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Maybank

FX Tech Flash

NZD: Slow Recovery Likely

RBNZ Surprisingly Less Dovish than Market Expected

NZD jumped more than 1% this morning in response to RBNZ MPC decision, monetary policy statement (MPS). While the OCR was kept on hold at 1% as widely expected, RBNZ's policy stance was interpreted as less dovish than expected and to some extent; we opined it was a hawkish hold. We attribute this mainly to RBNZ's OCR projection and its economic assessment:

(1) OCR projections for 2020 have been mildly revised higher by 10bps to 1%. Previously the 2020 projections imply a 10bps cut. For 2021, RBNZ projected an upward trajectory with signs of rate increase pencilled in from Jun 2021.

(2) Domestic economic assessment appears more upbeat - economic growth expected to accelerate over 2H 2020 driven by monetary and fiscal stimulus and higher ToT while the outlook for government investment is stronger. There are also indications that household spending growth will increase.

(3) RBNZ also noted that the global economic environment has shown signs of stabilisation and (US-China) trade tensions have somewhat receded.

Taken together, RBNZ's MPS reinforced our earlier expectations that RBNZ's easing cycle of 75bps cut which commenced in May-2019 has probably run its course.

Our Bias: Still Looking for a Slow Recovery for NZD

We reiterate our call for a slow recovery for NZD on a combination of factors including better growth outlook amid expansionary fiscal stimulus (NZ$12bn infra-investment program that should boost activity and employment), more constructive outlook for dairy price, de-escalation in US-China trade tensions, shift in RBNZ bias (less dovish, more balanced), easier financial conditions globally (on expectations that Fed, ECB to remain accommodative for longer; hence narrowing NZ-UST yield differential seen since Sep-2019) and possibly green shoots of recovery in global economy on the assumption that the Wuhan Coronavirus (COVID-19) does not persist for longer.

We stopped short of calling for a strong recovery in NZD as COVID-19 development remains fluid. Though there may be optimism that COVID-19 outbreak may peak soon, we still remain cautious as the risk of a China economic fallout could be deeper and this could affect NZD via the sentiment channel and to some extent, the trade, tourism linkages.

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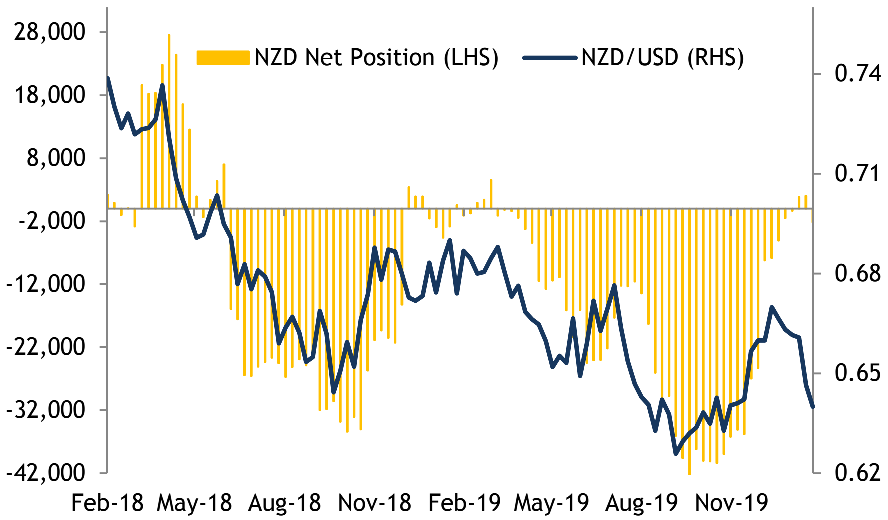
We also note that RBNZ assumption of COVID-19 is generally optimistic – assuming the outbreak overseas to be contained by end Feb-2020. As such their economic projections only assume a temporary impact (of the COVID-19) on NZ's economy. We caution that RBNZ could potentially turn dovish as soon as at the Mar MPC should the COVID-19 situation fails to improve as per RBNZ MPC's working assumption. Markets will be quick to position ahead of the potential shift and this could weigh on NZD.

NZD Forecast Maintained

Forecast	1Q 2020	2Q 2020	3Q 2020	4Q 2020
NZDUSD	0.6600	0.6600	0.6800	0.6800

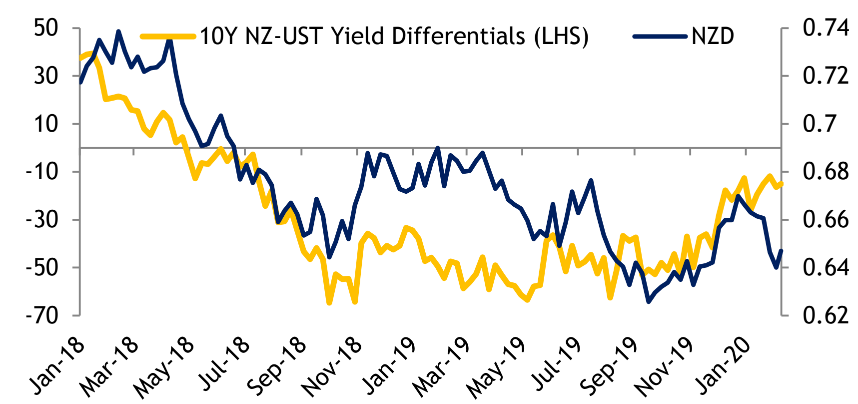
NZD Positioning – Relatively Clean and Small Short but Not Stretched



Source: CFTC, Maybank FX Research & Strategy

From a positioning standpoint, NZD positioning is neither overly short nor stretched. This implies that markets could quickly move to add to shorts should the unfortunate event of COVID-19 deteriorates (either via more new cases in China and/or contagion spread outside China). This would derail NZD's recovery. We opined NZD's recovery would likely be more sustainable once we get firmer signs of containment in-and-out of China,

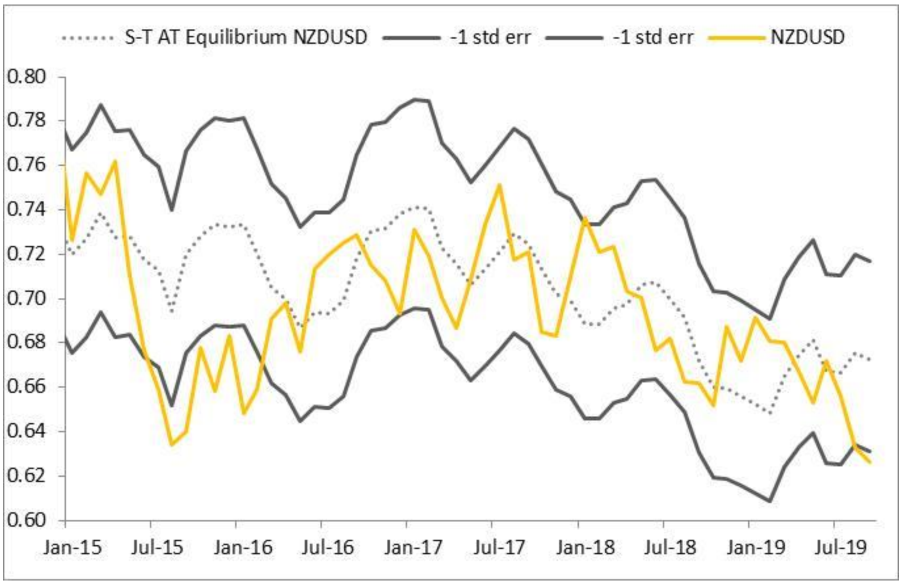
Narrowing NZ-UST Yield Differentials Supports NZD Upside



Source: Bloomberg, Maybank FX Research & Strategy

ST-AT Equilibrium Model Suggests NZD Weakness Has Room to Correct

Our short term (ST) augmented tracking (AT) equilibrium model which aims to capture shorter-term dynamic changes in market yield and inflation differentials, the state of world equities and bonds, as well as movements in dairy prices suggest that NZD is about 8 – 9% undervalued relative to our model estimate of about 0.71 (vs. USD).



NZDUSD: Need a Break above 0.65/0.6520 for Sustained Rebound

NZD was last seen at 0.6460 levels. Bearish momentum on daily chart is fading while RSI is rising from oversold conditions. Immediate resistance at 0.6480 levels (100 DMA). Sustained rebound requires a decisive break above area of resistance 0.65 - 0.6520 (21, 200 DMAs, 38.2% fibo retracement of Apr-2018 high to 2019 low). Beyond this puts next resistance at 0.6590 levels (50DMA, 50% fibo). Support seen at 0.6415, 0.6380 levels.

NZDUSD: Bearish Momentum Fading

Source: Bloomberg, Maybank FX Research & Strategy

NZDSGD: Potentially Room for Further Upside

NZDSGD was last seen at 0.8960 levels. A potential cup and handle pattern appears to be forming – typically associated with a bullish reversal. Bearish momentum on daily chart has waned while RSI is rising. Immediate resistance here at 0.8960 levels (50% fibo retracement of 2019 high to low) before 0.9050 (61.8% fibo) and 0.9170 (76.4% fibo). A textbook objective of the completion of cup-and-handle bullish reversal pattern is at 0.9360/80 levels. Support at 0.8870 (200 DMA, 38.2% fibo). Bias to buy dips.

NZDSGD: Potential Cup and Handle Bullish Reversal

Source: Bloomberg, Maybank FX Research & Strategy

NZDMYR was last seen at 2.6750 levels. Daily momentum shows signs of turning bullish while RSI is rising. Break above immediate resistance at 2.6760 (23.6% fibo retracement of 2018 high to 2019 low) could see the cross higher towards 2.70 levels (50, 200 DMA) and 2.7190 (38.2% fibo). A potential triple bottoming appears to have been formed around 2.62-2.63 levels.

NZDMYR: Triple-Bottoming Likely but Rebound Likely to be Limited

Source: Bloomberg, Maybank FX Research & Strategy

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