

Can the RBNZ really curb the Kiwi \$?

The RBNZ was as dovish as it could be without cutting rates and the threat of negative rates was reiterated. Still, NZD continues to show limited reactivity to such threat and the Bank may have to effectively cut (or directly intervene in the market) to prompt a currency correction. Otherwise, the reflation/weak-USD story should keep NZD/USD supported



A firmly dovish message

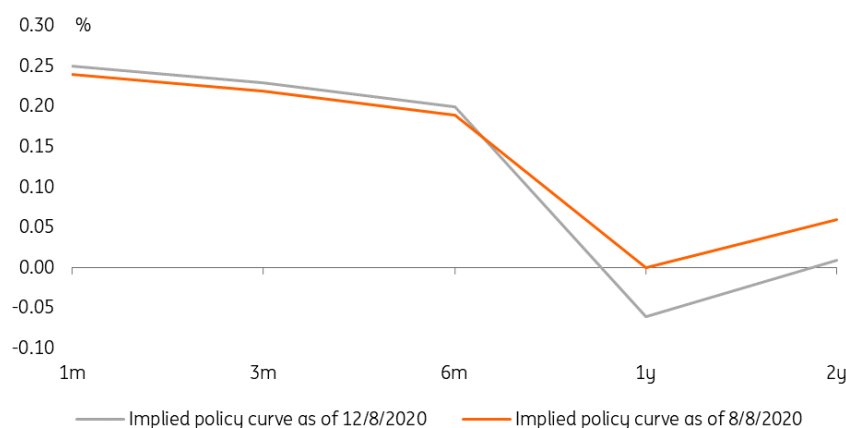
With most developed central banks taking stock of their stimulus efforts and pausing, the Reserve Bank of New Zealand delivered on expectations of adding monetary stimulus in its rate announcement overnight. Our economist [Rob Carnell reviews the policy decision here](#), and the official statement is available [here](#).

In summary, the RBNZ boosted its asset purchases programme from NZD60bn to NZD100bn. As New Zealand approaches a period of higher bond issuance to finance its Covid-19 relief measures, the move appeared mostly on the cards. Accordingly, the negative reaction of NZD immediately after the announcement was hardly only a function of the increased QE.

The statement highlights how – depending on “the outlook for inflation and employment” – the bank is ready (and effectively preparing for) further stimulus measures, which would take the shape of negative rates. The Bank added that “purchase of foreign assets also remains an option”.

The reiteration of the negative rates threat was likely the key driver of the NZD negative reaction.

RBNZ rate expectations haven't materially shifted



Source: ING, Bloomberg

Negative rates threat is still not enough to dampen NZD

It is to note, however, how NZD has quickly regained all losses during the day. A look at the market pricing of the OCR, the RBNZ meeting does not appear to have prompted a clear shift in the direction of more rate cut expectations, as shown in the chart above. This might be an indication that investors are still not convinced Governor Orr will ultimately take the road of negative rates and this may explain NZD resilience.

All this may be suggesting that – if the RBNZ is indeed concerned for a strong NZD as we reckon they are – only the threat of more rate cuts may still not be enough to curb more NZD appreciation. More specifically, the Bank may keep failing to be a key driver of the currency moves, which continues to be mostly a function of reflation hopes and largely benefiting from USD weakness.

At this stage, it appears that the RBNZ may have to deliver on its threat and effectively cut rates in order to prompt a sizeable downward correction in NZD. Still, curbing the currency strength may not be enough of a reason to jump into the often risky negative rates territory. An alternative path could be direct FX interventions: this was mentioned in the statement but the Governor appears to have little appetite for this option for now.

NZD has not lost attractiveness yet

We see the RBNZ's dovish tone as unlikely to be a substantial obstacle to more upside to NZD unless the Bank effectively decides to jump into negative rates (which appeared to be only marginally priced in). The resurgence of Covid-19 fears in Auckland this week also may have limited ability to dampen the NZD: the AUD did not particularly suffer the strict lockdown imposed in Victoria lately after the massive flare-up in Covid cases, and this could be the case for NZD too if another health emergency in NZ were to emerge.

As we see the combination of the reflation story and USD weakness to cement in the near future, NZD/USD continues to look like a buy on dips rather than an overvaluation story. The

recent drop in [NZD positioning to 4% of net shorts](#) also indicates the NZD is not overbought in the speculative market.

We have recently updated our FX forecasts ("[FX Talking: 'Opportunistic reflation' sinks the dollar](#)"), and have reiterated our view for a gentle upward-sloping trend for NZD/USD for the rest of the year, targeting 0.68 in 4Q.

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.