISM services index rose 3.4pts to 54.9, its highest level since February 2023. Core retail sales rose 0.7% m/m in September. At the end of the month, Q3 GDP data showed a solid 2.8% annualised increase, driven by strong consumer spending. Inflation data also positively surprised, with the core CPI up 0.3% m/m and 3.3% y/y in September.

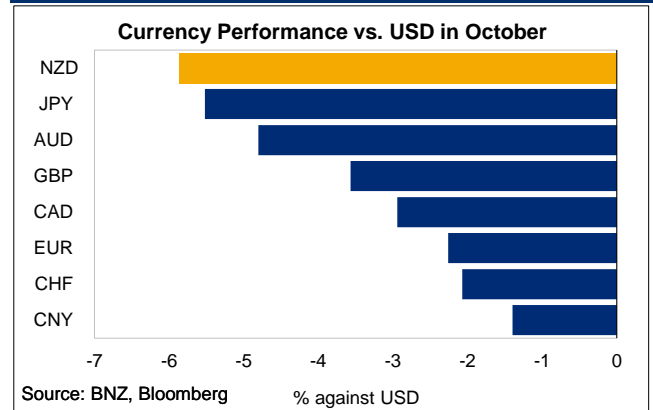
Commentary by Fed officials generally presented a consistent tone about the need for measured rate cuts. The stronger data backdrop resulted in a significant paring of rate cuts priced by the market. Over the course of the month, for the year ahead, the market removed 65bps worth of rate cuts from the curve. The 2-year Treasury ended the month up a chunky 53bps and the 10-year rate rose 50bps to 4.28%.

Ahead of the early November elections, support for Trump gained momentum. Political polls still suggested the race for President was tight, but nationwide polls tipped the balance to Trump by month-end. Betting markets showed more conviction in a Trump victory, alongside a Republican clean sweep. The prevailing narrative was that under a Trump presidency, policies of higher tariffs and looser fiscal policy via tax cuts would be USD-positive. Higher inflation would result in less scope for easier monetary policy and US rates would be higher across the curve. Thus, it is fair to say that in addition to stronger data, Trump's rising chance of victory was a factor in the lift in yields and USD strength.

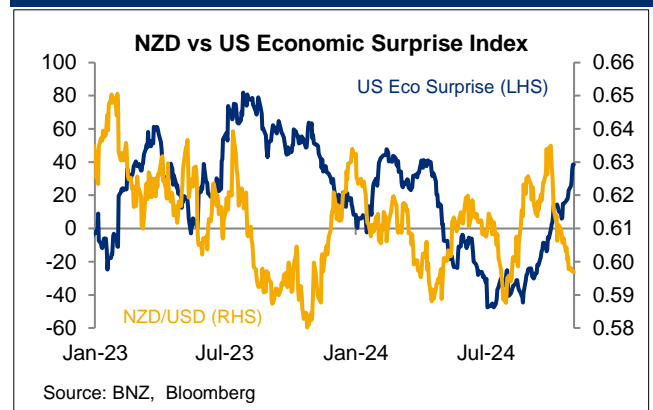
Geopolitical risk in the Middle East took another leg up after Iran launched a missile attack against Israel. Most missiles were intercepted, but there were some strikes. Late in the month, Israel retaliated against Iran with a limited, targeted attack on military sites. The attack avoided oil, nuclear and civilian sites, in line with the request by the US. The limited scale of the attack came as a relief to the market. The attacks contributed to volatility in oil prices, but with only a modest net positive change for the month.

Domestically, the month kicked off with the Quarterly Survey of Business Opinion conveying a more depressing outlook than the ANZ Business Outlook survey, probably

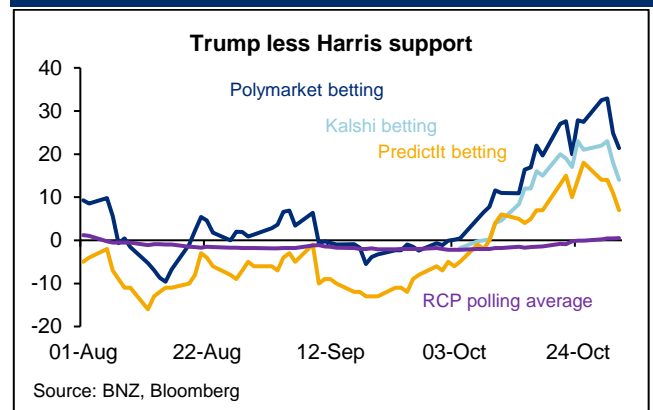
USD broadly stronger in October; NZD underperforms



US economic surprise indicator improving



Trump sees rising support



reflecting the shorter 3-month rather than 12-month look-ahead window. While confidence was notably higher, the activity and pricing indicators were consistent with weak economic conditions continuing and further disinflationary pressure. Following the survey, local economists changed their calls to expect the RBNZ to step up its easing cycle with a 50bps cut at the Monetary Policy Review. The Bank obliged, taking the OCR down to 4.75%. The Bank noted CPI is converging towards the midpoint of its target band, activity is subdued in part due to restrictive policy, and that the economy is in a position of excess capacity. Although the MPC discussed the benefits of a 25bps and 50bps adjustment, the accompanying statement did little to undermine expectations for a follow up 50bps cut in November.

Subsequent CPI data for Q3 were broadly in line with market expectations, with a small downside miss relative to RBNZ estimates. Inflation has been on a steady downward path for over a year, with the annual increase of 2.2% down to near the mid-point of the target range. Timely monthly data remained weak, including the PMI, PSI, housing market data and electronic card transactions. The composite PMI/PSI index was consistent with another contraction in GDP in Q3. Spending data were consistent with yet another weak quarter for retail sales volumes.

Against a backdrop of much higher global rates, the soft NZ dataflow and stepped-up pace of easing resulted in the domestic rates market outperforming. The 2-year swap rate closed the month up just 7bps to 3.64% while the 10-year rate rose 28bps to 4.16%. At month-end the OIS market priced in 57bps worth of rates for November meeting and 100bps by February. NZ-global rate spreads compressed, including NZ rates falling below Australian rates, even at the longer end of the curve.

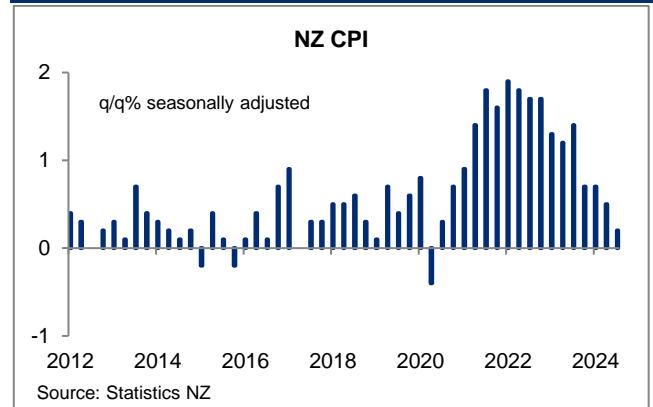
In currency markets, the USD was the strongest of the majors, with the driving factors noted earlier. The DXY USD index recovered 3.1% from its late-September 2024 low. The path of the NZD through the month was a steady, consistent decline. From a high just over 0.6350 at the start of the month, a low of 0.5940 was recorded on the 31st, with a decline of nearly 6% making it the worst performing of the majors. Stronger US data, rising odds of a Trump victory and lower NZ-US rate spreads contributed to the weaker NZD, with falls on most crosses.

JPY also underperformed, reflecting the higher global rates backdrop and lower conviction on tighter BoJ policy. In Japan, the ruling LDP party was the biggest loser at the Lower House elections, falling 18 seats short of a majority, even including the seats of its coalition partner Komei. PM Ishiba, who gambled on an early election after recently being appointed leader of LDP and assuming the role of PM, is still looking to form a government, but a period of uncertainty lies ahead. The BoJ left policy unchanged at its end-month meeting, although Governor Ueda left the door open for a possible December hike. USD/JPY rose nearly 6% to 152. After the rollercoaster ride over recent months. NZD/JPY was remarkably stable.

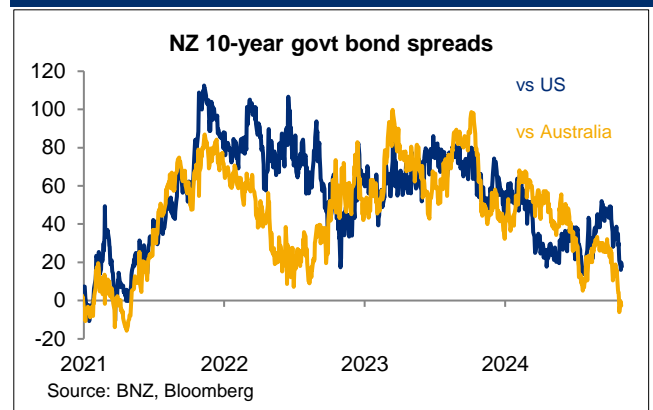
The AUD also underperformed and NZD/AUD fell by just over 1% to 0.9080, a small fall in the context of large compression in NZ-Australia rate spreads and the stark difference in macroeconomic performance. Ongoing strength in the Australian labour market and core CPI inflation remaining well above target reduced the chance of any RBA easing this year. A strong 64k lift in employment in September and higher participation kept the unemployment rate steady at a downwardly revised 4.1%.

In China there was more focus on the policy outlook than macro data. Following the smorgasbord of easier monetary policy measures in September, the market continued to anticipate announcements on the fiscal side, delayed until November. China monthly activity data for September were

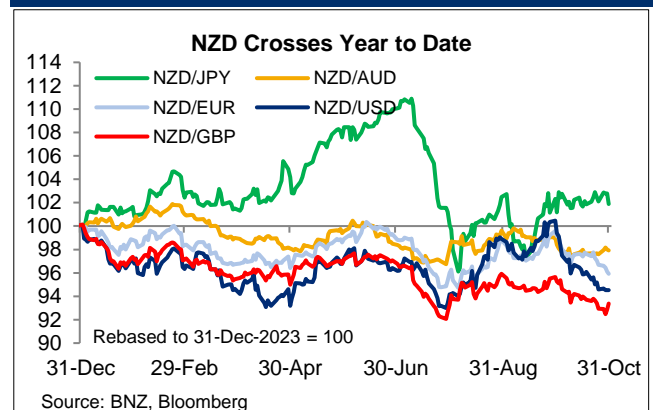
NZ CPI inflation falling sharply



NZ-global rate spreads fall



Only NZD/JPY now the higher cross in 2024



stronger than expected, with retail sales and industrial production picking up during the month. Q3 GDP rose 0.9% q/q, up from a downwardly revised 0.5% in Q2, still weak by China standards. USD/CNY rose by 1½% for the month, resulting in a 4½% fall in NZD/CNY.

NZD/EUR fell over 3½% to below 0.55. The ECB cut its policy rates for a third time this cycle, as widely telegraphed prior to the meeting, with a 25bps cut in the deposit rate to 3.25%. The Statement noted inflation is expected to rise in the coming months before declining to target next year, hinting of an earlier meeting of the target than previously thought. ECB President Lagarde noted that the economy was somewhat weaker than expected and growth risks remain tilted to the downside.

While she repeated the line that the ECB would take a meeting-by-meeting approach regarding the pace of easing, the combination of soft activity data and lower inflation encouraged the market to price in a back-to-back rate cut in December.

NZD/GBP fell 2½% to 0.4635. UK CPI inflation data came in two-tenths lower than consensus, with the headline rate falling to 1.7% y/y and the core rate down to 3.2%. The downside miss for the closely watched services CPI was even greater, three-tenths weaker than consensus at 4.9% and six-tenths weaker than the BoE's forecast of 5.5%.

The weaker inflation data reinforced the market's view that the BoE would likely cut rates by 25bps at the November meeting. BoE Governor Bailey said the central bank could become a "bit more aggressive" and "a bit more activist" to cutting rates if the news on inflation continued to be good. UK Chancellor Reeves delivered her debut Budget which featured much higher taxes, higher spending, and even higher borrowing to help scale up investment. This contributed to higher UK gilt yields and a weaker GBP towards the end of the month.

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| Monthly Performance Table | | | | | | | |
|-----------------------------------|---------|---------|--------|----------------------------------|---------|---------|--------|
| | end-Oct | end-Sep | Change | | end-Oct | end-Sep | Change |
| Currencies | | | | NZ Rates | | | |
| NZD/USD | 0.5977 | 0.6349 | -5.9% | OCR | 4.75 | 5.25 | -0.50 |
| NZD/AUD | 0.9081 | 0.9183 | -1.1% | NZ 90day BB | 4.52 | 4.87 | -0.35 |
| NZD/EUR | 0.5491 | 0.5702 | -3.7% | NZ 2yr sw ap | 3.64 | 3.57 | 0.07 |
| NZD/GBP | 0.4633 | 0.4747 | -2.4% | NZ 5yr sw ap | 3.77 | 3.55 | 0.22 |
| NZD/JPY | 90.84 | 91.18 | -0.4% | NZ 10yr sw ap | 4.16 | 3.88 | 0.28 |
| NZD/CNY | 4.254 | 4.456 | -4.5% | NZ Govt (5/26) | 3.82 | 3.83 | -0.01 |
| TWI | 69.6 | 71.9 | -3.2% | NZ Govt (4/29) | 3.97 | 3.76 | 0.21 |
| AUD/USD | 0.6582 | 0.6914 | -4.8% | NZ Govt (5/34) | 4.47 | 4.25 | 0.23 |
| EUR/USD | 1.0884 | 1.1135 | -2.3% | NZ Govt (5/41) | 4.88 | 4.74 | 0.14 |
| GBP/USD | 1.2899 | 1.3376 | -3.6% | Global 10 year bond rates | | | |
| USD/JPY | 152.02 | 143.63 | 5.8% | US | 4.29 | 3.78 | 0.50 |
| USD/CNY | 7.12 | 7.02 | 1.4% | Canada | 3.22 | 2.96 | 0.26 |
| USD/CAD | 1.3935 | 1.3525 | 3.0% | UK | 4.44 | 4.00 | 0.44 |
| USD DXY | 103.90 | 100.78 | 3.1% | France | 3.12 | 2.92 | 0.21 |
| Asia dollar index | 91.94 | 94.02 | -2.2% | Germany | 2.39 | 2.12 | 0.27 |
| Equity Markets | | | | Italy | 3.65 | 3.45 | 0.20 |
| MSCI AC Wrld, loc. | 2,330 | 2,356 | -1.1% | Spain | 3.09 | 2.92 | 0.17 |
| MSCI World, loc. | 13,361 | 13,482 | -0.9% | Portugal | 2.79 | 2.69 | 0.10 |
| MSCI EM, USD | na | 3,096 | na | Ireland | 2.71 | 2.47 | 0.24 |
| US S&P 500 | 5,705 | 5,762 | -1.0% | Japan | 0.94 | 0.85 | 0.09 |
| Euro STOXX 600 | 505.4 | 522.9 | -3.3% | Australia | 4.50 | 3.97 | 0.53 |
| Germany DAX | 19,078 | 19,325 | -1.3% | Commodities (USD) | | | |
| France CAC 40 | 7,350 | 7,636 | -3.7% | WTI Crude | 69.26 | 68.17 | 1.6% |
| UK FTSE 100 | 8,110 | 8,237 | -1.5% | Brent Crude | 73.16 | 71.77 | 1.9% |
| Aust S&P/ASX 200 | 8,160 | 8,270 | -1.3% | R/B CRB Index | 279.9 | 284.9 | -1.8% |
| Japan Topix | 2,696 | 2,646 | 1.9% | Gold spot | 2,744 | 2,635 | 4.2% |
| China CSI 300 | 3,891 | 4,018 | -3.2% | Silver spot | 32.66 | 31.16 | 4.8% |
| NZX50 | 12,639 | 12,424 | 1.7% | Copper | 434.0 | 455.3 | -4.7% |
| Volatility: VIX | 23.16 | 16.73 | 38.4% | Iron Ore | 103.68 | 109.44 | -5.3% |
| 3-mth Money Market Futures | | | | Thermal coal | 144.05 | 145.10 | -0.7% |
| NZD Mar-25 | 96.22 | 96.20 | 0.02 | Corn | 410.8 | 424.8 | -3.3% |
| AUD Mar-25 | 95.72 | 96.15 | -0.43 | Wheat | 570.5 | 584.0 | -2.3% |
| USD Mar-25 | 95.94 | 96.49 | -0.55 | SGX-NZX Dairy WMP | 3,645 | 3,515 | 3.7% |
| EUR Mar-25 | 97.64 | 97.72 | -0.08 | SGX-NZX Milk Price '25 | 9.45 | 9.20 | 0.4% |
| GBP Mar-25 | 95.64 | 95.97 | -0.33 | | | | |
| CAD Mar-25 | 97.07 | 97.18 | -0.12 | | | | |

Source: BNZ, Bloomberg

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