

# Market Alert

Thursday 21 August 2025

CURRENCIES	Spot	6mths
NZD/USD	0.5825	0.0036
NZD/AUD	0.9056	0.0027
NZD/JPY	85.860	-1.10
NZD/EUR	0.4999	-0.0025
NZD/GBP	0.4330	0.0024
NZD/CNH	4.2503	-0.0273
AUD/USD	0.6430	0.0020
AUD/EUR	0.5518	-0.0044
EUR/USD	1.1651	0.0130
USD/CNH	7.1815	-0.0913
GBP/USD	1.3450	0.0007
EUR/GBP	0.8659	0.0091
INT RATES	NZ	Australia
OCR/Cash	3.00%	3.60%
90 day bills	3.05%	3.62%
2 year swap	2.91%	3.20%
10 year Govt	4.48%	4.41%

## Exporters ... it's time to get busy!

As widely expected, the RBNZ cut the OCR by 25bps to 3.00% yesterday, citing the weak economic data in the June quarter, with household and business spending constrained by global uncertainty, falling employment, high inflation, and declining house prices. The policy assessment ended on a dovish note, stating that *"if medium-term inflation pressures continue to ease as expected, there is scope to lower the OCR further."* While the statement acknowledged both *"upside and downside risks to the economic outlook"*, its tone was decidedly dovish. The vote was a point of interest, as the committee voted by a 4-to-2 majority to cut the cash rate by 25bps, revealing that two members had advocated for a more aggressive 50bps cut.

During the Q&A session, Governor Hawkesby opened with a key point: the RBNZ's projection for the OCR to trough around 2.50% was *"consistent with further cuts."* He emphasised that while all meetings are *"live"*, no final decision has been made, and future actions will be determined by the incoming economic data. The Governor also addressed the 4-2 vote, noting that it simply reflects a *"range of views around the risks to the outlook."*

Regarding the neutral rate, Hawkesby confirmed that the RBNZ's view has not changed, with Chief Economist Paul Conway adding that the key rate is *"not restrictive"* anymore. On inflation, Hawkesby pointed to falling government spending as a positive, but cautioned there's a *"50-50 chance that inflation goes over 3% in the near term."* Finally, Assistant Governor Karen Silk mentioned the central bank is investigating why the 250bps of rate cuts have been slow to filter through to the wider economy, to which Hawkesby reassured that policy lags are *"long and variable"*, and that the previous cuts will eventually support growth.

The dovish statement sent a clear signal to markets, triggering an immediate and aggressive sell-off in the NZD and swap rates. The short end of the yield curve was hit hardest, with the 2-year swap rate plummeting 15bps and the 3-year swap rate falling 14bps from pre-meeting levels. Longer-end swaps also

moved lower, although their decline was less severe falling 10bps. This led to a steepening of the yield curve, with the 2-year verse 10-year spread widening from 92bps to 100bps. Markets are now pricing an OCR floor of 2.50% by early next year. The NZD also came under sustained selling pressure, NZD/USD falling from 0.5890 to 0.5825, while the NZD/AUD fell from 0.9135 to be at 0.9055. This weakness was mirrored on the crosses, with NZD/EUR trading at a 15-year low overnight.

## Looking at the other headlines

The minutes from the Fed's July meeting highlighted that it would take time to get clarity on the magnitude and persistence of the higher tariffs, and that while the impact of the tariffs had become apparent in goods prices, the overall impact on inflation remains to be seen. Some participants suggested it would not be appropriate to wait for complete clarity on the tariffs' effects on inflation before adjusting policy. Several participants said the current target range for the federal funds rate may not be far above its neutral level. While the dissenters favoured a rate cut, the majority viewed the upside risks to inflation as the greater risk. Several saw the risks as balanced, while a couple saw employment as the more salient risk.

UK inflation jumped from 3.6% to 3.8% in July, still heading the wrong way for them.



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# Daily Rates

Thursday 21 August 2025

FX	Spot	FECs (mid)				Spot Mid	
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...
NZ TWI	68.00					CAD	0.8078
NZD/USD	0.5825	0.0006	0.0019	0.0036	0.0064	CHF	0.4682
NZD/AUD	0.9056	0.0004	0.0013	0.0027	0.0051	CNY	4.1819
NZD/JPY	85.860	-0.20	-0.59	-1.10	-1.98	DKK	3.7302
NZD/EUR	0.4999	-0.0005	-0.0014	-0.0025	-0.0047	FJD	1.3065
NZD/GBP	0.4330	0.0003	0.0011	0.0024	0.0047	HKD	4.5493
						KRW	813.61
AU TWI	59.90					MYR	2.4596
AUD/USD	0.6430	0.0004	0.0011	0.0020	0.0033	NOK	5.9592
AUD/NZD	1.1040	-0.0006	-0.0020	-0.0039	-0.0068	SEK	5.5838
AUD/JPY	94.88	-0.27	-0.80	-1.51	-2.72	SGD	0.7481
AUD/EUR	0.5518	-0.0008	-0.0023	-0.0044	-0.0083	TWD	17.63
AUD/GBP	0.4779	0.0001	0.0005	0.0012	0.0024	ZAR	10.28
							11.36
USD Index	98.22					EQUITIES	
EUR/USD	1.1651	0.0024	0.0069	0.0130	0.0235		Index
USD/JPY	147.39	-0.51	-1.50	-2.79	-4.95	NZX50	13,071
GBP/USD	1.3450	0.0004	0.0008	0.0007	-0.0005	ASX200	8,918
EUR/GBP	0.8659	0.0015	0.0046	0.0091	0.0174	Dow Jones	44,938
USD/CNY	7.1757	-0.0180	-0.0480	-0.0887	-0.1688	S&P 500	6,402
						FTSE100	9,288
INTEREST		New Zealand		Australia		DAX 30	24,277
RATES		Mid		Mid		Nikkei	42,889
30 day bank bills			3.14%		3.60%	COMMODITIES	
90 day bank bills			3.05%		3.62%		USD
1 year swap			2.86%		3.29%	Brent Crude	66.99
2 year swap			2.95%		3.21%	Gold	3,348.73
3 year swap			3.08%		3.28%	Silver	37.89
5 year swap			3.38%		3.68%	Iron Ore	101.57
10 year swap			3.94%		4.16%	CRB Index	365.81
3 year Govt bond			3.35%		3.41%		
5 year Govt bond			3.75%		3.68%		NZD
10 year Govt bond			4.48%		4.41%	NZ Carbon	56.90

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