

FX Alpha

Close long AUDNZD

Close AUDNZD 2m call

In February, we recommended buying a 2-month AUDNZD 1.0675 call at 0.51% ([Buy AUDNZD 23 February 2024](#)). Although AUDNZD volatility plumbed new lows, spot has moved to 6-week highs and we close the trade at 1.15% (spot reference 1.0744). We see few near-term catalysts for further gains, while the downside risks for AUD have increased since we recommended the trade.

RBNZ repricing has moved AUDNZD closer to our target

AUDNZD has moved higher after the RBNZ declined to hike in February and lowered projections for the overnight cash rate (OCR) (Exhibit 1). We expect the trend of softer data to continue but recognize that AUDNZD has rebounded from its lows since the RBNZ decision and moved closer to our 1Q target of 1.08 ([New Zealand Watch 28 February 2024](#)).

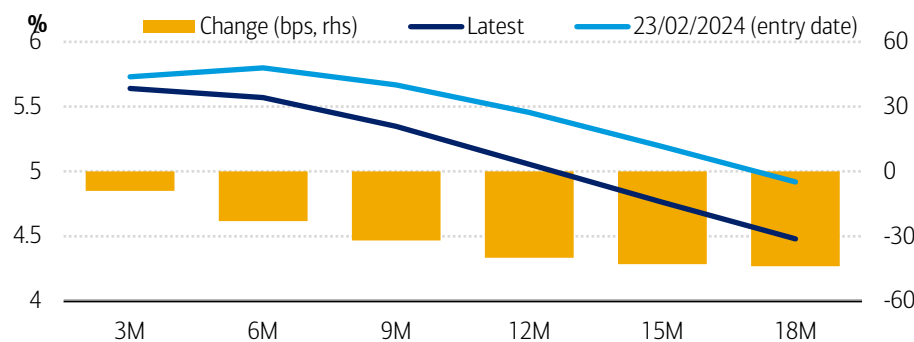
Near-term risks for AUD longs

Since late February, downside surprises to monthly inflation and retail sales have reinforced an increasingly durable trend of softer-than-expected economic data in Australia. While Q4 2023 Australian GDP printed in line with expectations, household final consumption was conspicuously weak and the savings ratio rebounded for the first time in 10 quarters.

The RBA has understandably turned more dovish and we see rising probability of an earlier start to the easing cycle, especially if unemployment data in March and quarterly CPI in April print in line with recent trends ([BofA RBA Sentiment Indicator 07 March 2024](#)). Against this backdrop, there is a risk that the RBA delivers a more dovish message than expected next week.

Exhibit 1: RBNZ bank bill futures pricing a more aggressive easing cycle

AUDNZD has moved close to our 1Q forecasts



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

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Currency Strategy
Global

Oliver Levingston
Rates Strategist
Merrill Lynch (Australia)
oliver.levingston@bofa.com

Adarsh Sinha
FX Strategist
Merrill Lynch (Hong Kong)
adarsh.sinha@bofa.com

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