

28 June 2021

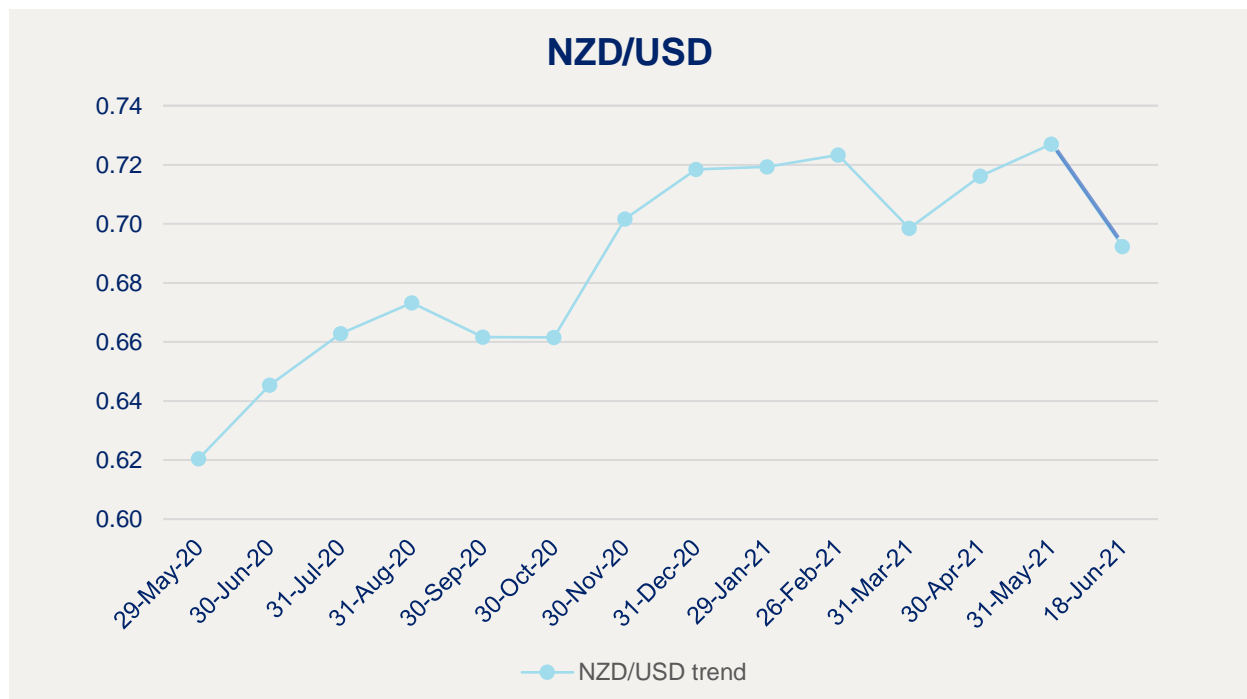
NZD/USD loses its shine as the Fed catches up with RBNZ

- Both the RBNZ and Fed signalled interest rate hikes starting from September 2022
- This resulted in a considerable amount of volatility for the NZD/USD pair
- We expect NZD/USD to consolidate at 0.70 in the second half of the year

The NZD/USD has been on a rollercoaster ride since May 2021. The New Zealand dollar (NZD) initially gained and traded at a high of 0.7316 against the US dollar (USD) in late May 2021, after the Reserve Bank of New Zealand (RBNZ) indicated interest rate hikes from September 2022. However, the US Federal Reserve (Fed) shortly announced its plan to move its timetable forward for interest rate hikes by approximately a year, to 2023.

The sudden hawkish shift by the Fed resulted in volatility for the NZD/USD pair, with the NZD weakening swiftly against the USD. The effect of the Fed's announcement was so significant that the pair traded to a 7-month low of 0.6923 on 18 June 2021, falling below its support level of 0.6950.

That said, NZD/USD may still find support from the global reflation trade, strong commodity prices and buoyant global risk appetite. For now, we expect NZD/USD to consolidate at around 0.70 in the second half of the year. Next year, as repricing for the Fed rate lift-off gains traction, we expect NZD/USD to edge lower to 0.69 in Q1 2022 and 0.68 in Q2 2022.



Source: Bloomberg. Data as at 18 June 2021.



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