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FX Flash

NZD: RBNZ on Hold, As We Expected

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Orr's Press Conference at 10am; Next MPC on 12 Feb 2020

RBNZ kept OCR on hold at 1%, as we had expected, at its last MPC meeting (13 Nov) for 2019. We had shared earlier that:

Unlike street expectations (75% implied via NZ OIS) looking for another 25bps cut at the Nov meeting, we had an out-of-consensus call expecting RBNZ to retain watch-and-see accommodative stance to allow for the 50bps cut in Aug (cumulative 75bps cut YTD) and lower NZD (NZD TWI fell as much as more than 6% at one point this year) to work its way into the economy. In particular, RBNZ's measure of NZ TWI has fallen to 4-year low of below 70-levels (mid-Sep) from the high of 75 levels in Mar-2019. This level is now way below RBNZ's working assumption of NZ TWI range of 72.8 – 73.4 from 3Q 2019 to 4Q 2020.

Key Highlights from the MPS (before press conference)**:**

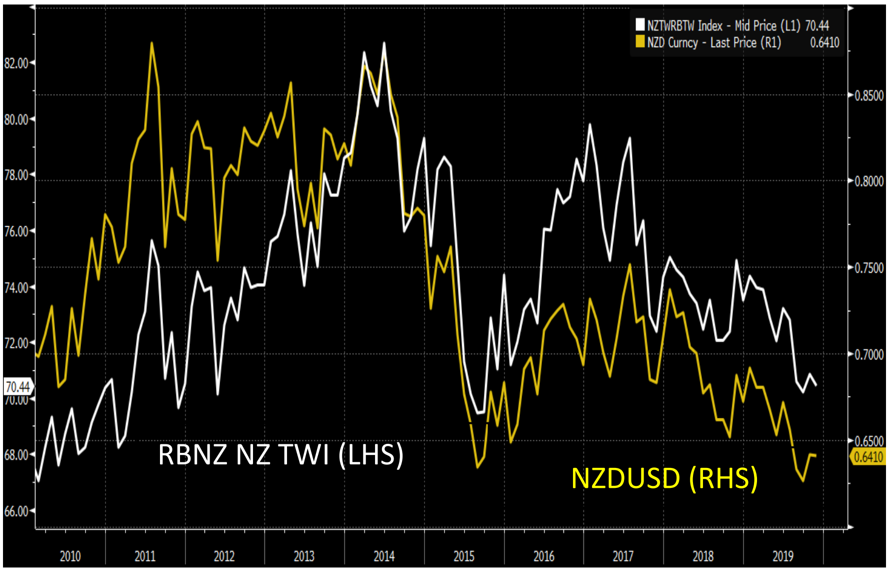
1. Economic growth continues to slow in mid-2019 reflecting weak business and soft household spending. This is expected to persist for the remaining of the calendar year.
2. **Domestic activity is expected to increase during 2020** supported by low interest rates, higher wage growth and increase in government spending and investment. Low level of OCR has flowed through to lower lending rates supporting spending and investment. Rising capacity pressures are projected to promote in pick-up in business investment.
3. **Rates will need to remain at low levels for a prolonged period** to support dual mandate - inflation reaches target range of 1 – 3% and employment remains around maximum sustainable level. **Further stimulus will be added if needed.**

NZD Thoughts: Decline Nearing Its End

We maintain our call that Kiwi's near-10% decline from YTD high is nearing its bottom on a combination of factors including RBNZ on hold (albeit at low OCR levels), de-escalation in US-China trade tensions as US, China looks on track to sign phase-1 partial deal in coming weeks and easier financial conditions (on expectations for Fed to remain accommodative for longer. We however remain cautious over RBNZ's open-ness to unconventional monetary policies (especially if RBA introduces). Any mention of this could limit NZD upside.

SEE PAGE 3 FOR IMPORTANT DISCLOSURES

Decline in RBNZ NZ TWI is Another Form of Stimulus



Source: Bloomberg, Maybank FX Research & Strategy

NZD Tech Thoughts: Broader Bias Skewed to the Upside

NZD rose sharply (by nearly 1.4%) post-RBNZ decision to above 0.64-handle this morning. Pair was last seen at 0.6405 levels (before RBNZ Governor Orr's press conference – which can contain surprises). Weekly momentum is bullish while stochastics is rising. Bullish divergence on weekly MACD is underway. **Broad directional bias remains mildly skewed to the upside. But we do not expect one-way trade higher given many nuances (amid US-China trade uncertainties and RBNZ's open-ness to unconventional monetary policies).** Immediate resistance at 0.6450 (100 DMA). That needs to be decisively broken for further gains towards before 0.65 and 0.6570 (200 DMA) to take hold. Look for further upside, technically. Support at 0.6340 (50 DMA), 0.6250 levels. We look for gradual bottoming of the NZD.

NZD (Weekly Chart) A Bottoming May Be in Place

Source: Bloomberg, Maybank FX Research & Strategy

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Published by:

Maybank

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