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Maybank

FX Tech Flash

NZD: RBNZ FOMO on Global Synchronous Easing

NZD Likely to Remain on the Back Foot

RBNZ surprised markets with an upsized easing by **cutting OCR by 50bps to 1%.** Most analysts in the markets including ourselves were looking for 25bps. We did expect the RBNZ to do more to play "catch-down" to RBA (already cut rates by 50bps in Jun and Jul) but stopped short of calling for 50bps cut as domestic macro conditions (i.e. unemployment rate at 11-year low, sequential uptick in wage growth) do not seem to warrant an urgency to ease by this magnitude.

In our opinion, the surprise and aggressive move to front-load rate cut was intended to **deliver maximum effectiveness to meet its dual policy objectives** of inflation and employment but also to **play catch-down with its RBA peer**. In light of the global wave of monetary easing, it is also **very likely RBNZ does not want to stand out in the crowd of doves as that would result in a firmer NZD** and could result in tighter financial conditions (i.e. **F**ear **O**f **M**issing **O**ut on global synchronous easing).

We expect NZDUSD to remain on the back foot owing to dovish RBNZ and softer market sentiment (arising out of recent escalation in US-China trade tensions, softer CNH) but weakness may be partially mitigated if the Fed steps in with even more dovish guidance (watch Jackson Hold Symposium on 22 -24 Aug for hints from Fed Chair Powell) and/or if US-China trade talks surprises with material progress. NZD was last seen at 0.6430 levels. Bearish bias on weekly, daily chart remains intact while stochastics is falling deeper into oversold conditions (on daily chart). Cautious of rebound risks. Immediate resistance at 0.6470, 0.6550 and 0.6620 (50 DMA). Support at 0.6350, 0.6230 and 0.6130 levels (2015 low).

NZD (Weekly Chart): Bearish but Oversold; Rebound Risks

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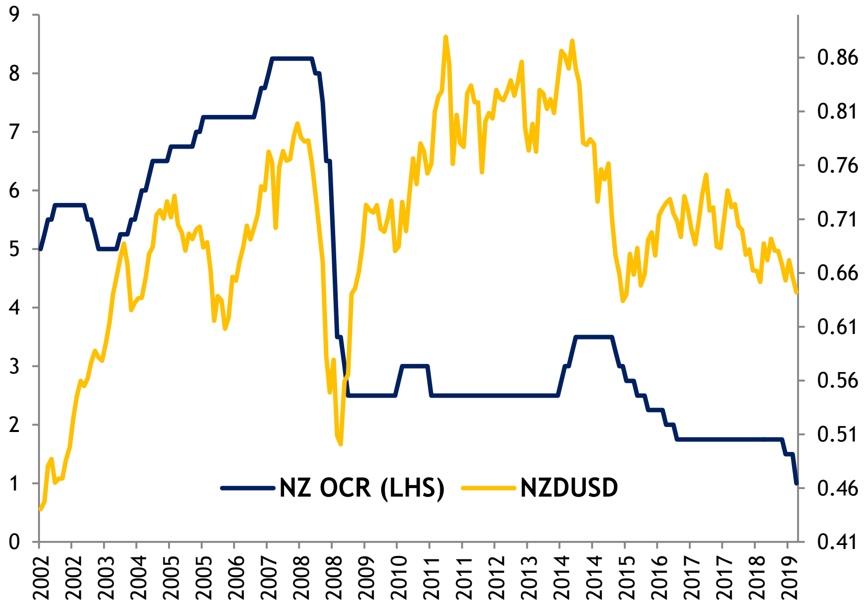
RBNZ on the Aggressive

Accompanying MPS emphasized that MPC members were still very focused on inflation below 2% target (one of the key mandates) and are concerned of slower domestic growth through trade, financial and confidence channels. In particular MPC members noted that *heightened global uncertainty was reducing investment and suppressing trading partner growth…* and this highlighted the *risk of larger or more prolonged slowdown in global growth*.

On the decision to cut OCR by 25bps or 50bps, the MPC debated the relative benefits and reached a consensus that larger initial monetary stimulus would best ensure inflation and employment objectives are met.

Looking on RBNZ expects low interest rates and increased government spending will support a pick-up in demand over the coming year and the RBNZ expects business investments to rise given low interest rates and ongoing capacity constraints.

NZ OCR at Historical Low of 1% after 50bps Cut



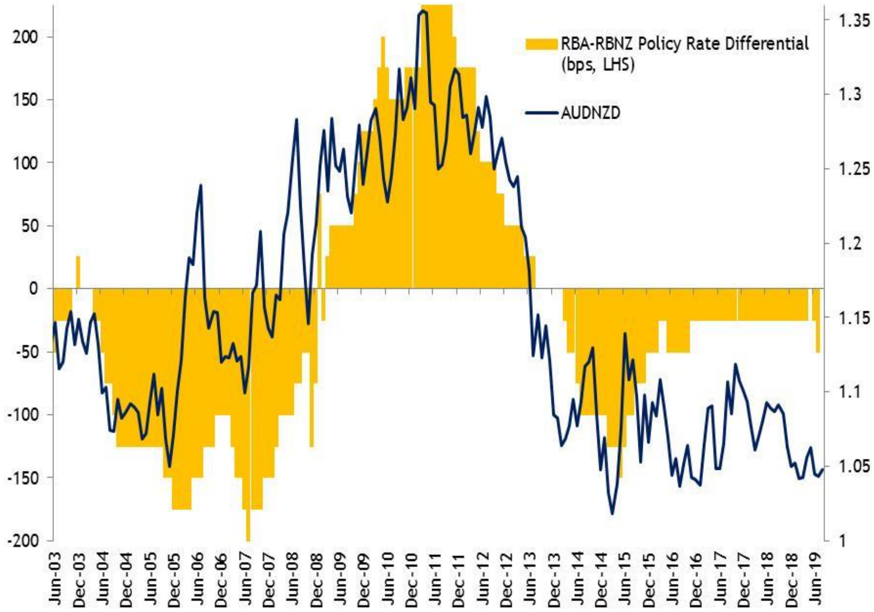
Source: Bloomberg, Maybank FX Research & Strategy

Can RBNZ Ease Further?

With OCR now at historical low of 1%, the bar for further rate cut may be set higher. **But that may not stop RBNZ from easing further if need arises** especially when synchronous monetary easing gets underway in most parts of the world including US and Asia.

In addition RBNZ shared (on 23rd Jul) that they have begun a project to refresh unconventional monetary policy strategy and implementation, albeit at a very early stage. There was no further detail beyond the disclosure to Official Inflation Act in requesting for work on non-standard policy measures. Though we do not expect RBNZ to join ECB, BoJ to unleash unconventional QE-type of monetary policies in the near future, the mere mention of conducting such a project further reinforced the dovish bias of RBNZ.

Positive Correlation Exists between AUDNZD and RBA-RBNZ Policy Rate Differentials



Source: Bloomberg, Maybank FX Research & Strategy

RBNZ’s 50bps rate cut now brings OCR in line with RBA’s cash rate of 1%. Question remains if RBNZ will cut further and more aggressive than RBA especially when their respective rates are already at their historical lows. The last time RBA-RBNZ policy divergence narrows (RBNZ’s OCR fell faster than RBA’s cash rate or RBA’s cash rate rising faster than RBNZ) in the 2007 – 2010 episode saw AUDNZD rising.

Subsequently AUDNZD fell in 2011 – 2013 period, when RBA cut cash rates aggressively vs. RBNZ on hold.

With RBNZ already frontloading rate cuts, there is a risk that RBA could cut further taking its cash rate below 1%. Markets are pricing in 67% chance of RBA rate cut in 3rd Sep meeting. If indeed RBA cuts again especially if trade tensions between US and China further deteriorates, then AUDNZD gains may not be sustainable.

But our house view expects RBA to keep cash rate on hold at 1% to allow for transmission mechanism of the recent cuts in Jun and Jul to work its way into the economy. In addition, the government’s push for more infrastructure spending could also cushion against further deterioration in household spending. In the scenario of more dovish-RBNZ than RBA, AUDNZD could trade higher.

AUDNZD Technical Outlook: Bullish Divergence

AUDNZD sprang higher this morning following RBNZ's surprise 50bps rate cut. Cross was last seen at 1.0470 levels. Bearish momentum on weekly and daily chart shows signs of fading while stochastics show signs of turning higher from oversold conditions. Potential bullish divergence is also showing up on daily MACD chart. Key area of resistance at 1.05 (50% fibo retracement of Apr high to Aug low, upper bound of bearish trend-channel) – 1.0520 (100, 200 DMAs). Break above this key level puts next resistance at 1.0555 (61.8% fibo), 1.0620 (76.4% fibo). Support at 1.0440 (38.2% fibo), 1.0375 (23.6% fibo).

AUDNZD (Daily Chart): Need to Break above 1.05 – 1.0520 for Gains to Accelerate; Failing Which, Trade the Trend Channel

Source: Bloomberg, Maybank FX Research & Strategy

NZDSGD Testing Multi-Year Lows

NZDSGD has fallen by around 5.6% since Mar-2019 and is now approaching 2015-low of sub-0.89 levels. Cross was last seen at 0.8890 levels. Bearish bias on daily chart remains intact while stochastics is in oversold conditions. We are cautious of rebound risks from current levels. Resistance at 0.8960, 0.9040 (50 DMA). Immediate support at 0.8820 (2015 low).

NZDSGD (Daily Chart): Bearish Bias but Oversold

Source: Bloomberg, Maybank FX Research & Strategy

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