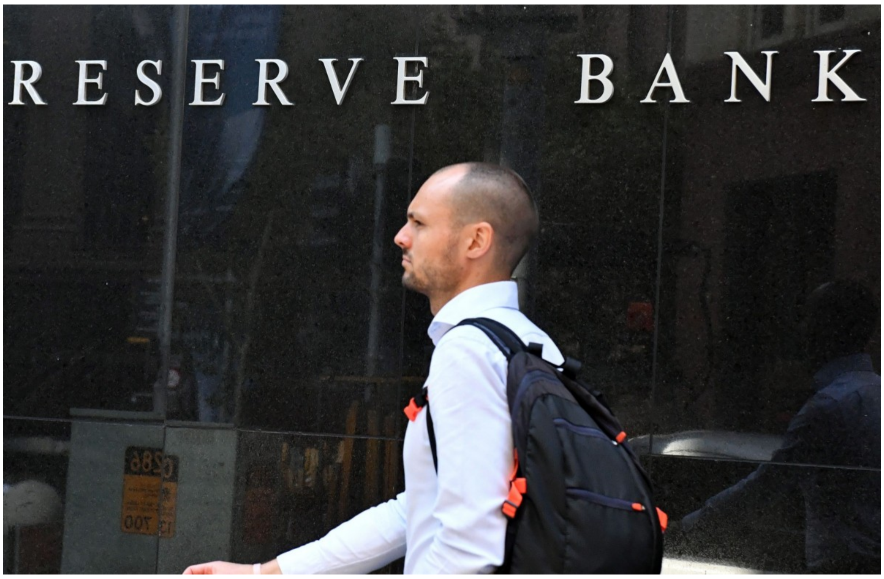
Easing rush to keep $-bloc pressured

In the past few days, central banks in Canada, Australia and New Zealand all took steps in the direction of more easing and unorthodox monetary policy. This paves the way for additional $-bloc weakness



Canada: BoC to follow the Fed to the bottom

The Bank of Canada slashed its policy rate by 50bp on Friday, replicating the emergency move made on March 4th. Also, it took part in co-ordinated action with five other central banks (BoE, BoJ, ECB, Fed and SNB) to support USD liquidity through their swap lines, both by reducing the price of the swap arrangements by 25bp and by adding weekly offerings.

While markets await the details of the fiscal stimulus plan by the Canadian government, what is sure is that the economy is set to be rocked by the combination of Covid-19 and the slump in oil prices. With this in mind, and considering how the BoC seems to be moving hand-in-hand with the Fed, we expect an additional 50bp cut soon (a move already this week would not be a surprise).

Such a move seems partly priced in already, but markets may well start to factor the possibility of unorthodox monetary policy in Canada too; this would add to the woes of the loonie.

Australia: RBA to announce QE on Thursday

After cutting the Cash Rate to 0.50%, the RBA has laid the ground for its first ever quantitative easing programme. In a statement today, the Bank announced it stands ready to buy Australian government bonds and that more policy measures will be announced on Thursday.

Deputy Governor Guy Debelle hinted at possible measures last week; the RBA's quantitative easing may take the form of a BoJ-style yield curve control, particularly targeting front-end rates.

However, the quickly developing situation likely leaves the room open for a plethora of other monetary policy measures to be announced this week. Even though markets are positioned for some unconventional monetary measures, the risk of a more aggressive easing plan may add more negatives to the AUD.

We looked at what QE may mean for the Aussie dollar a few months ago in "Australia: Is the RBA heading to QE?".

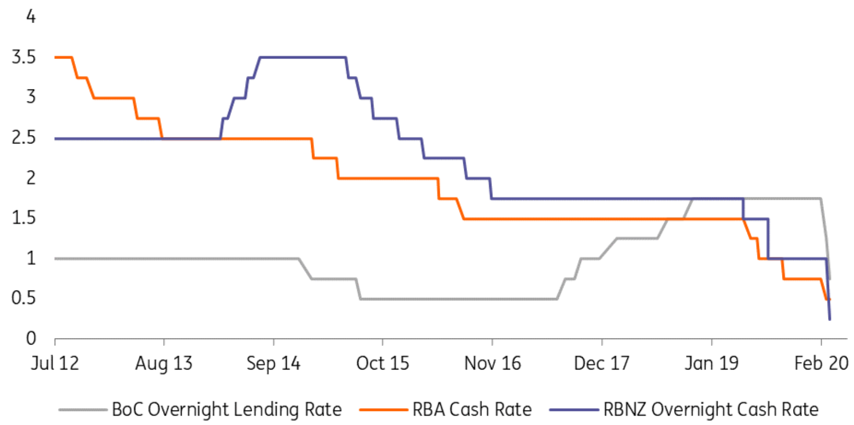
New Zealand: Rates at the lower bound and an open question on QE

The RBNZ eventually joined the stream of global easing by cutting the Official Cash Rate by 75bp to 0.25%. In the statement, the Bank highlights how this represents the lower bound for rates, which will remain at this level at least for the next 12 months. While this excludes a leap into negative rates (which hardly appeared as a realistic option anyway), the Bank announced that a “large scale Asset Purchase programme of New Zealand government bonds” will be the next step should more stimulus prove necessary.

The next RBNZ policy meeting is scheduled for May 13th, and the Bank’s Chief Economist, Yuong Ha, said the APP programme would be ready to be deployed by then, but he did not rule out a move before then.

Similar to the RBA, this is uncharted territory for the RBNZ. We need to be careful about making predictions on what size and shape any purchase programme could be. For now, we limit ourselves to highlight how this should prevent any significant rebound in NZD/USD, although a more prompt and aggressive use of unconventional tools by the RBA may still point at additional AUD/NZD weakness.

Comparing the rates



Source: ING, Bloomberg

We expect the round of easing measures already enhanced and those bound to be deployed by the $-bloc central banks to cement the notion of a highly-unattractive rate environment for the three currencies. The impact of Covid-19 on domestic consumption will likely move in tandem with a blowback from slowing global trade flows (exacerbated by the openness of the three economies) and falling commodity prices.

This should keep rates' expectations depressed and likely curb most of the ability of CAD, AUD and NZD to benefit from any USD weakness stemming from falling US rates. We expect this dynamic to continue into Q2 and we maintain a bearish near-term view on global risk sentiment.

We expect USD/CAD to head to 1.45 soon, with the possibility of extending the move should the BoC decide to embark in QE too. AUD/USD seems set to make a decisive move below 0.60 and we eye 0.58 in the near-term. NZD/USD is also likely to face a similar fate, but a delay in RBNZ action till May could help trail its peers in some of the losses. We think AUD/NZD parity – albeit for a brief period - is now a solid option, while we expect a move to 0.57 in NZD/USD later in Q2.

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