

Investment Research

FX commentary

# NZD: Another large interest rate cut expected from the RBNZ

Wednesday, 28 January 2009

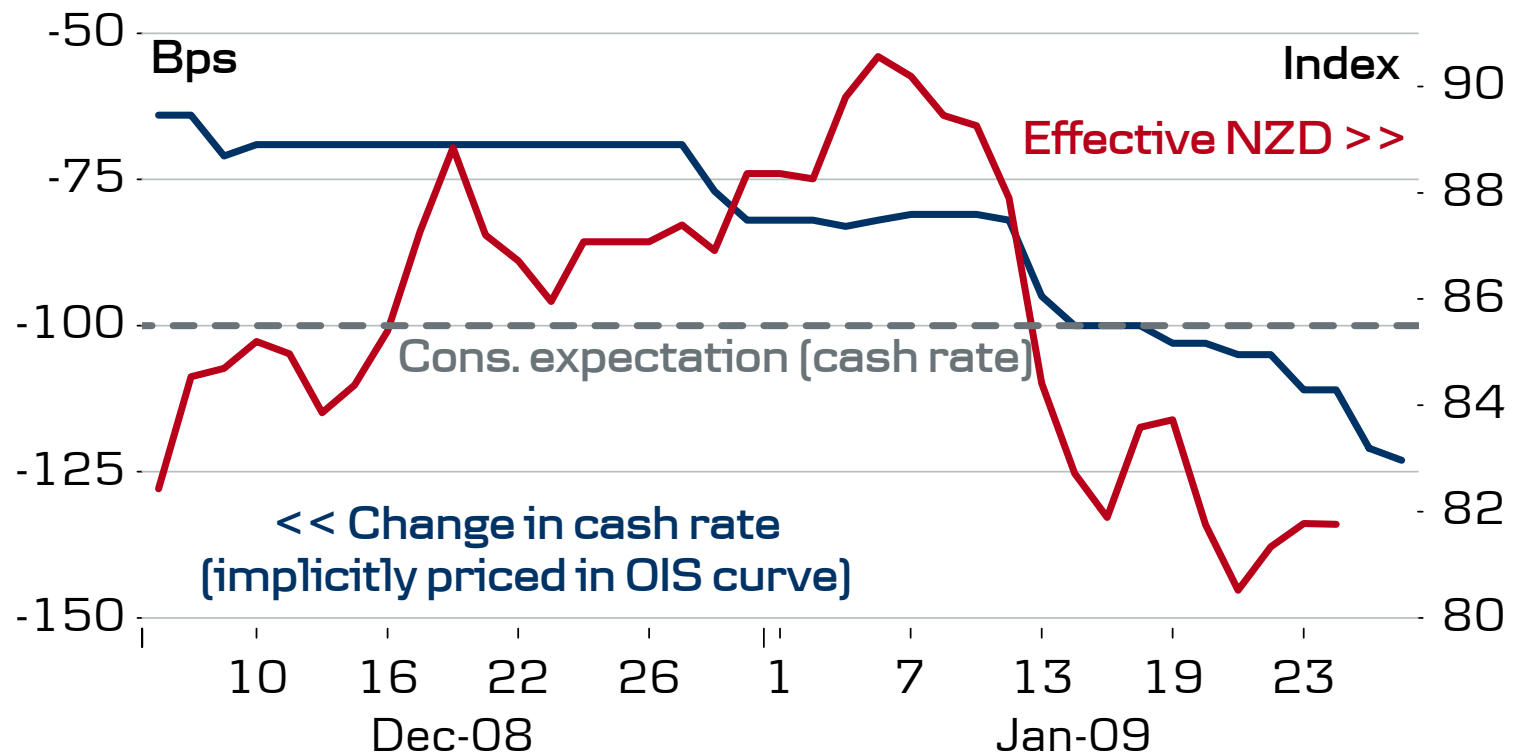
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## Consider selling AUD/NZD on a rally

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- Tonight at 21:00 CET the Reserve Bank of New Zealand (RBNZ) is due to announce the outcome of the January meeting. We expect, in line with consensus, that the RBNZ will reduce the cash rate by 100bp to 4% (the lowest level since the RBNZ moved to the OCR regime in March 1999). However, the market is pricing an expected 125bp cut and risks are definitely for a large reduction with 100-150bp as the most likely outcomes.
- A larger than expected rate cut should see the NZD come under pressure - also against the AUD. That said, we believe that the current market pricing of the expected bottom in the cash rate (OCR below 3% by mid-2009) is justified by economic data. We therefore see little potential for the NZD to move much lower on further easing of monetary policy.
- We believe that there is potential for the NZD to weaken further on the still deepening global recession and the resulting weak short-term outlook for commodity prices. We currently look for NZD/USD to fall toward 0.50 during H1.
- While we have long argued for a rise in AUD/NZD, the recent jump above 1.26 could prove short-lived. With the RBA meeting less than a week away, we would consider selling AUD/NZD on a spike following tonight's meeting for a potential correction to 1.24.

# Market is pricing an expected 125bp cut



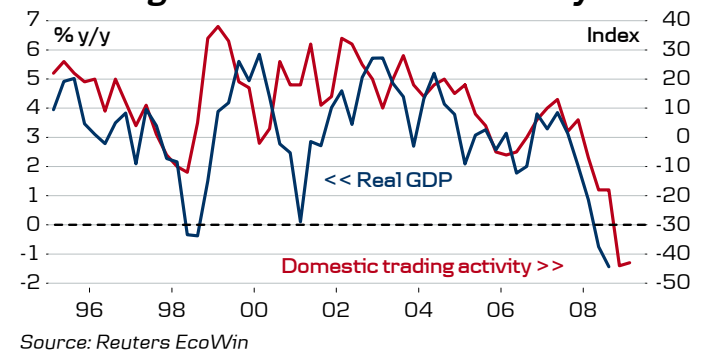
Source: Reuters EcoWin

# Strong need for further monetary easing

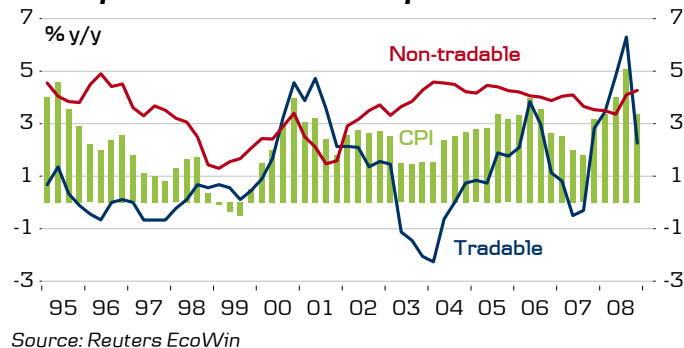
*Economic data disappointed heavily in December and early January ...*



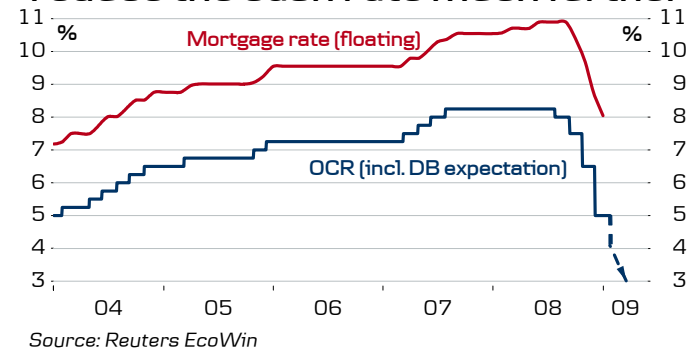
*...as the recession deepened with no trough established in data yet*



*And while some inflationary pressure is still present...*



*...pressure is on the RBNZ to reduce the cash rate much further*



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