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FX Flash

NZD: Stimulus Measures Lay the Ground for Sharper Recovery

Near Term Volatile but Could Be Poised for Sharp Recovery

A one-two punch from the government and RBNZ should cushion against a deeper economic fallout and help to instil some market confidence. In particular the wage subsidy program was timely asn is expected to support employee retention while big 4 banks are expected to pass on interest rate cut in full to customers. It is likely PM Jacinda Ardern's government may announce another targeted package to help sectors in need – tourism, hospitality and airlines – sooner rather than later. For NZD, we continue to maintain a constructive outlook in the medium term. Rapid and powerful responses from policymakers suggest that the economy and NZD may even be poised for sharper recovery when COVID-19 epidemic curve flattens or vaccination development gains traction at some stage. China gradually getting back to business should also support sentiment. However in the near term, NZD is still expected to remain volatile for as long as COVID-19 pandemic lingers and lockdowns, self-isolation remain in place. Technically, a rebound towards 0.5960 is not ruled out.

RBNZ Cuts Rate; Unleash QE; Alleviate Funding Stress

In a space of a week, the RBNZ has fired multiple shots of measures to anchor confidence, ensure smooth functioning of markets and to provide support to the economy as it attempts to deal with the negative implications of COVID-19 pandemic.

1. Relaxed local banks' core funding ratios to 50% from 75%, allowing banks to access short term funding markets if needed on 24th Mar;
2. Launched Large Scale Asset Programme (LSAP) of New Zealand bonds (akin to QE) on 23rd Mar. LSAP will purchase up to $30bn of NZ government bonds (NZGBs) across a range of maturities in the secondary market over the next 12 months, starting with NZ$500mio this week, picking up pace to NZ$750mio per week via auction process. The LSAP is estimated to be worth about 10% of NZ GDP;
3. Announced (20th Mar) the provision of collateralised loans to banks for terms of up to 12 months via Term Auction Facility (TAF) – a tool deployed during GFC as RBNZ attempts to ease tensions in funding markets. In addition RBNZ is providing liquidity in the FX swap markets with rates near OCR at 0.25%. A temporary US$ liquidity swap line has also been established with Fed for amount up to US$30bn;
4. RBNZ MPC unanimously cut OCR by 75bps to record low of 0.25%, on 16th Mar and agreed to keep OCR at this level for at least the next 12 months. The cut comes after the 150bps cumulative reduction if Fed fund target rate.

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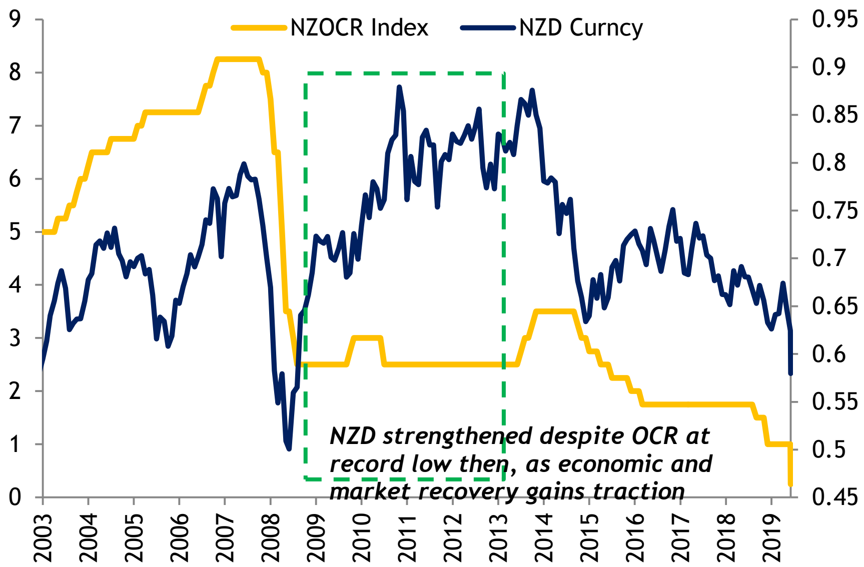
SEE PAGE 4 FOR IMPORTANT DISCLOSURES

RBNZ Cuts OCR to Record Low of 0.25%



Source: Bloomberg, Maybank FX Research & Strategy

A Well-Targeted NZ$12.1bn Stimulus Program

On 17 Mar, the government announced a massive NZ$12.1bn stimulus program (about 4% of NZ GDP), in response to potential economic fallout due to COVID-19 pandemic. Finance Minister Grant Robertson said that a recession in NZ is now almost certain with the shock likely to be larger than GFC. This is likely to be only the first tranche of fiscal response as government continues to work on working capital support for SMEs with banks and more targeted help for larger corporates.

The stimulus package includes (1) wage subsidies of about NZ$5.1bn for affected businesses in all sectors and regions; (2) NZ$2.8bn income support package for seniors and low-income families; (3) NZ$2.8bn in business tax changes to free up cash flow; (4) about NZ$500mio boost to healthcare spending including contact tracing, increasing medical professional capacity, extra medicines, face masks, etc.

Finance Minister further announced (24 Mar) a 6 months mortgage repayment holiday for small firms and homeowners affected by health crisis and another NZ$6.25bn guarantee for lending to small businesses.

As reported on 23 Mar, NZ will enter level 4 restrictions – a near total lockdown – in 48 hours. All non-essential businesses and services will be shut for at least 4 weeks; people are instructed to stay at home while public venues such as libraries, cinemas, gyms will be closed. Schools and public transport will shut except for those working in such services.

Implication on NZD Outlook – Medium Term Constructive

NZD's has fallen by around 19% (vs. the USD) when measured from peak to trough YTD so far. Both the RBNZ and government have responded with measures to support the economy but do not expect an immediate cure as policies do not kill virus and the NZD remains highly sensitive to external development. Nonetheless we believe policy measures are needed to alleviate market stress (monetary) and relieve financial distress (fiscal) – and policymakers have been rapid and decisive with their response unlike the US administration where policy response is lacking due to Democrats and Republicans disagreement. NZD could potentially rebound sharply, from depressed levels when COVID-19 narrative changes to a more upbeat tone – either on signs of containment or vaccine development, amid an environment of easier financial conditions, stimulus measures and China rebound (Wuhan to lift lockdown measures in 8 Apr).

We had last revised NZD forecasts lower in our last FX Monthly (28 Feb) to reflect COVID-19 negative repercussions and our view that RBNZ could turn dovish soon. We deem it remains appropriate at this stage to retain the revised NZD forecasts (in bold).

Forecast	2Q 2020	3Q 2020	4Q 2020	4Q 2020
NZDUSD	**0.6400** (0.6600)	**0.6600** (0.6800)	**0.6800** (--)	**0.6800** (--)

Forecast in Parenthesis shows the previous forecast before we revised on 28 Feb 2020

Technically a NZD Rebound Is Not Ruled Out

NZD traded a low of 0.5470 levels (19 Mar) and since then the pair has rebounded; last seen at 0.5770 levels. Bearish momentum on daily chart remains intact but shows tentative signs of fading. RSI shows signs of turning from oversold conditions. Technical rebound from depressed levels is not ruled out. Immediate resistance at 0.5770 (23.6% fibo retracement of 2020 high to low). Decisive break above this could see the pair extend its run towards 0.5960 (38.2% fibo). Support at 0.56, 0.5470 levels.

NZD (Daily): RSI Rising from Oversold Conditions

Source: Bloomberg, Maybank FX Research & Strategy

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