Maybank

FX Flash

Taking Profit on NZDCAD and AUDNZD Trades

FX Global

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RBNZ Pivots Dovish

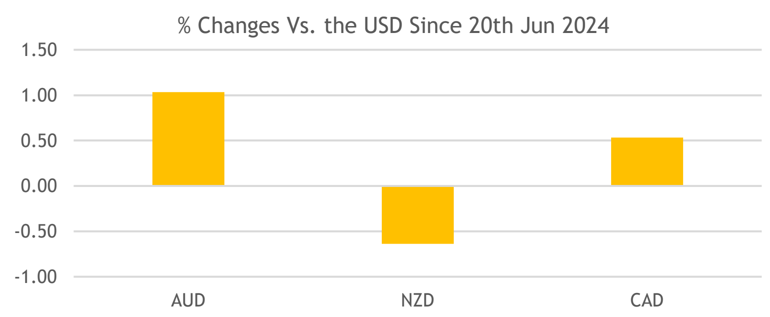
On 20th Jun, we put out two calls based on three compelling views. All turned out to be prescient.

1) **We had looked for the AUD to remain the outperformer** against the NZD and the CAD as Australia's inflation remain stickier than most and its inflation is at risk of re-accelerating. Thereafter on 26th Jun, May CPI came in surprisingly firm at 4.0%. More concerning was the tick higher in the trimmed mean measure to 4.4%y/y from previous 4.4%. That gave rise to calls for more hikes but RBA refused to commit to that possibility. **AUD rose against the NZD towards our second target at 1.10 on 4 Jul,** and even touched a high of 1.1092 this morning after the RBNZ decision this morning. Total profit is 1.5%.

2) **We were tactically short NZDCAD based on two views.** RBNZ's guidance for first cut to occur in 3Q 2025 seemed to be too hawkish given the deterioration in data at home. Performance of services had fallen sharply alongside pricing intentions and wages outlook. At the same time, net long NZD positions were near year high based on CFTC positioning data. This was a contrast to net short CAD positions which were at multi-year high. We were also concerned that bets on a Jul cut by BoC were at risk of being too aggressive and NZDCAD stands at risk from the stretched positioning perspective. It turns out that net long NZD positions continue to build to 2017 high as of 2 Jul (which speaks volume of how contrarian we were) but multi-year high net short CAD positions corrected. We prefer to take profit given that it has reached our first target at 0.8290 today. That said, NZ 2Q CPI is due next week and a softer data may propel this NZDCAD cross towards our second target at 0.8240. Given that this position is opened for around three weeks, we like to close with a total profit of 1.3%. Both trades will net a profit of 2.8%.

Taken together, one can tell that we were most bullish on the AUD and we saw some tactical gains for the CAD and losses for the NZD when we wrote our note on the 20th of Jun. The performance of the commodity-currencies was smack in line with our expectations since then. **In this report, we also provide our view on RBNZ's dovish pivot today and why NZDUSD stands at risk of tumbling towards the 0.60-figure in the near-term.**

Chart 1: Our calls for AUD, NZD and CAD panned out well



Source: Bloomberg, Maybank FX Research & Strategy

RBNZ Pivots Dovish

One of the assumptions that we built our calls on is that with the deterioration in the NZ data, RBNZ would make a dovish pivot today. Well, there was a clear pivot this morning, a contrast to the meeting prior where a rate hike was discussed. NZD had fallen 0.5% against the USD, the clear underperformer within the G10 and Asian peers this morning.

Chart 2a: NZ Performance of Services index as well as Wages & Salaries Outlook Have Fallen

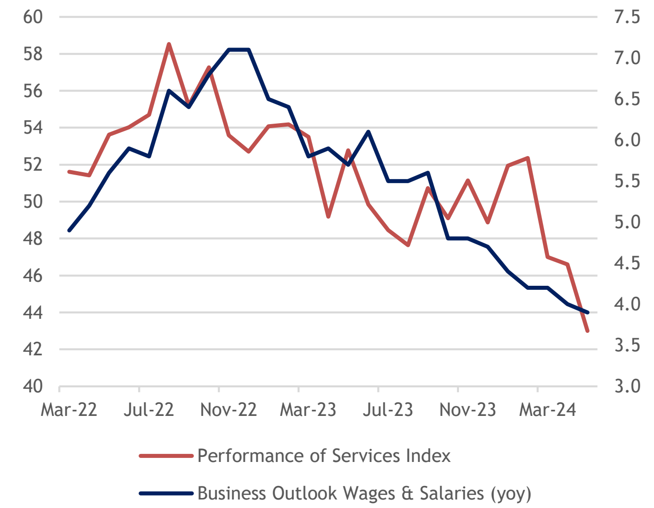
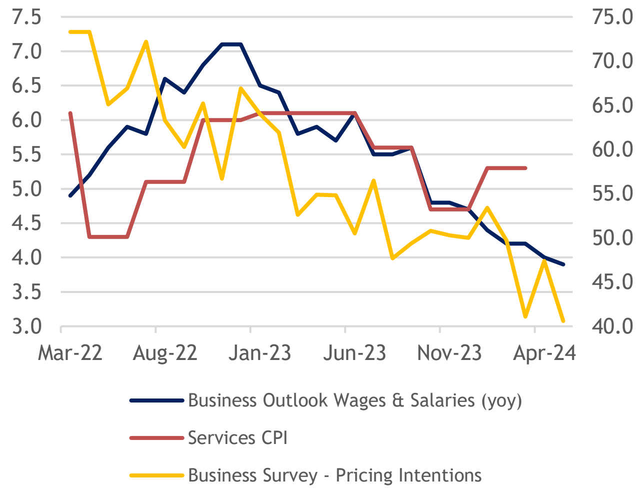


Chart 2b: NZ Services CPI Should Decline Soon



Source: Macrobond, BusinessNZ, NZ Statistics, FX Research & Strategy

Let us look at the key takeaways from the policy meeting today. This is a meeting that ended with the release of a policy statement – no press conference and no policy data (forecasts) were provided.

1) RBNZ statement indicated that restrictive monetary policy has *"significantly"* reduced consumer price inflation, with the Committee expecting headline inflation to return to within 1-3% target range *"in second half of the year".* The word "significantly" did not appear in the policy statement for May. The return of inflation to 1-3% target was also expected to be only "by the end of 2024" then.

2) In May, RBNZ was concerned with the sticky services inflation. In fact, the central bank even did a rather in-depth study on the inflation profile of New Zealand last month, compared its profile with those of Australia, Eurozone and the US and found New Zealand's inflation profile to be most similar to the US. In the latest policy statement for Jul, there was acknowledgement that the "decline in inflation reflects receding domestic pricing pressures" and while "some domestically generated price pressures remain strong", "there are signs inflation persistence will ease in line with the fall in capacity pressures and business pricing intentions." There seem to be a lot less concern on domestically generated price pressure this time. The reference to "pricing intentions" also suggest that we are looking at the same higher frequency indicators as the RBNZ.

3) RBNZ noted that the "extent of this restraint (with reference to the restrictive policy settings) will be tempered over time consistent with the expected decline in inflation pressures". This does suggest that the next move is likely to be a cut (a contrast to a hike being discussed in the May meeting) and normalization could come much sooner than what the central bank had guided for in May which was only in 3Q 2025. We hold our view that RBNZ will deliver its first cut in Nov. **This is the clearest indication of a dovish pivot.**

What to Expect Next?

RBNZ does not have monthly CPI releases and so every quarterly inflation report is significant. The next CPI release is for 2Q, due 17 Jul (next Wed). We are likely to see CPI ease further from the headline of 4% for 1Q. The next RBNZ policy meeting is on 14th Aug and the decision then would be accompanied by the monetary policy data (forecasts, that includes rate guidance) as well as Governor Orr's press briefing. We look for one cut this year in Nov and one cut per quarter for 2025 as we look for inflationary pressures to recede enough for RBNZ to provide better support for growth and employment.

There is a strong chance that the NZDUSD would extend lower for the next few weeks. Net long NZD positions rose to 2017 high as of 2 Jul, before the policy meeting (underscoring just how out-of-consensus our view was). There could be further unwinding towards the 0.60-figure. We continue to view this as a temporary correction. RBNZ may still be one of the last few to ease. In fact, there is a strong chance that RBNZ could ease after the Fed starts. Its trade balance has been improving and that can also lend boost to the currency. In addition, RBNZ also also mention that the **"positive impact of the pending tax cuts on private spending is less certain".** RBNZ may still want to wait a while more for before the first cut. NZDUSD could find support at 0.6077 before the next at 0.6046 and then at 0.5980. **We expect NZDUSD to start to ascend thereafter towards our year end forecast of 0.62.**

In Case of Interest in NZDSGD and NZDMYR

With MAS unlikely to signal any easing, tentative policy divergence could bring NZDSGD lower as well. Net long NZD positions will also unwind against the SGD. At a certain point though, NZD may find support as we look for RBNZ to only cut once in Nov. NZD may also underperform the MYR as the latter continues to remain resilient against most other peers amid brightening optimism on fiscal reforms that kick-started with the diesel subsidy rationalization (pending RON95), active monitoring of export receipts conversion as well as BNM keeping OPR steady for this year and the next.

	End Q3-24	End Q4-24	End Q1-25	End Q2-25	End Q3-25	End Q4-25
AUD/USD	0.6800	0.6800	0.6900	0.6900	0.6900	0.7000
NZD/USD	0.6200	0.6200	0.6300	0.6300	0.6400	0.6400
USD/CAD	1.3600	1.3500	1.3500	1.3400	1.3300	1.3100
AUD/SGD	0.91	0.91	0.92	0.92	0.91	0.92
NZD/SGD	0.83	0.83	0.84	0.84	0.84	0.84
CAD/SGD	0.99	0.99	0.99	0.99	0.99	1.00
AUD/MYR	3.16	3.13	3.14	3.11	3.04	3.05
NZD/MYR	2.88	2.85	2.87	2.84	2.82	2.78
CAD/MYR	3.42	3.41	3.37	3.36	3.31	3.32

Forecast Table

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