The NZD remains stuck in a 0.6650-0.6950 trading range, which is expected to continue over coming months. As the year progresses, we expect a more positive tone to the global economic backdrop to prevail – a factor which the NZD is sensitive to – supporting a move to 0.70 by year-end.

Currency volatility is remarkably low and we haven’t had to change our NZD projections for the best past of five months now, seeing a 0.67-0.70 prevailing through the year.

Conflicting forces have kept the NZD range-bound. On the positive side, higher risk appetite and commodity prices are tailwinds and have driven our short-term fair value model estimate higher all year to about 0.69. But uncertainty about the global economic outlook remains a headwind. The RBNZ’s recent dovish pivot added some downside risk, but moderately to the extent that it followed a similar theme seen by other G10 central banks.

With almost 40bps of official cash rate cuts priced into the curve by early next year, we’d rate NZ monetary policy as a modest possible source of downside risk for the NZD than a game-changer – any impact on the NZD from rate cuts is likely to be washed out by more important global forces. On that note, we have had very tentative evidence that global economic momentum is at an inflexion point. China has been at the coal-face of the global economic slowdown and recent data have been more positive.

If, over coming months, we see further positive signs of global momentum ticking higher, then that would be NZD-supportive. A signing of a US-China trade agreement, within the next couple of months would assist an improvement in global trade and help support sentiment towards commodity currencies. We’d rate these global forces as more important than NZ monetary policy for the path of the NZD through the remainder of the year.

Our projections still have the NZD ending the year around 0.70, a little higher than the top of its trading range this year, as these more positive global forces predominate. By contrast, the case for a lower NZD would be if global economic momentum lurched downwards and/or the RBNZ cut rates by more than 50bps over coming quarters, against a backdrop of unchanged policy expectations for other central banks.

Exporters should consider continuing to look to increase cover near the bottom of the recent trading range around 0.67, while importers should take advantage of moves above 0.69. The 0.6950 mark remains a key level of resistance.
The Crosses

NZD/AUD: The RBNZ’s move to an overt easing bias at the March OCR review was a shock and a catalyst for NZD/AUD to break its upward trend. We had expected this to occur in the second half, targeting 0.93, but we accept that the high might well now have passed. However, Australia still has an election to navigate on 18 May, which should keep the cross from running a lot lower ahead of that key risk event. The market has priced rate cuts to the tune of nearly 40bps into both the NZ and Australian curves for the coming 12 months. The timing of rate cuts, or whether or not they even occur, could be a key swing factor in the cross rate over coming quarters. Importers should consider lowering target levels to hedge, taking a view that the peak has passed.

NZD/GBP: The Brexit can has been kicked down the road for another six months or so while the worst permutation – that of “no-deal” – is now effectively ruled out. That GBP hasn’t pushed higher after this positive “news” is telling and suggests that until the fog is completely clear, the market is unwilling to drive the currency significantly higher. A number of fat-tail risks remain – UK politics remains a tinderbox and a collapse of the government or a general election would be GBP-negative. We have had to tone down our optimism on GBP, which means that our NZD/GBP profile through this year is now a lot flatter. Our base case remains for some sort of soft Brexit deal, sowing the seeds for a stronger GBP and, eventually, lower NZD cross. Amidst the fog, exporter and importers should continue to tread carefully and cover known cashflows.

NZD/EUR: The lack of any Brexit deal and bad run of euro-area economic data have kept EUR under pressure. Alongside toned-down optimism for GBP, we have downgraded our EUR projections, which now see NZD/EUR on a flatter trajectory this year. Our projections this year are consistent with a 0.58-0.61 trading range. EUR is unloved at the moment, but it is going to take some convincing evidence that euro-area growth is on a firmer footing to see a sustainable move higher. Our medium-term bias is still towards the downside.

NZD/JPY: The cross is currently close to its average of the past year and near the middle of the 72-79 trading range. Our projections this year suggest more of the same – around the mid-70s – but this cross is apt to swing around due to its sensitivity to risk appetite. Exporters and importers can use these swings to their advantage; we’d say, 74 and below for exporters and 77 and above for importers. That said, our medium-term forecasts are biased towards the downside, given the yen is super-cheap. The BoJ’s ultra-easy policy stance will continue to act as a drag on the yen, but further easing measures just aren’t practical. Our medium-term forecasts remain biased towards the downside for the cross.

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