

# FX Viewpoint

Currencies  
Global

## AUD and NZD: Consolidate; ending 2024 on a higher note

- ◆ On 22 May, the RBNZ delivered a hawkish hold...
- ◆ ...likewise, the RBA is seen as maintaining a “restrictive for longer” policy stance
- ◆ We look for the surge in the AUD and the NZD to lose steam over the near term, before finding external support

On 22 May, the Reserve Bank of New Zealand (RBNZ) delivered a hawkish surprise. While the policy rate was left unchanged at 5.5%, its latest projections showed a higher policy rate peak at 5.65% (previously 5.60%), with rate cuts being pushed back to 3Q25 (previously 2Q25). **The RBNZ discussed the possibility of a rate hike**, despite acknowledging that aggregate demand is now broadly in line with the supply capacity.

**The RBNZ’s stance is more hawkish than expected**

**Both markets and our economists expect the RBNZ to deliver its first rate cut in 4Q24**, as downside risks to the demand side of the domestic economy have increased, on top of the ongoing weakness seen in the supply side. It is worth noting that **over the past 25 years, the policy rate has been cut earlier than the RBNZ had been projecting**. NZD-USD spiked initially, but then partly reversed. In our view, the recent NZD-USD rally looks quite stretched versus its rate differentials (Chart 1) and may lose steam over the near term, without the help from falling US yields and rising risk appetite.

**NZD strength appears to be short-lived and may lose steam, in our view**

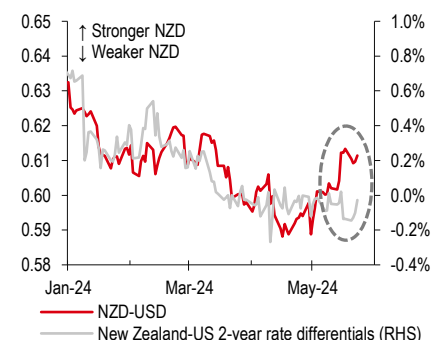
**The Reserve Bank of Australia’s (RBA) policy rate assumption** (based on surveys from professional economists and financial market pricing) was lifted to 4.4% in 4Q24 (previously 3.9%) and 3.8% in 2Q26 (previously 3.2%) at its 7 May policy meeting where the central bank left the policy rate unchanged at 4.35%.

**The RBA rates seem to stay high for longer**

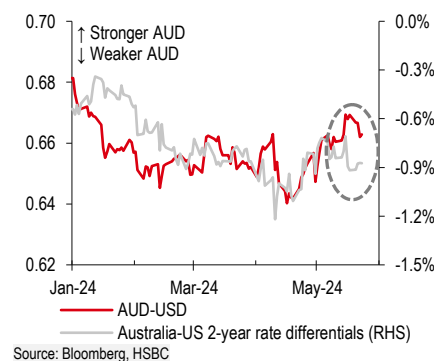
**The RBA is likely to deliver its first 25bp cut in 2Q25**, according to market expectations and our economists. Like NZD-USD, the recent rally in AUD-USD appears to go beyond what its rates differentials imply (Chart 2) and has also been built on robust risk appetite. **We are reluctant to chase the AUD higher from here, but we also see little reason for a big correction lower over the near term.**

**AUD-USD may consolidate over the near term**

### 1. NZD-USD and its rate differentials



### 2. AUD-USD and its rate differentials



In summary, NZD-USD and AUD-USD are likely to consolidate over the near term, but **AUD-NZD could go higher**. While it still takes time to understand the impact of the recent stimulus measures from China on demand for Australia’s commodity exports, **China’s strong industrial output data for April highlight robust steel demand outside the property sector, probably providing more support to the AUD than the NZD**. Finally, if risk appetite remains robust, the AUD and NZD – high-yielding, procyclical currencies in G10 space – are likely to end 2024 on a higher note, but it will probably be a bumpy ride.

**External backdrop could provide room for the AUD and the NZD to strengthen modestly**

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