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09/02/2016



Expert Commentary

Nordine Naam, Global Macro Strategist at Natixis, on Kiwi

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RBNZ governor Wheeler has talked down the chances of interest rate cuts, dismissing the need for a knee-jerk reaction to a weaker inflation caused by slumping oil prices, and suggested that "some recent inflation indicators are encouraging". Do you believe that this confirms the bank's lack of urgency in responding to the weak inflation dynamic? What changes do you expect to see in the RBNZ's policy and when?



For the time being, we believe the RBNZ is not in a hurry to cut interest rates yet, since the currency is declining quite a lot, which is supportive for the economy. However, we expect inflation to remain quite flat, even if oil prices remain weak given that global growth is weakening mainly in Asia, and particularly in China. As a result, it could push the Central Bank to cut interest rates further even given that most central banks in Asia are now cutting their interest rates or are willing to do that. Thus, we think that the Bank is not finished with cutting; nevertheless, it will take time before the move.

Commodity-linked currencies including the Kiwi, Aussie and Canadian Dollar fell after oil prices declined amid concerns that weak global demand and ample supply will lower inflation and weigh on interest rates. What other major drivers do you anticipate for NZD in the first half of 2016?

It is commodity prices, and particularly all the dairy prices that are weakening; in fact, all the agricultural prices are declining. Not only we expect diversity in commodity prices, but also risk aversion, especially if stock markets continue to decline further, which should also weigh on the New Zealand's currency.

Moreover, all what is going on in Asia should be very important for the Kiwi as well. If we do not see any signs of growth picking up strongly, particularly, in Asian exports, the currency will remain under pressure in the coming months.

Overall, we expect the Kiwi to depreciate by the end of the year on the back of weaker commodity prices and weaker growth in the global economy.

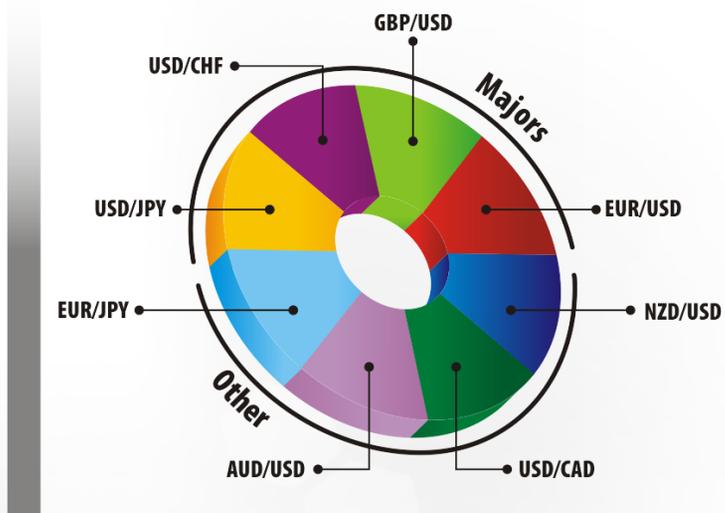
What are your forecasts for NZD/USD, AUD/NZD and EUR/NZD for the end of 2016?

By the end of the year we expect the NZD/USD currency pair to trade around 0.59 level and against the Euro we see it reaching 1.75. Talking about the AUD/NZD currency pair, we anticipate it to be at 1.10 level.

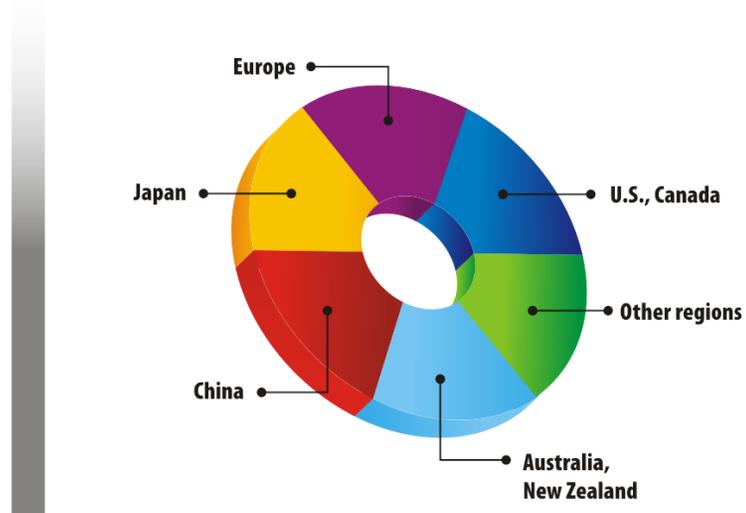
***Nordine Naam
Global Macro
Strategist
Natixis
France***

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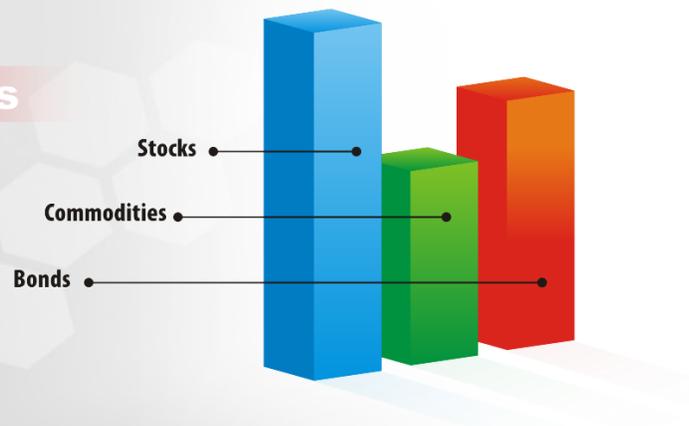
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