

FX Daily: RBNZ moving to the hawkish end of the G10 spectrum

The RBNZ surprised overnight and signalled a clear hawkish bias. This is set to benefit NZD. ECB officials are pushing against the notion of any imminent QE tapering, but this shouldn't be enough to push EUR meaningfully lower. We don't expect the GBP underperformance this week to last for long.



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📌 USD: The dollar softness fully in play

With Fed officials pointing to the transitory nature of the inflation increase, there is little need for the market to price in any imminent and meaningful Fed policy normalization. Coupled with the recovering global economy and signs of a more synchronised growth outlook, this is not an environment where USD would flourish, particularly when facing an ultra-negative real rate. In Asia, USD/CNY continues pushing lower day by day, now being below the psychological 6.40 level..CNY not only benefits from the soft USD environment but also from foreign portfolio inflows. Within the EM space, the ZAR maintains its position as best EMFX performer this year (+6% versus \$). In addition to enjoying the terms of trade gains from commodities and the tailwind of a stronger CNY, the ZAR also received a boost yesterday from debt markets. Here officials surprised markets by saying state-owned Eskom had managed to slash its debt by a fifth in the year to

March. The improvement in debt sustainability metrics will be welcomed by the ZAR and as long as the external environment stays benign, USD/ZAR could sustain a break below support at 13.80/85.

➔ EUR: Comments from ECB officials unlikely to hurt the euro

While ECB officials are pushing against the notion of any imminent QE tapering (as per Villeroy's comments yesterday that a reduction in asset purchases in Q3 is "purely speculative") this isn't and shouldn't be enough to push EUR meaningfully lower. The soft USD environment dominates and, with the Fed in no rush to start normalising monetary policy, EUR/USD is set to grind higher. In Hungary, the NBH did not surprise yesterday and signalled the start of the tightening cycle at the June policy meeting. Coupled with the less stretched positioning, we expect this to keep HUF supported this quarter. In the Czech Rep, CNB Governor Rusnok mentioned that that bank still needs to decide whether to hike rates in June or August. This is in line with our view that a June hike is a 50:50 probability. The market already assigns to it a 60% probability, meaning that a boost to CZK from the possible June CNB hike may be limited, also in the context of the one-way long CZK positioning

➔ GBP: Weighed down by the spread of the Indian Covid variant

GBP was weighed down by market concerns about the imposition of more restrictive government guidance on selected UK areas where the Indian variant spread is the fastest. Still, with the vaccine being effective against the Indian variant and the UK vaccination process gaining pace again, the impact on the economic rebound projected for this quarter and next should not be overly negative. This suggests that GBP longs are still attractive, particularly vs USD

⬆️ NZD: The hawkish bias is on

While a broadly unchanged policy statement by the RBNZ overnight might have left some hawkish expectations about tapering talks disappointed, the re-introduction of the OCR projections in the monetary policy statement signalled a clear (and surprising) shift to a hawkish bias. In a move that resembled that by the Bank of Canada in April, the RBNZ signalled a rate hike is expected in the second half of 2022. A lot of conditionality has been added to the new forward guidance, as the recovery path remains highly uncertain, but it is also very likely that housing-related considerations have been made. With the RBNZ moving into the hawkish group of central banks in G10, the NZD real profile is set to be even more attractive, and should continue to provide support to the currency beyond the initial positive reaction.

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