

UOB Investment Insights

FX Insights

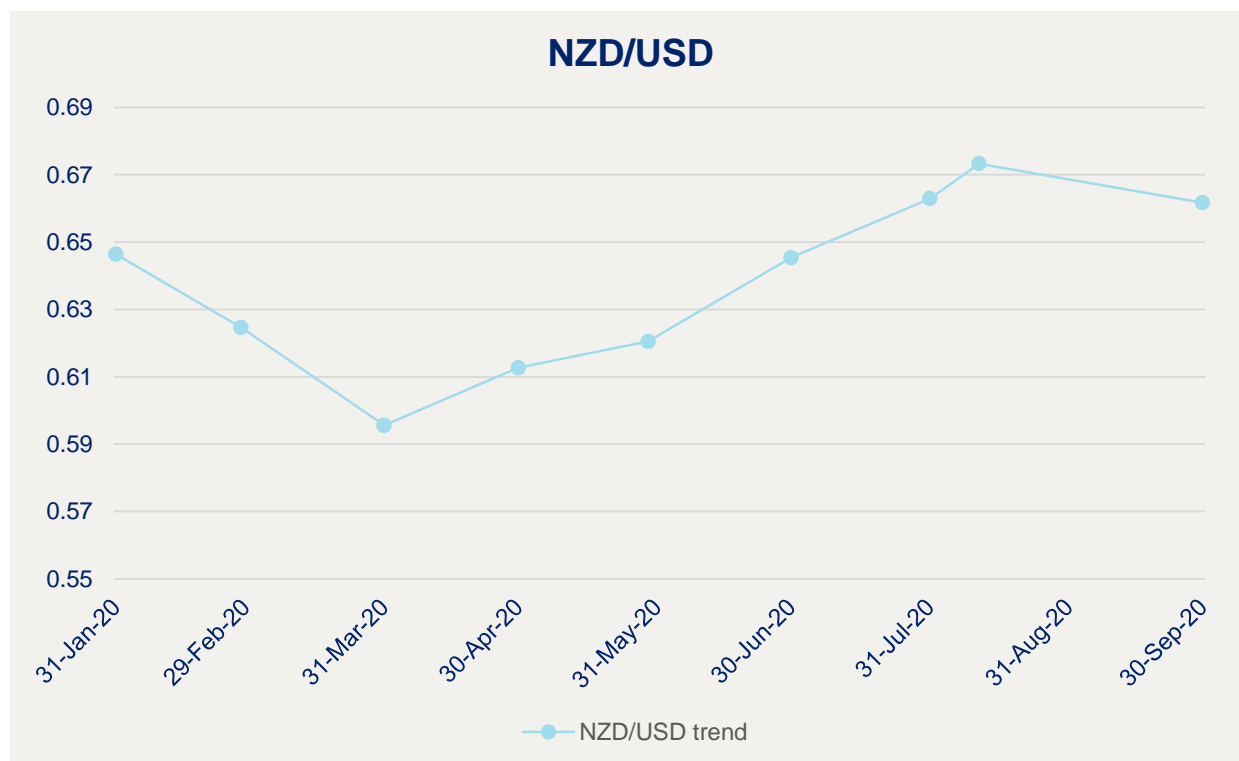
9 October 2020

NZD/USD likely to end the year on a high note

- A combination of supportive internal and external factors underpinned the New Zealand dollar's recovery from March 2020 lows
- Given the US dollar weakness, NZD/USD still looks set to edge higher
- A key downside risk is a dovish Reserve Bank of New Zealand , which may cut rates to negative

Underpinned by a strong global risk appetite, an effective control of its domestic COVID-19 situation and broad US dollar (USD) weakness, NZD/USD rose for a second quarter in 3Q20 and touched a new high for the year at nearly 0.68 before pulling back to 0.66 as at 30 September 2020.

Going forward, a higher NZD/USD is expected given that the broad USD weakness is set to persist. Our updated forecasts are 0.67 for 4Q20, 0.68 for 1Q21, and 0.69 for both 2Q21 and 3Q21. A key downside risk to the forecasts is an aggressive Reserve Bank of New Zealand (RBNZ), which announced further monetary easing measures such as negative interest rates in order to secure its economy's recovery from the pandemic.



Source: Bloomberg. Data as at 30 September 2020.



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