SOUTH WAIRARAPA DISTRICT COUNCIL
Kia Reretahi Tātau

Treasury Update

12 November 2026

STRICTLY PRIVATE AND CONFIDENTIAL



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BANCORP TREASURY SERVICES LIMITED

Debt position 31 October 2026

Funder	Principal	Orig Term (yrs)	Rate	Start Date	Maturity
LGFA	6,700,000	10.00	2.720%	17-May-21	15-May-31
LGFA	17,000,000	1.75	2.974%	13-Feb-25	13-Nov-26
LGFA	15,000,000	0.50	3.230%	14-Jul-26	14-Jan-27
	38,700,000		Weighted Ave Debt Cost		**3.03%**

- Outstanding gross debt on 31 October was $8.7M.
- Expected debt balance 1 July 2027 is $5.2M and increasing to $47.7M by 30 June 2037

Background - International

- The 'never ending' Gulf War is keeping oil price volatility elevated and this had combined, with ongoing concerns around US Govt debt levels and surging AI linked borrowing, to push US bond yields to multi-decade highs in early October. The 30-year US treasury bond yield (the key rate for US residential mortgages) jumped to 5.75%, while the US 10-year bond yield traded as high as 5.34%.

- However, with equity investors getting increasingly nervous about the gap between 'spending today on the AI rollout and the actual returns that will be seen tomorrow', equity indices are increasingly volatile and bonds recently issued by Meta, Nvidia and Oracle are all below issue price.
- CoreWeave, the largest 'pure-play' neocloud company with $50B of debt, negative cashflow until 2030 projected and 67% of revenue from Microsoft, has seen its bonds drop less than 80-cents in the dollar.
- Related flight to safety flows pushed the US10-year rate below 5.00%, from a 5.34% peak. After the democrat 'blue wave' it fell further (to 4.85%) as markets again think about a resolution to the Iran war.
- As expected, the RBA hiked on 3 Nov despite weak consumer confidence with ANZ- Roy Morgan Nov survey at 66.2 (from 67.1), one of the lowest readings since 1973, house values falling and weak employment data. The key focus at this stage is inflation although financial markets are tentatively projecting cuts starting in late 2027.

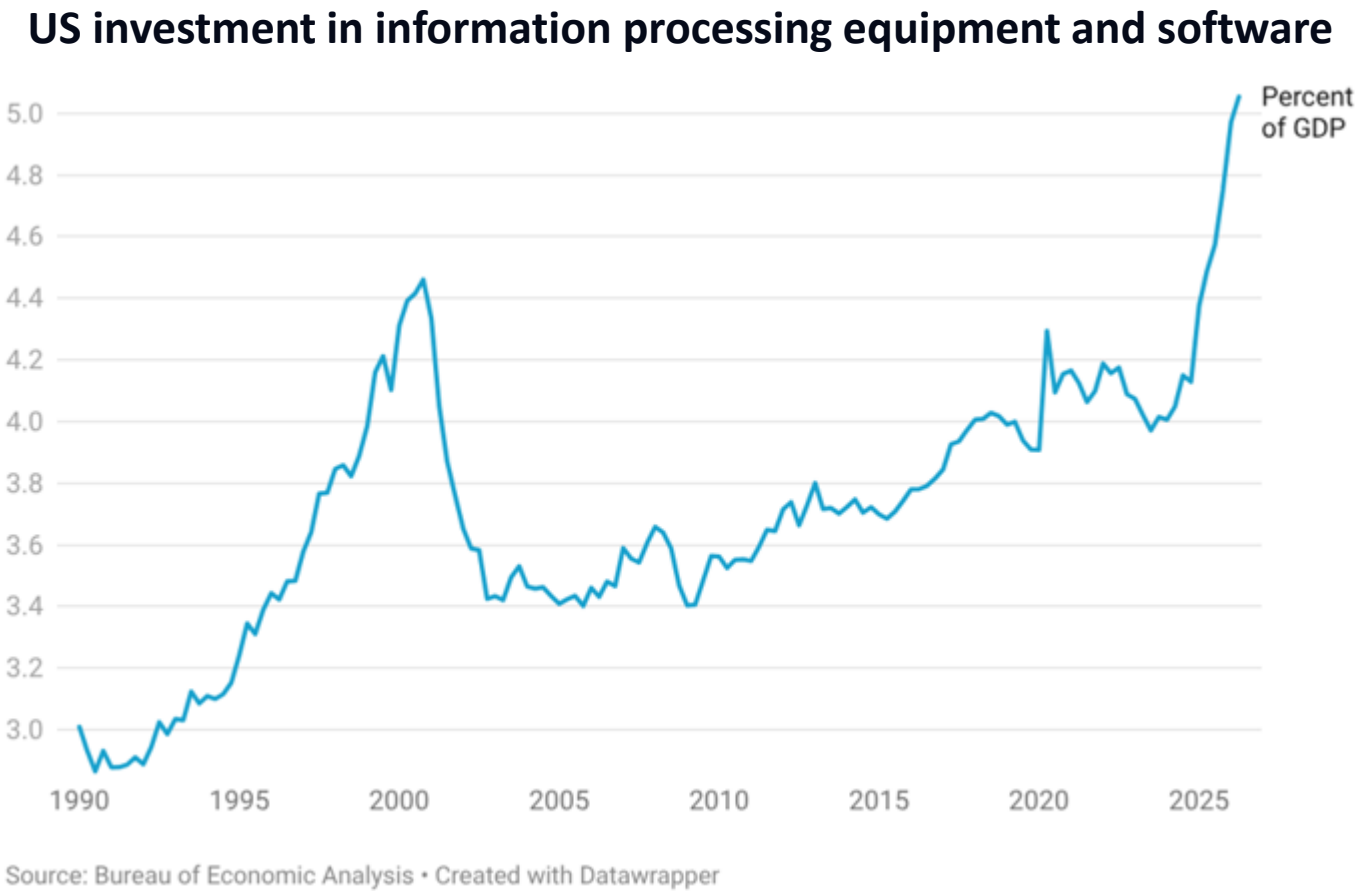
<u>Upcoming Central Bank meetings</u>

- 8 Dec RBA no change with a 0.25% cut projected in Q4 2027
- 9 Dec RBNZ 60% chance of 0.25% hike (to 3.00%), 3.50% peak Q3 2027
- 10 Dec Fed 76% chance of 0.25% hike (4.00% to 4.25%), 4.25% to 4.50% peak Q3 2027

Background - Domestic

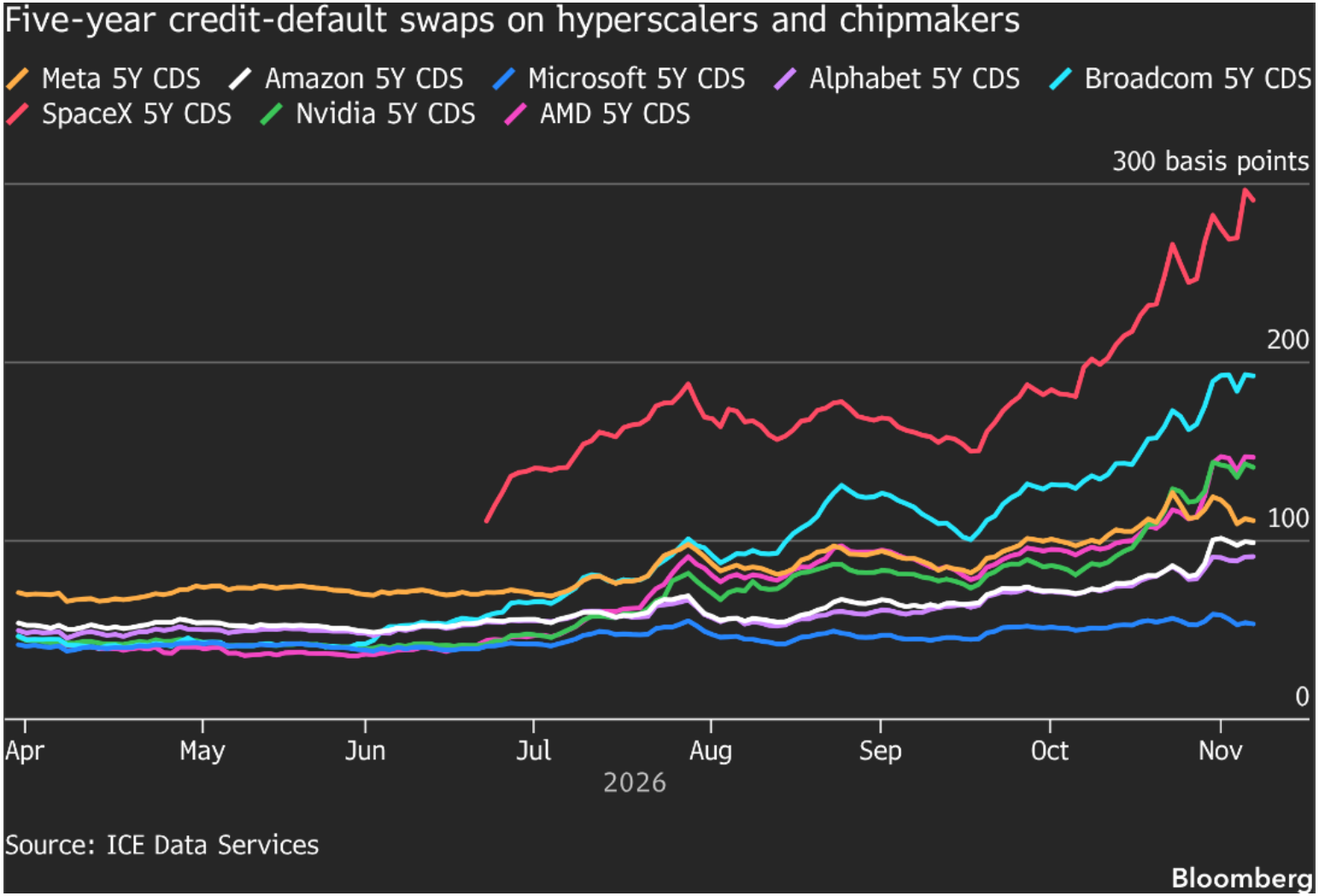
- After the RBNZ paused in late Oct, market pricing had a 100% chance of a 0.25% hike in Dec priced in with an OCR peak of 4.00% in early 2028. Bank economist projections ranged from 3.25% and 4.00%.
- Weaker than expected employment data (unemployment rate increased to 5.7% in Sept) has seen market pricing move to a circa 60% chance of a Dec hike and a 3.50% peak in Q3 2027.
- Term rates have fallen in line with offshore moves with the 5-year swap rate at 3.98% well down from the 4.54% in mid-October.
- While the election has not delivered a clear-cut result the coalition is the front-runner and financial markets have shown little response with offshore factors still the key
- In any case National or Labour both had similar fiscal strategies but the key question will be if coalition commitments are accommodated within existing operating and capital allowance promises. At this stage all we can do is await the count of the circa 400,000 special votes with a Government having to meet by 14 January …… and no party would want to be blamed for engineering another election!
- The caretaker government lasted for 11 days in 2008 and 44 days in 2023.

AI infrastructure spend-up



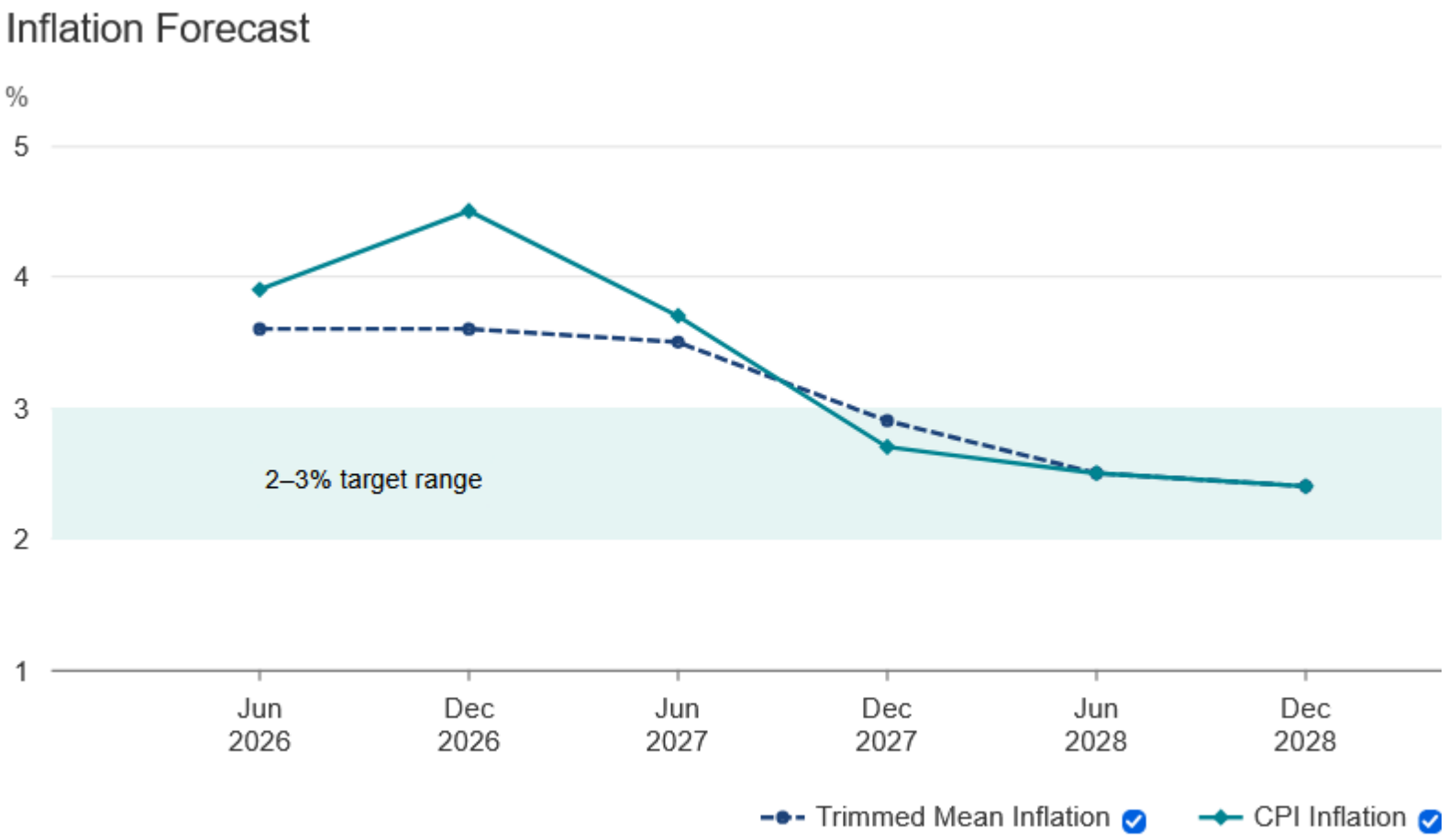
- Investment in technology and AI infrastructure is expected to be roughly 800bn for 2026 and growing. It represents the largest infrastructure boom in modern American history (much larger than the 1990's dot-com boom).

AI credit risk reaches new high



- Wall Street generated 916 million of revenue from trading CDS's last year, up 23% from the year before. The top 3 banks accounted for 62% of revenue and the top 6 banks was 86.5%, suggesting the market is highly concentrated.

RBA hikes to an 18-year high

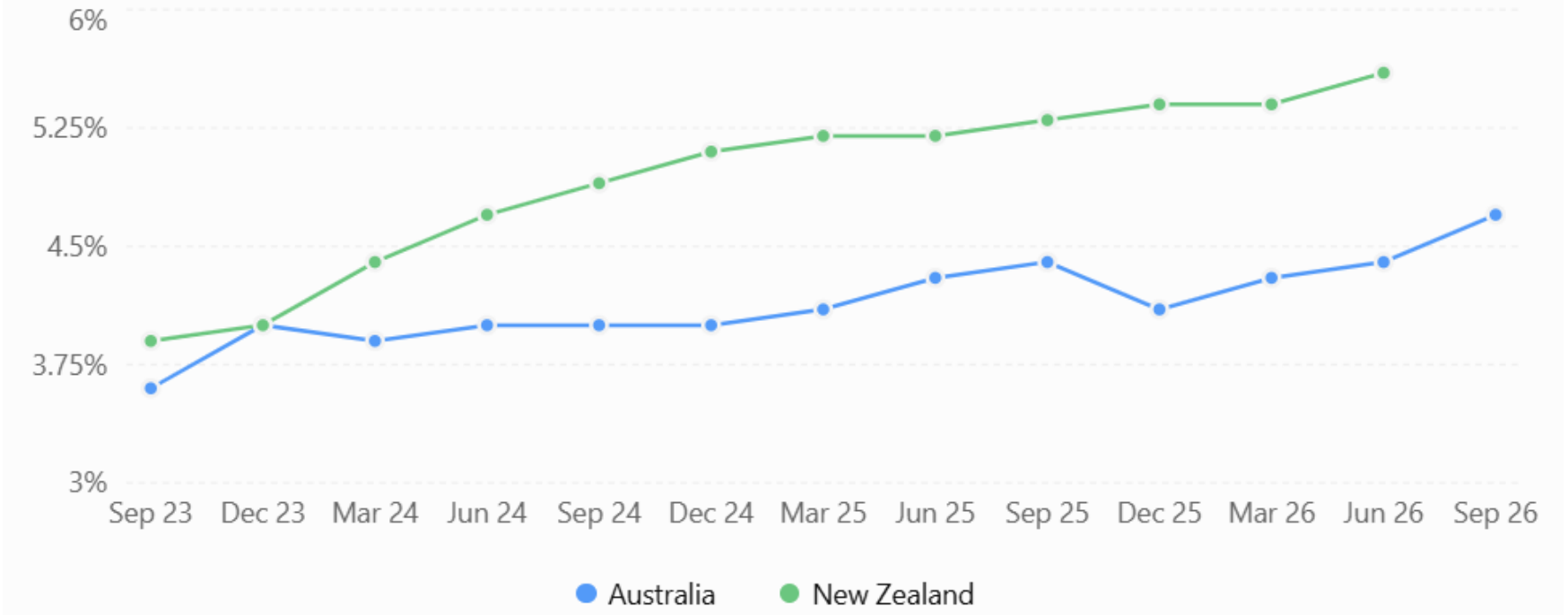


- *Inflation is now forecast to remain elevated through much of 2027 and is not expected to reach the top of the 2–3 per cent target range until late 2027, around three quarters later than previously forecast. Slower spending is needed to bring down inflation."*
- *" economy is slowing, housing prices have fallen significantly and the unemployment rate has risen."*

But unemployment a hand break for spending

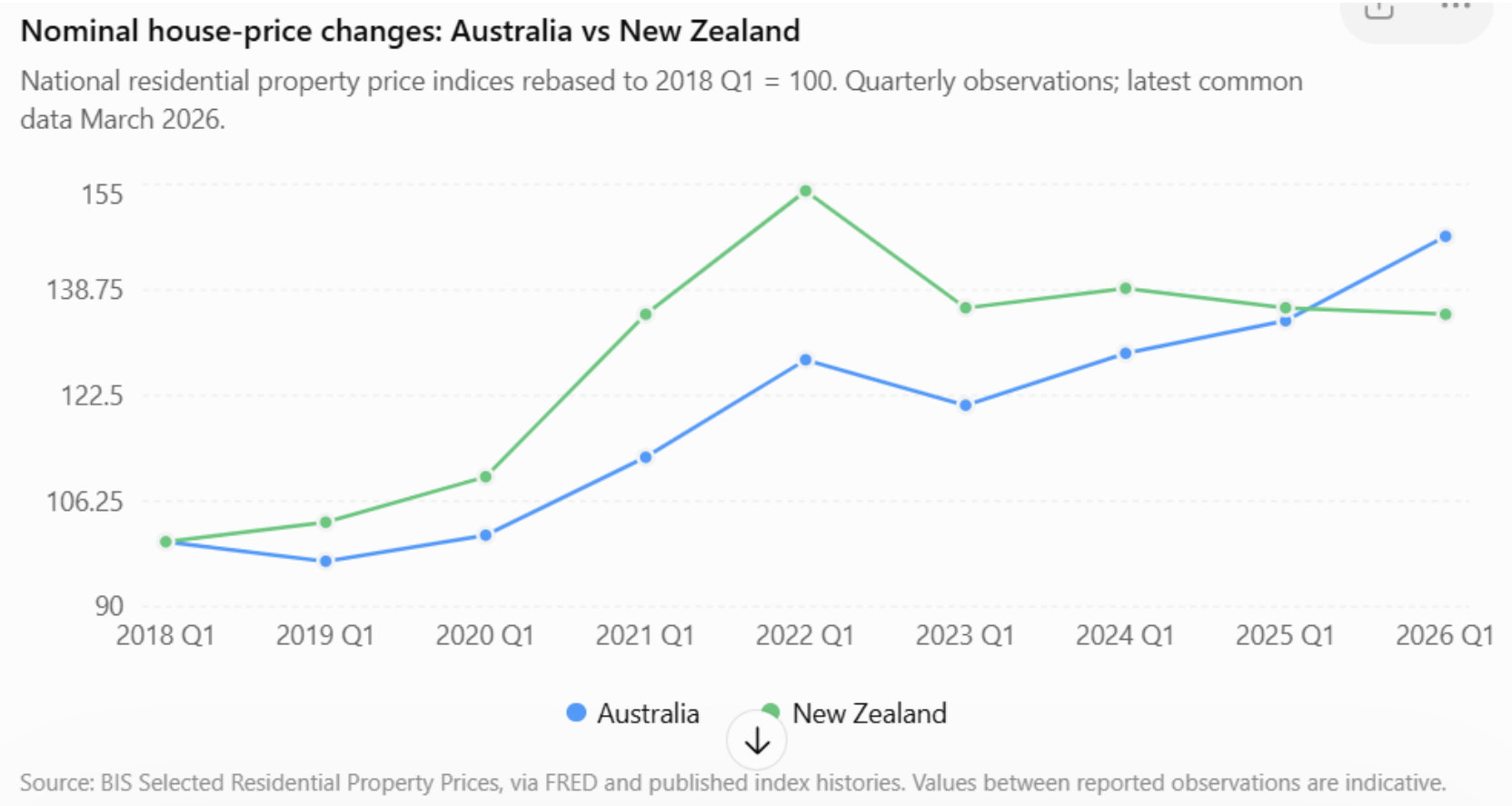
Unemployment rate (%) — September 2023 to September 2026

Seasonally adjusted. Australia measured monthly, sampled at quarter-end; New Zealand measured quarterly.



Sources: ABS and Stats NZ. Latest NZ observation available here is June 2026; September 2026 NZ data was scheduled for 4 November 2026.

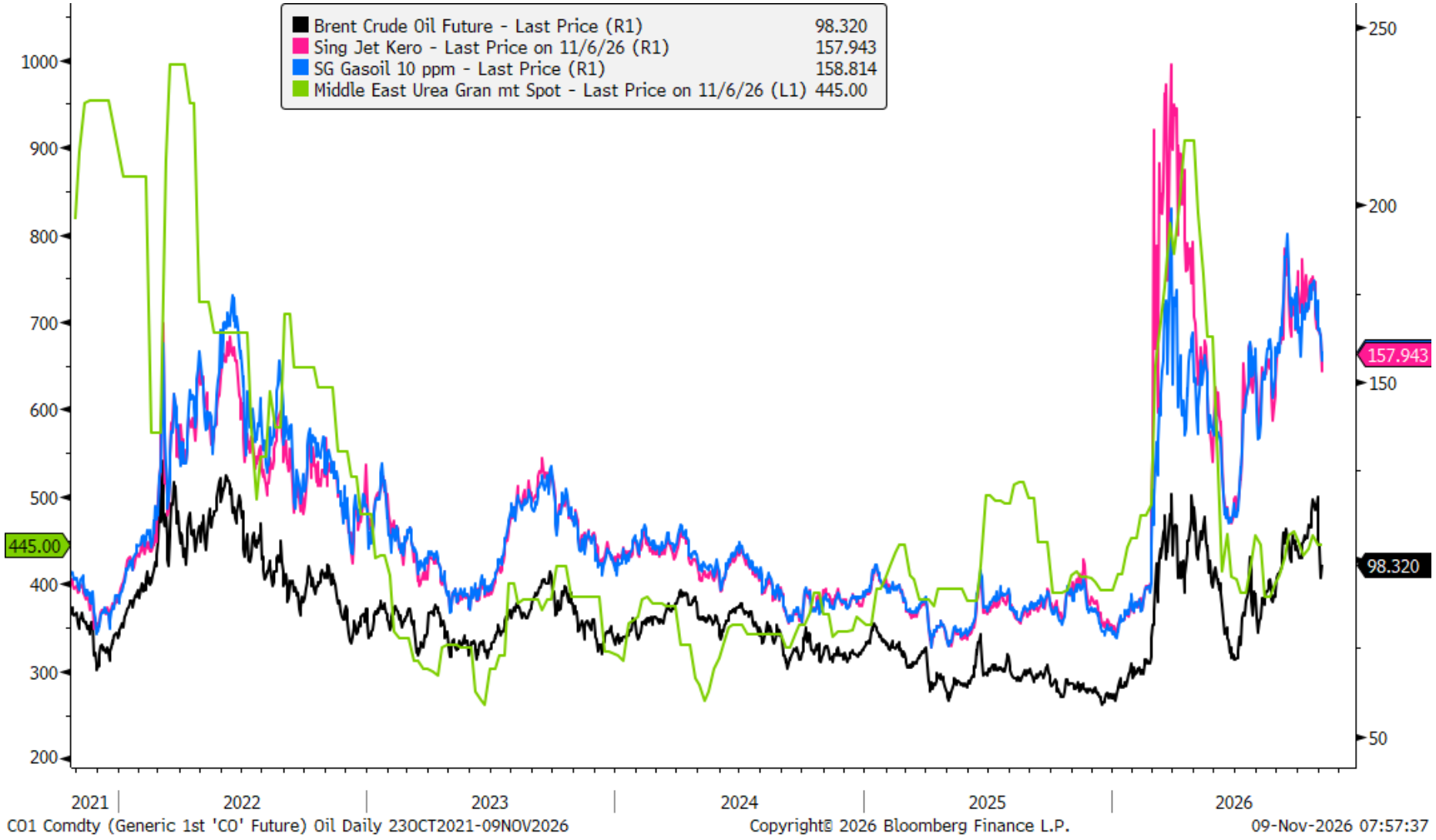
..... and negative housing market impact increasing



- NZ prices well down from COVID peaks and back at 2021 levels whereas until Q2 this year Australian prices were still pumping. Down 10% since March.

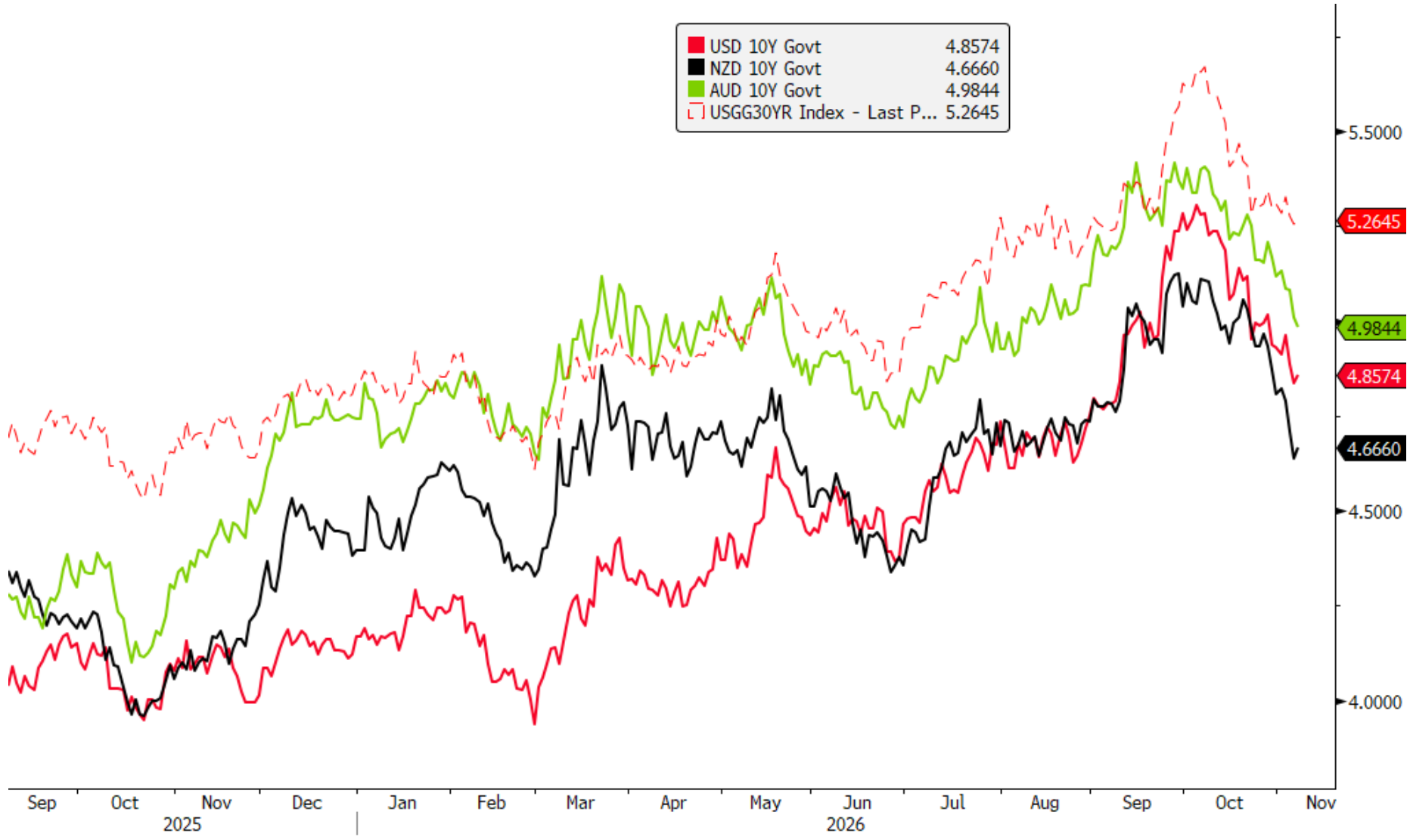
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Brent crude still volatile but some positive signs



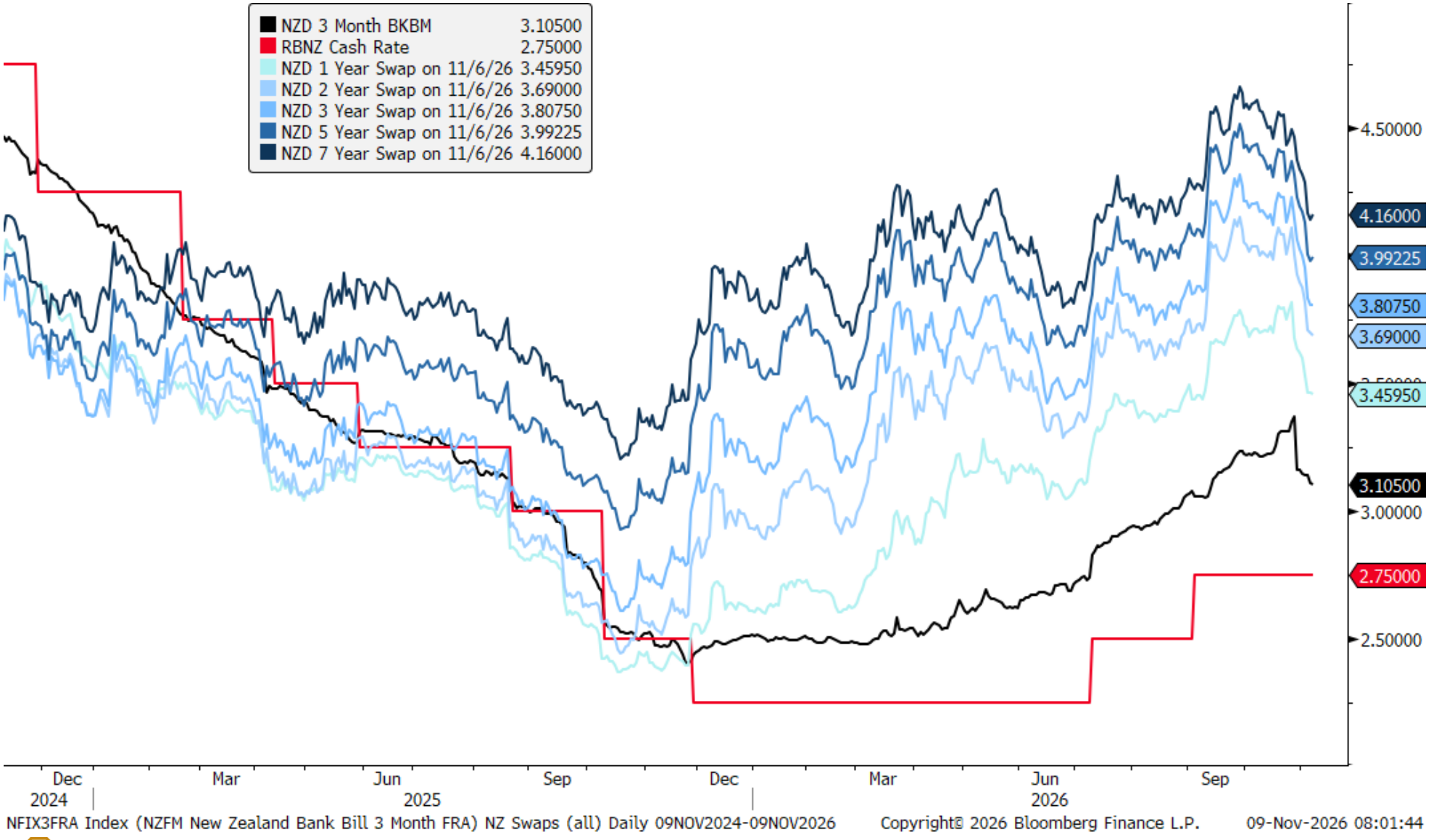
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10-year government bond yields



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NZ interest rates

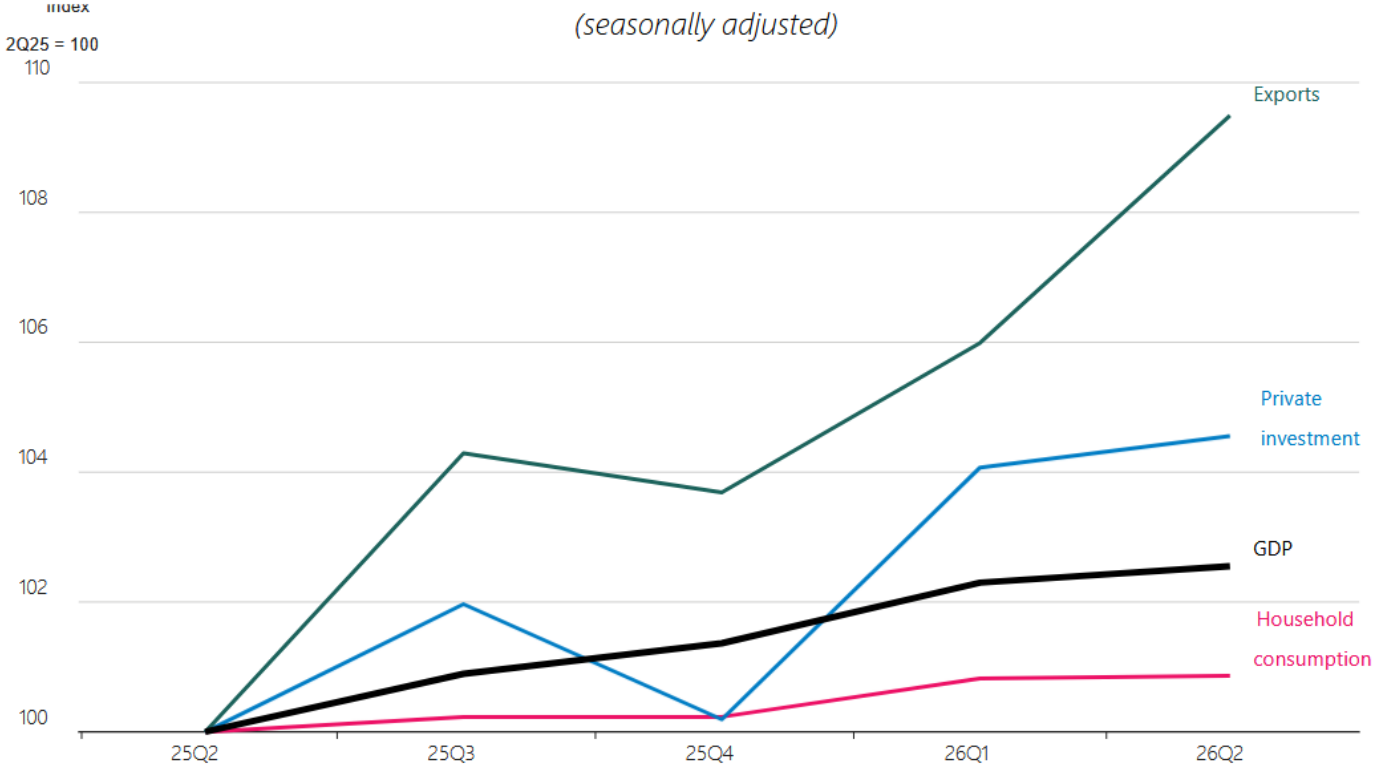


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Strong exports but weak households

Expenditure GDP component growth

(seasonally adjusted)

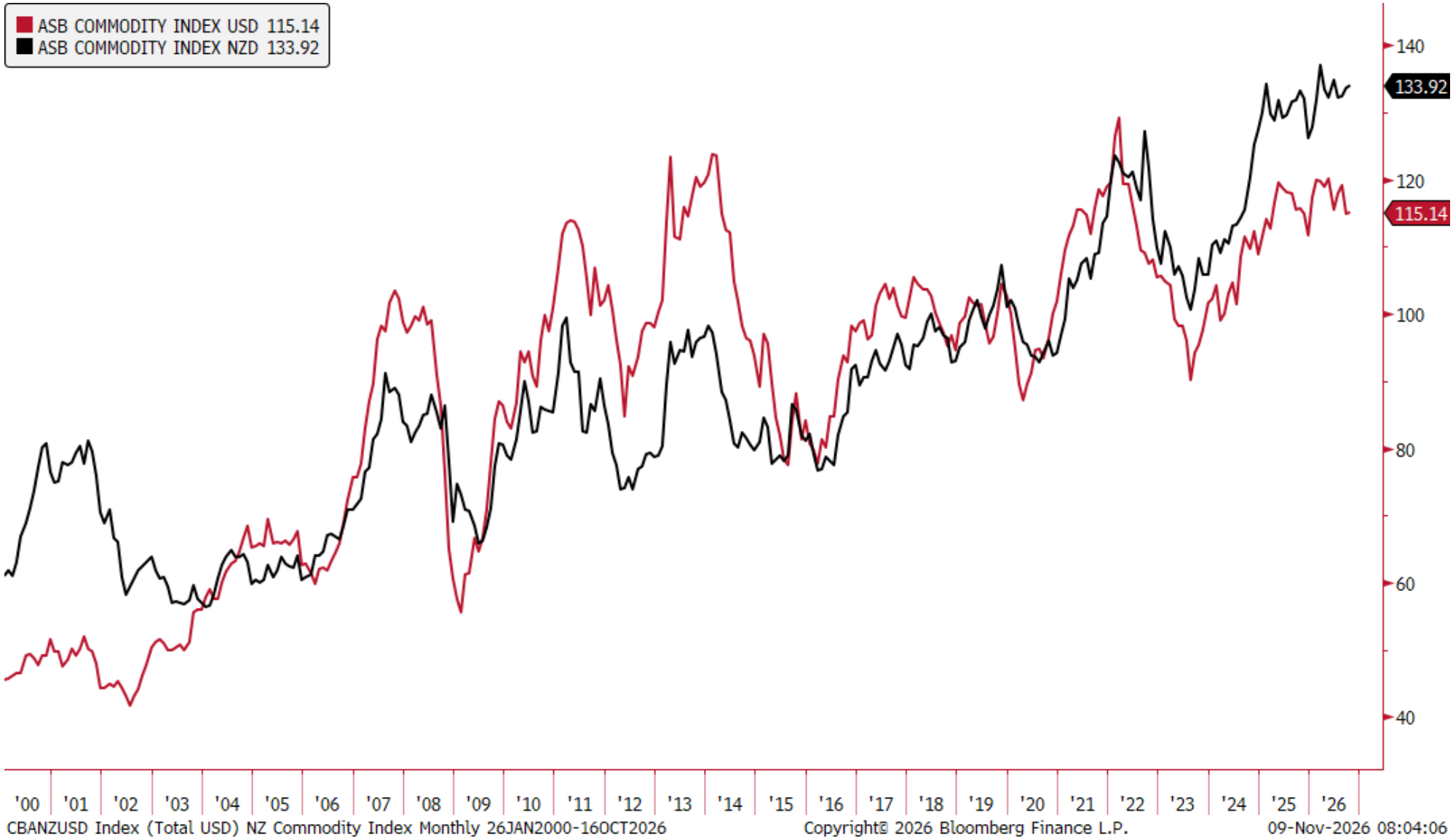


Source: Stats NZ, RBNZ estimates.

- *"New Zealand's recovery could be stronger than expected but could also lose momentum if the global environment deteriorates or export strength does not flow through to jobs, incomes and household spending."*
- *"Impacts on short-term pricing behaviour appear to have been contained and medium-term inflation expectations remain well anchored."*

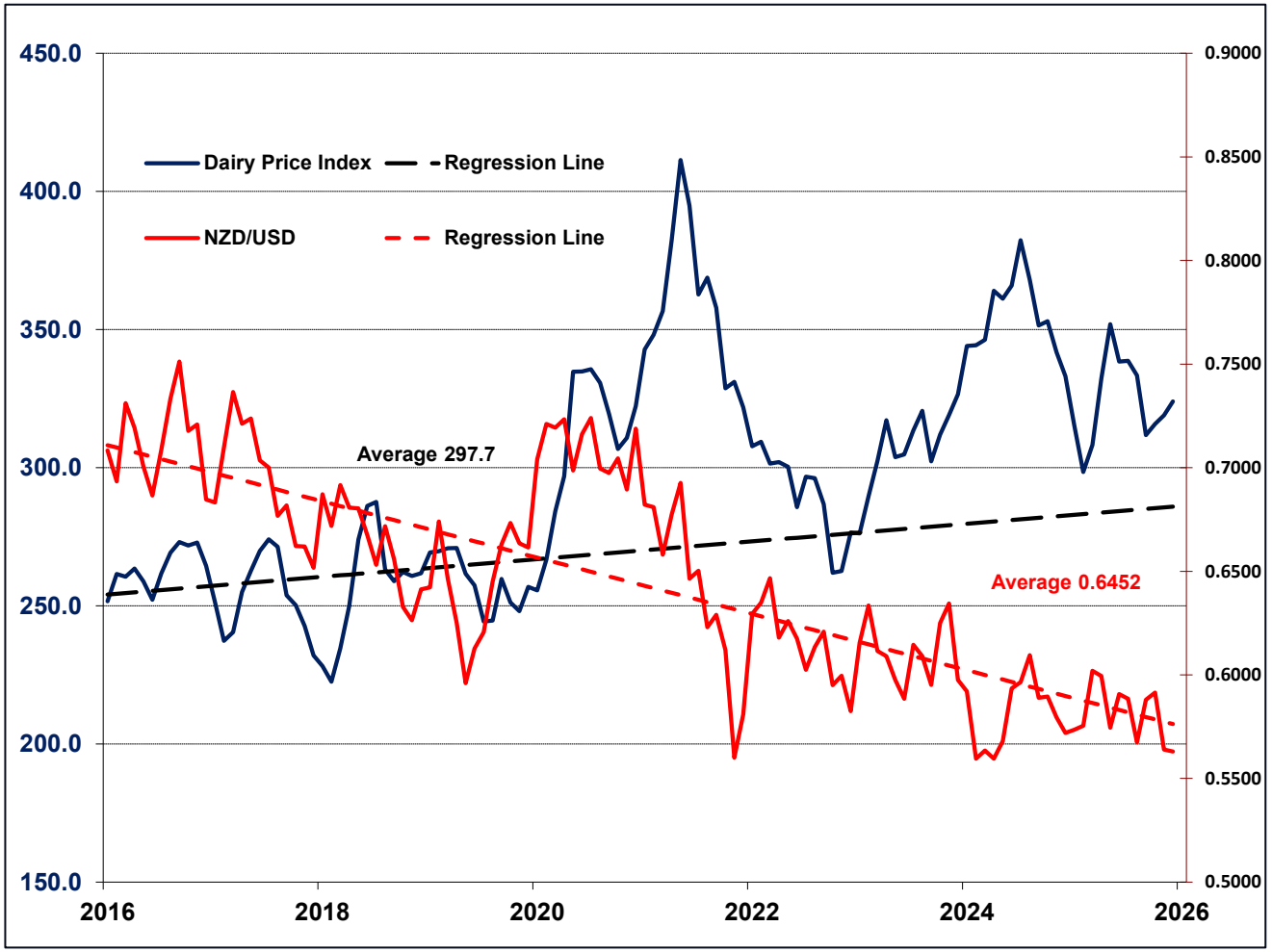
– RBNZ October Monetary Policy Review

NZ Commodity Price Index



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Dairy prices and NZD/USD



- It doesn't get much better than this! High prices and a low dollar implies payout well above $10.00 despite Fonterra's cautious $9.75 mid-point.

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Bancorp Treasury Services Ltd
Head Office, Level 3, 30 Customs Street, Auckland
09 912 7600

www.bancorp.co.nz