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RBA & RBNZ Divergence: Thoughts & Charts

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Some Thoughts & Key Events To Keep In Mind Post RBNZ Cut & RBA On Hold This Week

RBNZ vs. RBA Divergence, Proactive vs. Reactive...

RBNZ proactive cuts today, signals race to the bottom vs. lagging potentially reactive RBA

After selling off to new year lows where NZDUSD hit 0.6270, we are trading back close to the pre RBNZ meeting levels of 0.6600. This despite RBNZ signaling that one more cut could still be on the cards, here is the [link to statement from today](#)

What's interesting about the RBNZ decision today to cut rates by 25bp to 1.50%, was even though it was expected by economists – it comes across as more surprising, given that the RBA kept rates on hold overnight

When arguably the New Zealand economy – whilst sharing many similarities with Australia, from a elevated housing market, to business cycle that is long in the tooth – is in a much better state than the Australian economy & has been under less significant headwinds, let alone less dependency on China

True both sides have seen lower inflation over the last few quarters – which has been a global theme for much of 1Q19:

- NZ 1QCPI 1.5%a 1.7%e 1.9%p
- AU 1QCPI 1.3%a 1.5%e 1.8%p

As well as growth - which apart from China has also been a global theme for much of 1Q19:

- NZ 4Q GDP YoY 2.3%a 2.5%e 2.6%p
- AU 4Q GDP YoY 2.3%a 2.6%e 2.8%p

And labor market that keeps getting tighter (global theme) – which has also been a global theme for much of 1Q19:

- NZ 1Q Unemployment rate & participation rate 1.5%a 2.2%e 2.3% and 70.4%a 70.9%e 70.9%P
- AU 1Q Unemployment rate & participation rate 5.0%a 5.0%e 4.9% and 65.7%a 65.6%e 65.6%P

Yet the residential housing market in Australia is under a lot of stress & the level of consumer debt after close to 3 decades of economic expansion is knocking on 200% of GDP – also note unlike in the US, in Australia (as in Canada) the loans on one's property are full recourse. That means, you cannot just leave your keys in your home or investment property & walk away... creditors can & will come after you

This is a phenomena that is not going away & is going to be the paragon of shock & awe to anyone under 50, who have pretty much seen nothing but upside in housing prices for their entire lives. This also means, that whatever government takes hold, if the Australian economy were to enter a recession in the next 6-18month, whatever they are promising is more than likely to be thrown out of the window

Not exactly sure what the RBA is waiting for, yet it looks like the RBNZ is taking a page out of what central banks used to do – be proactive, rather than reactive. Granted it could be that old oxymoron of central bank independence once again proving to be eternal, as perhaps RBA stood on the side-lines given the upcoming Aus elections in a little under 2wks time (Sat May 18th)



Some Thoughts & Key Events To Keep In Mind Post RBNZ Cut & RBA On Hold This Week

RBNZ vs. RBA Divergence, Proactive vs. Reactive... (cont.)

Whilst early days, it's worth noting that the KiwiDollar after an initial sell-off to c. 0.6527 lows, is back at around 0.6590 lvls moving to its pre RBNZ announcement price of 0.6600.

AUDNZD after spiking above 1.0700 to a 1.0725 high, has given up a lot of those gains & is sitting at 1.0650 lvls... still above the pre RBNZ lvls of c. 1.0635

AUDUSD 0.7024 has continue to be well bid, despite the risk-off in Asia Equities continuing this Weds, post the -1.65% in SPX cash & +25% spike in the VIX from the Tue US session

What are some key dates & events to keep on the calendar for Australia & New Zealand?

- Fri May 10th RBA Quarterly update, where we should see further revisions lower on growth & inflation
- Wed May 15th Australia Jobs data for April (we had big misses for Feb & big beats for Mar)
- Sat May 18th Australian Elections, where the consensus view seems to be small margin towards labor victory – Its worth noting that our Australian Market Analyst Eleanor Creagh does not see much of a significant difference from either party winning the election
 - For more on the recent RBA decision, as well as on going US / CH Trade Spat check out, our Australia's Market Strategist Eleanor Creagh's latest piece: [RBA holds rates steady as trade war overwhelms markets](#)
- Wed Jun 5th 1Q Aus GDP
- [Tue Jun 4th Next RBA Meeting](#)
- Thu Jun 20th 1Q NZ GDP
- [Wed Jun 26th Next RBNZ Meeting](#)

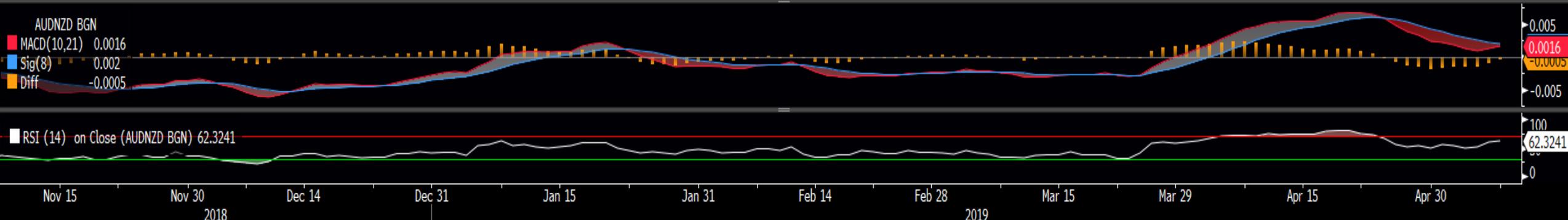
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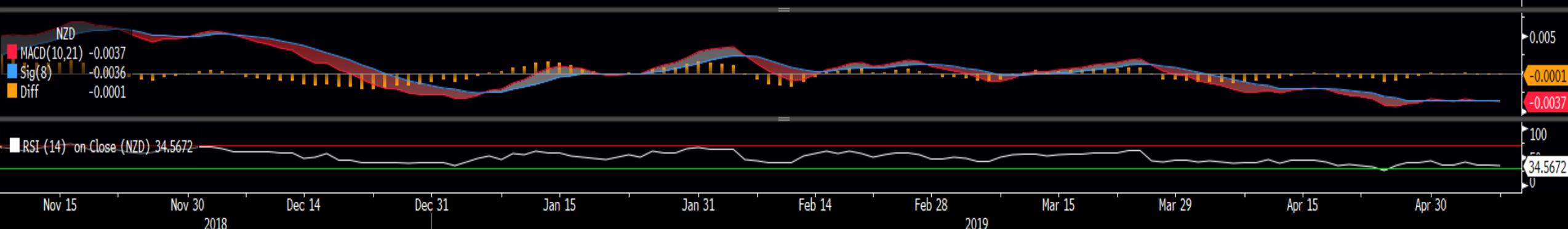
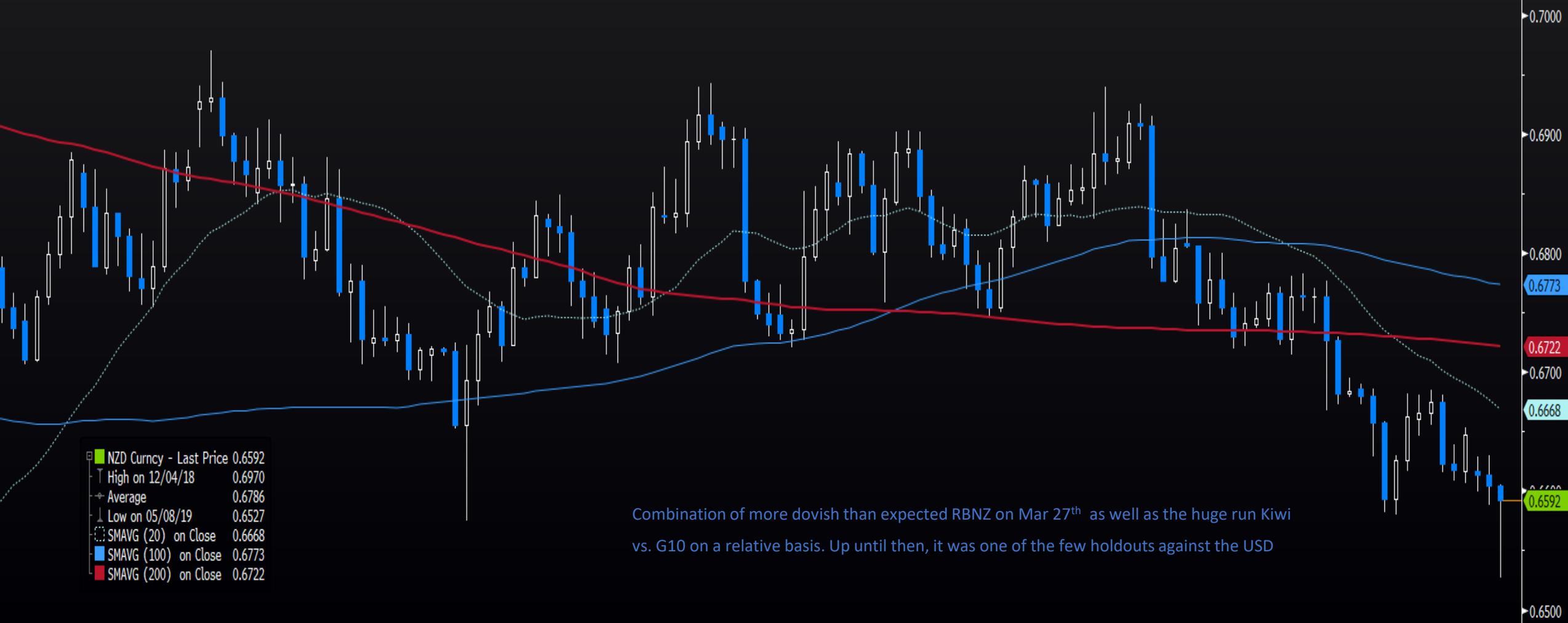
Note USD Net-Long very extended, as per Ole's Latest CoT Piece We are Now Sitting at MultiYear Highs in USD Longs... yet with that said, no extreme shorts on either AUD & NZD

AUDNZD 1.0650 – upside seems intact, with MACD looking to cross up – worth noting that 200DMA of 1.0661 previously stopped the earlier squeeze in April on AussieKiwi. Key support tis likely around 100DMA & 50DMA of c. 1.0500. YTD H / L are 1.0732 & 1.0276 (ignores the JPY liquidity event in early Jan that skewed a lot of crosses in the mkts, in that case we got to a low of 1.0106)

AUDUSD 0.7024 – Again precious Apr rally was stemmed around 200DMA which now sits at 0.7164 lvls. 70c has been super resilient & most recent lows are 0.6963. MACD ticking up, as is RSI... do remember that unlike the previous c. 20yrs, long AUDUSD is not negative carry. KVP would still prefer structural shorts on AUDUSD looking for RBA cut on Jun 5 & weaker econ data to come through, yet would look to start building short from 0.7050 with enough of a line to keep building to 0.7150 / 0.7200 – even though probability of getting there is low. Key lvls to break through is around 0.7050 & c. 0.7100 (avg. of 50DMA & 100DMA)

NZDUSD 0.6594 – YTD low was hit this morning at 0.6527, with the high being 0.6942, daily indicators are inconclusive on the MACD & RSI – wkly indicators on the other hand are still pointing down. Next big support level would be the 0.6425 low hit in the October risk-off last year, with 20DMA of 0.6668 being near-term resistance to the top side







■	AUD Currency - Last Price	0.7021
↑	High on 12/04/18	0.7394
+	Average	0.7140
↓	Low on 01/03/19	0.6741
○	SMAVG (20) on Close	0.7080
■	SMAVG (100) on Close	0.7110
■	SMAVG (200) on Close	0.7164

■	MACD(10,21)	-0.0028
■	Sig(8)	-0.0024
■	Diff	-0.0004

■ RSI (14) on Close (AUD) 41.759

Meanwhile despite still waiting for an RBA cut, we are seeing new lows in Aussie 10yr bond yields
 Earlier this year on our weekly Macro Monday's we were flagging how at above 2.0% the bonds were likely a steal...





Meanwhile despite still waiting for an RBA cut, we are seeing new highs in Aussie 10yr bond futures
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