

# FX Viewpoint

Currencies  
Global

## AUD and NZD: Calm before the storm

- ◆ As widely expected, the RBNZ delivered a 50bp rate cut in November, taking its easing so far to 125bp since August
- ◆ On the contrary, the RBA is likely to keep its policy rate unchanged in December, with the first cut to come in 2Q25
- ◆ But both AUD and NZD are expected to weaken against the USD through 2025 amid external headwinds, in our view

On 27 November, the Reserve Bank of New Zealand (RBNZ) cut its policy rate by 50bp to 4.25%, in line with market expectations. This was the third straight cut, taking its easing so far to 125bp since August. The RBNZ embraces the idea of a 2025 recovery in economic activity, while seeing inflation to be 2.4% (up 0.1%) in Q4 2025 and 2.1% (up 0.1%) in Q4 2026, but still within the RBNZ's inflation target range of 1% to 3% (Chart 1).

The RBNZ delivered a 50bp cut in November, as widely expected

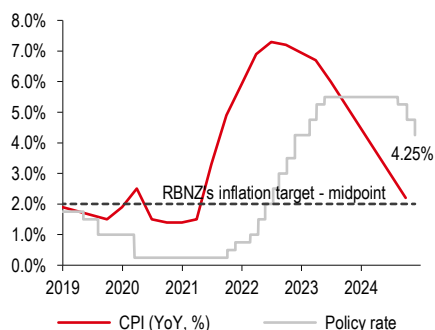
It is worth noting that RBNZ Governor Adrian Orr gave strong guidance towards a 50bp cut in February 2025, if the economy evolves as expected. The RBNZ also lowered its year-end 2025 policy rate forecast to 3.55% (from its August projection of 3.85%), albeit above market expectations of c3.30%. Our economists see the RBNZ delivering further cuts through 2025, taking the policy rate to 3.25% by end-2025. The NZD jumped c1% against the USD and c0.7% against the AUD after the announcement (Bloomberg, 28 November 2024).

More RBNZ rate cuts could come in 2025

Beyond the kneejerk reaction, AUD-NZD is likely to face downward pressure amid the relative terms of trade dynamics. From a rate differential's perspective, monetary policy divergence remains clear between the two central banks, but we see limited room for the divergence in market pricing to extend (Chart 2). Both markets and our economists expect the Reserve Bank of Australia (RBA) to keep its policy rate unchanged at 4.35% at its 10 December meeting. Markets and our economists' central case is for the RBA to start its rate cut cycle in Q2 2025, but our economists also see a 25% chance that the RBA does not cut at all in 2025.

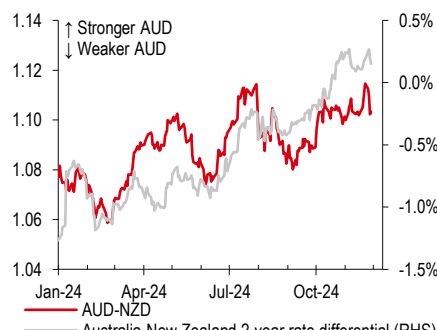
The RBA is likely to keep its policy rate unchanged in December, with the first cut to come in Q2 2025

### 1. New Zealand: Policy rate and inflation



Source: Bloomberg, HSBC

### 2. AUD-NZD and its rate differential



Source: Bloomberg, HSBC

In 2025, we think that both the AUD and the NZD are likely to weaken against the USD amid external headwinds, such as the rising US terminal rate, potential tariff concerns, and portfolio outflows. More forceful fiscal policy support from China could help, but it may have limited spillover effect through the commodity demand channel. Structurally, China's importance on the AUD may be declining.

Both AUD and NZD are likely to face external headwinds in 2025



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