

## FX Alpha

## Buy AUDNZD

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We recommend buying 2-month AUDNZD 1.0675 call costing 0.51% (1.0592 spot ref, 4.675% vol ref). The sell-off in both spot (to range lows) and volatility (close to decade lows) offers attractive levels for outright call options. Historical distribution of returns suggests at current spot levels, the probability of 2% gain in AUDNZD in two months is 78% vs 22% for a 2% loss. RBNZ hikes and real money positioning are the key risks.

## Hawkish RBNZ well priced in

The RBNZ is likely to stay hawkish at next week's meeting ([RBNZ preview: all about the time to target 22 February 2024](#)) but absent a surprise rate hike, this is likely well anticipated given its recent rhetoric. With +7bp priced in for this meeting, a rate hike could further boost NZD but with inflation expectations falling, we expect the RBNZ to stay on hold. No rate cuts are priced until the October meeting, so the scope for the Monetary Policy Statement to push this back much further seems limited.

## Signs of trough in China sentiment

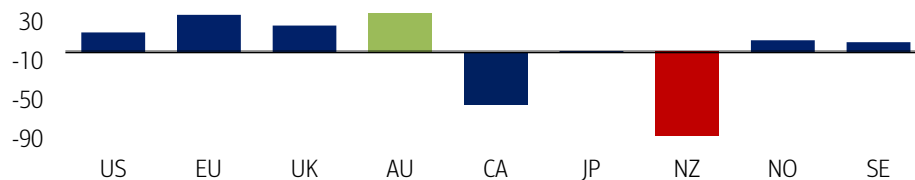
We have been neutral AUD near-term on China risks (Q1 AUDUSD forecast: 0.66) but signs of bottoming in China sentiment suggests value in owning upside. The larger-than-expected 5yr LPR cut signaled intent to strengthen support for the property sector ([China Watch 20 February 2024](#)). While this is not yet evident in new home sales, the LPR cut should help restore some housing confidence in the near term. China's property sector matters most for Australia's bulk commodity exports and therefore AUD.

## Fundamentals support higher AUD

A trend of softer-than-expected AU economic releases concluded this week after wages printed in line. The first positive real wages print since March 2021 reinforced the RBA's message that cuts are unlikely in the near term, especially given the scale of fiscal stimulus (i.e., tax cuts) set to commence in July. AU rates have rallied aggressively cross-market and RBA market pricing now sees 15bps of easing by June. We see room to price a more delayed start to the easing cycle, which should be supportive for the AUD.

## Exhibit 1: Rates market converging to BofA policy rate forecasts should support AUDNZD

BofA 2024 year-end G10 policy rate forecast – current market pricing



Source: BofA Global Research, Bloomberg. Positive values mean market is pricing in more rate cuts than BofA; negative values less.

BofA GLOBAL RESEARCH

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