

FX Daily: Negative rates prospects start to fade in New Zealand

With the recent news about a vaccine likely coming into play, markets are re-pricing their expectations about negative rates in New Zealand and building some NZD positive momentum



📉 USD: Waiting for the next catalyst

The big risk rally has lost some steam but failed to convert this into any market correction.

In FX this has been mirrored by a halt in the dollar decline while high-beta currencies have largely held on to early-week gains. The background story for markets remains the contrast between vaccine-related hopes and sharply rising infections, while investors stay on the lookout for more hints from President-elect Biden around his plans for virus response, fiscal stimulus and foreign policy.

Data-wise, the US calendar is still too dry to offer a clear catalyst to markets. With equity futures suggesting another positive open, we could see at least some mild pressure back on the USD today.

➔ EUR: Eyes on Lagarde

If EUR was not a key outperformer in the post-election rally, it is still showing good resilience to unsupportive domestic drivers. Yesterday's drop in the German ZEW and a set of grim virus-related news (France and Italy recorded the most daily deaths since April), left little mark on the common currency. Today, all eyes will be on the speech by ECB President Lagarde (1300 GMT) at the Bank's forum on central banking.

For now, the very cautious language by Ms Lagarde looks likely to stay the norm and a mere reiteration of the Bank's dovish bias would not impact the EUR significantly, with more stimulus in December fully in the price.

Any comment on EUR strength and impact of an early vaccine might have larger market implications. Still - barring major USD swings - EUR/USD could stay in a relative tight range (1.1800-1.1850) today.

⬆️ GBP: Expect rising Brexit-related volatility

Sterling has shown good momentum, with markets retaining an upbeat stance around a UK-EU trade deal (both parts set this Sunday as an informal deadline) and the tangible prospect of a Covid-19 vaccine is revamping the outlook for the service-centred UK economy.

On this second point, UK health officials are expecting to start rolling out the vaccine as early as December. Still, Brexit remains the key driver for the pound, and as the deadline approaches, the newsflow on the topic – along with GBP volatility – is set to intensify.

⬆️ NZD: U-turn on negative rates by the RBNZ?

The Reserve bank of New Zealand deployed its funding for lending tool overnight – as widely expected – to support the banking sector through cheap loans in what had largely been seen as a measure anticipating a move to negative rates. However, new projections suggest a decisively more upbeat stance on the medium-term economic outlook.

GDP is expected to contract by 0.9% YoY by 1Q21 compared to the previous 1.5%, and unemployment (a key driver of policy decisions) is seen peaking at 6.2% instead of 8% in 1Q21.

We have long been sceptical about negative rates in New Zealand, but this appears to be a confirmation that the prospect of more cuts may be fading. With the recent news about a vaccine likely coming into play too, markets are re-pricing their expectations about negative rates in New Zealand and building some NZD positive momentum.

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