

Research Markets Today

5 March 2025

Events Round-Up

NZ: Dwelling consents (m/m%), Jan: 2.6 vs. -5.6 prev.

AU: Current account bal (\$b), Q4: -12.5 vs. -12.0 exp.

AU: Retail sales (m/m%), Jan: 0.3 vs. 0.3 exp.

EA: Unemployment rate (%), Jan: 6.2 vs. 6.3 exp.

Good Morning

Hey Grok, President Trump has just imposed new tariffs on Canada, Mexico and China. Give me a witty limerick to begin my daily report:

“A tariff from Trump, oh so bold,
On Canada, Mexico, and China bestowed,
With trade in a spin,
The markets begin,
To dance to a tune yet untold!”

Yesterday morning President Trump confirmed that 25% import tariffs on Canada and Mexico (with Canadian energy products enjoying a reduced 10% tariff) and an increased 10% tariff for China would indeed take effect from 4 March, as proposed. The news sent markets into a tailspin, with a weak close for US equities, lower Treasury yields, and the CAD and Mexican peso capturing the brunt of the FX reaction.

Equity market losses have extended overnight and weaker risk sentiment has supported US Treasuries – the market seeing the expected whack to US growth as a more important force on the bond market than the expected lift in inflation. The reaction in the currency market has been rather muted at this stage under the circumstances. Since this time yesterday, commodity currencies have underperformed while JPY and CHF have been the two best performers.

The S&P500 was down as much as 2% in the morning session, with the loss pared to 1% in early afternoon trading. Yesterday’s 1.8% fall made it the worst day in 2025. The index is down about 6% from its peak two weeks ago, with all the gain since Trump’s election now completely wiped out. For the day, all sectors are lower, with Financials, Consumer Discretionary, Energy and Industrials the worst performing. Equity market losses have been the norm around the world, with the Euro Stoxx 600 whacked 2.1%, the largest fall this year.

US Treasury yields are mixed, with the curve steeper, with falls at the short end, and yields modestly higher at the long end. The market believes that the Fed will be more worried about its unemployment mandate than inflation mandate in the face of growth-sapping tariffs. More than three full rate cuts this year have now been priced, or 81bps for the fully year. The 2-year rate has extended its recent move below 4%, currently 3.90% and down 5bps for the day, while the 10-year rate is up slightly to 4.17% after trading down to an overnight low of 4.10%, a level not seen since October.

The USD is broadly weaker overnight, although with Trump confirming around 9am yesterday that tariffs would indeed proceed, the 24-hour changes are more insightful, showing the AUD, CAD and NZD leading the falls. The NZD made a temporary foray just below 0.56 after the NZ close and it currently trades at 0.5620. The AUD fell to just below 0.6190 and now trades just over 0.62. USD/CAD is trading at 1.4525 and perceived wisdom is that even though some risk of tariffs was already priced in, the CAD would be trading weaker if the market assumed the 25% tariff rate would stick. Ditto, the Mexican peso, with a modest negative reaction to the tariffs so far.

Safe-haven currencies have outperformed, with JPY and CHF leading the 24-hour gains. The yen made a fresh high for the year, with USD/JPY trading down towards 148 and it currently sits at 148.75. The EUR has actually made a modest gain over the past 24 hours and trades at 1.0540, even though Europe is widely expected to be next in the cross hairs of Trump’s tariff impost.

News around Ukraine and European defence spending have been a positive offsetting force for the euro. Yesterday, a White House official said the US will pause all military aid to Ukraine until President Trump determines that President Zelensky is making a good-faith effort toward peace negotiations with Russia. Overnight, Ukraine President Zelensky said it was regrettable what happened in the Oval office and “I would like to reiterate Ukraine’s commitment to peace...Ukraine is ready to come to the negotiating table as soon as possible”, adding that Ukraine was ready to sign an agreement on minerals and security with the US.

In response to the pullback of US security from Europe, the EU will propose 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.

NZD/EUR has probed a fresh five-year low and sits at 0.5335. A relatively flat GBP sees NZD/GBP probing a fresh nine-year low just over 0.44. NZD/JPY is weaker and the NZD shows small gains against the AUD and CAD. NZD/AUD is up near 0.9045, following the usual pattern that when bad things happen to China, the initial reaction is a weaker AUD than NZD.

Back to tariffs, China and Canada have retaliated, as promised. China looks to be targeting the US agriculture sector, including additional 10-15% tariffs on soybeans, pork, beef and grains and various other products and halting purchases of logs. Other non-tariffs measures include adding 15 US companies to an export control list and adding 10 US companies to an “unreliable entity” list. Once again, this is seen to be a muted response by China. Canada will retaliate with an immediate 25% tariff on CAD30bn of US imports and will apply tariffs to another CAD125bn of US goods in three weeks. Ontario will impose a 25% tariff on power it sends to US states. Ouch. Mexico said it would respond on Sunday with retaliatory measures.

A key question is how long this trade war will last. Market price action so far is consistent with the trade war being temporary but the longer it drags on for, the greater the market reaction will be. It shouldn't be too long before pain is felt across much of the US economy, with higher inflation and activity whacked, and it's a case of whether the White House ultimately reverses course. Treasury Secretary Bessent said that the Trump Administration isn't yet overly concerned with the stock market reaction, arguing that the selloff was only temporary.

After we went to press yesterday, oil prices fell after OPEC+ said it would increase output in April, with plans to

further increase production to restore 2.2m barrels a day by 2026. This surprised the market, with the recent trend being one of OPEC+ pushing out projected production increases. Price falls have extended, as growth fears from tariffs pervade market sentiment. Brent crude fell below USD70 and currently sits just under USD71.

The domestic rates market saw falling yields yesterday, driven by global forces, with NZGB and swaps yields down 3-4bps across the curve, although NZ-US rate spreads continued to widen. The Australian 10-year bond future is up a couple of basis points overnight. The GDT dairy auction overnight showed a small 0.5% fall in the price index, with whole milk powder down 2.2%.

In the day ahead, Australian Q4 GDP is released, with the consensus nudging up to 0.6% q/q after positive partial indicators released, with risk to the upside. Tonight sees the release of US ADP employment and the ISM services survey, but the market's focus will be the ongoing fallout from the ramped-up trade war. This afternoon at 3pm NZ time, President Trump will be addressing Congress to layout his second-term priorities.

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Coming Up

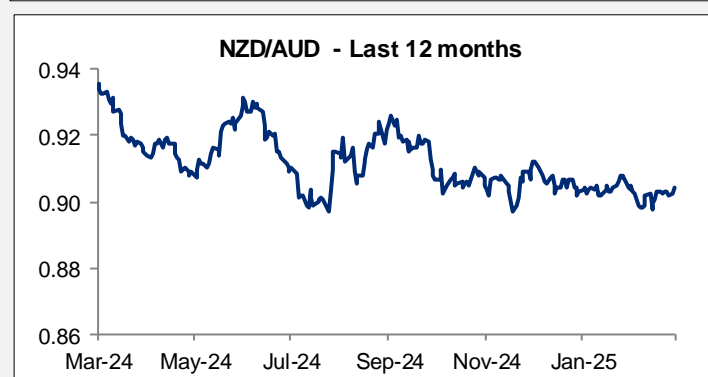
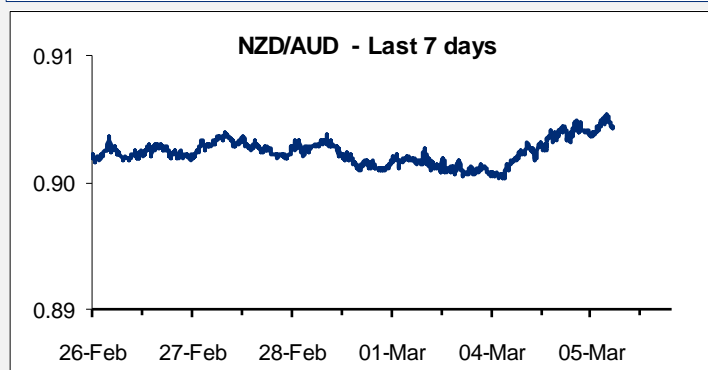
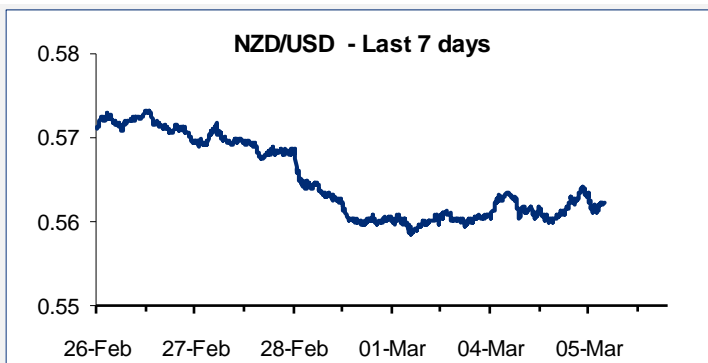
		Period	Cons.	Prev.	NZT
AU	GDP (q/q%)	Q4	0.6	0.3	13:30
CH	Caixin PMI services	Feb	50.7	51	14:45
US	ADP employment change (k)	Feb	140	183	02:15
US	ISM services index	Feb	52.5	52.8	04:00

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	0.5622	+0.1	0.5605	0.5644	CHF	0.8898	-0.8	S&P 500	5,791	-1.0	12.9	Oil (Brent)	70.76	-1.2
AUD	0.6217	-0.1	0.6197	0.6244	SEK	10.527	+0.2	Dow	42,538	-1.6	9.1	Oil (WTI)	67.97	-0.6
EUR	1.0543	+0.5	1.0479	1.0560	NOK	11.197	+0.1	Nasdaq	18,227	-0.8	12.5	Gold	2923.8	+0.8
GBP	1.2745	+0.3	1.2689	1.2754	HKD	7.772	-0.1	Stoxx 50	5,387	-2.8	9.7	HRC steel	914.0	+0.1
JPY	148.73	-0.5	148.10	149.58	CNY	7.264	-0.3	FTSE	8,759	-1.3	14.6	CRB	300.3	-0.5
CAD	1.4525	+0.3			SGD	1.342	-0.3	DAX	22,327	-3.5	26.0	Wheat Chic.	536.8	-2.1
NZD/AUD	0.9043	+0.2			IDR	16,445	-0.2	CAC 40	8,048	-1.9	1.2	Sugar	18.14	-0.4
NZD/EUR	0.5332	-0.4			THB	33.71	-0.9	Nikkei	37,331	-1.2	-6.9	Cotton	63.73	-0.6
NZD/GBP	0.4411	-0.2			KRW	1,459	+0.1	Shanghai	3,324	+0.2	9.1	Coffee	399.8	+3.4
NZD/JPY	83.62	-0.5			TWD	32.91	+0.0	ASX 200	8,198	-0.6	6.1	WM powder	3940	-0.9
NZD/CAD	0.8166	+0.4			PHP	57.79	-0.2	NZX 50	12,470	-0.6	6.1	Australian Futures		
NZ TWI	67.13	-0.1						VIX Index	23.66	+3.9	+75.4	3 year bond	96.29	0.06
												10 year bond	95.69	0.00
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	3.75	3.74	USD	4.17	0.01	15-Apr-27	3.55	-0.03	BKBM 1-mth	3.87	0.00	
AUD	4.10	4.12	3.68	4.28	AUD	4.27	-0.06	15-May-28	3.71	-0.03	BKBM 3-mth	3.73	-0.00	
NZD	3.75	3.73	3.39	4.03	NZD	4.49	-0.03	20-Apr-29	3.84	-0.03	1 year	3.38	-0.00	
EUR	2.75	2.46	2.15	2.41	GER	2.50	0.00	15-May-30	3.98	-0.03	2 year	3.39	-0.03	
GBP	4.50		4.02	4.01	GBP	4.53	-0.02	15-May-31	4.14	-0.03	3 year	3.47	-0.04	
JPY	0.48	-0.03	0.82	1.27	JPY	1.43	0.01	15-May-32	4.25	-0.03	5 year	3.63	-0.04	
CAD	3.00	4.97	2.30	2.59	CAD	2.82	-0.02	14-Apr-33	4.33	-0.03	7 year	3.81	-0.04	
								15-May-34	4.40	-0.03	10 year	4.03	-0.04	
								15-May-35	4.49	-0.03	15 year	4.26	-0.05	
								15-May-36	4.57	-0.03				
								15-May-37	4.66	-0.03				
								15-May-41	4.86	-0.03				
								15-May-51	5.03	-0.04				
								15-May-54	5.04	-0.04				
					NZ Inflation-Indexed Bonds									
					Sep-30	2.19	-0.03							
					Sep-35	2.68	-0.03							
					Sep-40	2.96	-0.03							
* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer														
Rates are as of: NZT 07:01														
Source: Bloomberg														

NZD exchange rates

5/03/2025	7:02 am	Prev. NY close
USD	0.5622	0.5617
GBP	0.4411	0.4422
AUD	0.9043	0.9023
EUR	0.5332	0.5356
JPY	83.62	83.97
CAD	0.8166	0.8135
CHF	0.5002	0.5037
DKK	3.9777	3.9945
FJD	1.3126	1.3115
HKD	4.3696	4.3683
INR	49.06	49.07
NOK	6.2947	6.2840
PKR	157.30	157.06
PHP	32.47	32.53
PGK	2.2578	2.2558
SEK	5.9180	5.9030
SGD	0.7546	0.7566
CNY	4.0839	4.0934
THB	19.02	19.19
TOP	1.3322	1.3519
VUV	70.24	70.30
WST	1.5672	1.5800
XPF	64.00	64.28
ZAR	10.4352	10.4516



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	2.88	3.16
3 Months	10.35	10.95
6 Months	22.46	23.71
9 Months	32.71	34.84
1 Year	40.09	43.10

NZD/AUD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	2.16	2.76
3 Months	10.06	11.49
6 Months	23.05	26.21
9 Months	35.33	40.64
1 Year	44.78	52.48

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