NZD/USD (currently .6810)

Brief - USD
Over the past four and a half months, the kiwi dollar has been broadly trapped in a two and a half cent range, .6700-.6950. The kiwi market is caught between the US/China trade dispute, Brexit, weaker local fundamentals and a weaker global economic outlook capping the topside for the local bird. The downside though has seen support as the kiwi remains favoured (at this stage) over the Australian currency as global "risk off" events hurt the AUD first/more and also a weaker US currency at times over the past few weeks. That was until the RBNZ's dovish comments last week. With expectations having reduced somewhat that the Fed will go from three rate hikes this year to many calling now for a rate cut in 2019, the shine may have shifted back to the NZD as opposed to the USD short term. Again 2019 will continue to see the kiwi look the most bullish at the top and the most bearish at the bottom continuing the theme that we've seen for most of 2018 and this year so far. Both Importers and Exporters alike need to take advantage of levels when seen as a "trending kiwi" is a long way away. Beware on the 17th of April for the Q1 NZ CPI, I suspect this will print weaker than market expectations.

Strategy – USD Importers
We remain of the opinion for importers to have "at least 50%, even up to 75% of your USD exposures for the next 12 months covered, (policy allowing)". This remains the case today for the kiwi with levels seen recently above .6900 cents remaining attractive given the risks to the downside from both local and offshore events. For those importers who have had to handle USD exposures for many years, remember there is no longer a cost to hedge your exposures out to 12 months, in fact there is a small benefit. Not only will you be locking in over your budgeted rate, but a benefit to do so? Not bad in my opinion. As an addition to straight forward cover, Importers can look at a simple six-month collar option (also known as a risk reversal) based off a .6900 spot, protecting .6800 cents on the downside with a sold call at .7050 cents for zero cost. These provide some benefit to the upside whilst protecting a worst case rate of .6800 on the downside. So if the kiwi is lower in six months (say .6500), you have cover at .6800 versus what a forward would have given of approx. .6930. If the kiwi is higher (say .7200 cents) you are forced into cover to buy USD at lower (than current spot) levels at .7050. So you get to take advantage of some of the rally. (should that occur).

Strategy – USD Exporters
With cover levels from our recommendations to hedge sub .66 cents late last year, cover for Exporters will be running low or out at this stage. Do not be complacent and bank on lower NZD levels just because the view is that the local RBNZ is in place to cut rates. Add cover by way of straight forwards on spot levels in the .67's. Barring one occasion in the last six months these levels have proved to be the best available. (in the .67's). Based off a .68 spot, collar options out 6 months can protect .6950 with downside levels at .67 as a small proportion of your exposure. Gives you a worst case protection and benefit some downside in case of a kiwi fall.

NZD/AUD (currently .9570)

Brief
The next 12 month's view has shifted up slightly with a range expected of .9000-.9700. Up a tad from our long held view of .8800-.9500 (for the past year). Up until a week and a half ago, the topside could still have been broken by a cent or so, but that looks to have been put to bed with the RBNZ's change in stance with their comments that "the more likely direction of the next OCR move is down". Having said that, the RBA is still "on hold" somewhat which could also change helping the NZD/AUD cross bounce once again short term. Global risk off events will also weigh more on the

AUD than NZD so can help this cross remain supported. All in all, the topside remains limited from here with the downside the most vulnerable medium term.

Strategy – AUD Importers
Importers should remain hedged for "up to 75% of the next 12 month's exposures". There is no need to do anything out of the norm. No need for any fancy option structure, just add forward cover from near current rates/levels. Preferably with a ".96" in front. Even if there is an aberration back to new highs above .9750 (highly unlikely) we would only recommend then to add cover to near 100% of the next 12 month exposures.

Strategy – AUD Exporters
Virtually unchanged from our last report: Although the view is that current short term levels remain near or at a top of our medium/long term range, complacency should not be entertained. Do not hold zero levels of cover because "we don't like current rates". A worst case scenario should be implemented likely via options rather than via FEC. A six month .9680/.9350 collar option for 50 pips is well worth while or a no-cost 2:1 option structure just in case for maximum of 25% of your next 12 months expected AUD receipts. Maintain 25% minimum cover levels at all times.

NZD/EUR (currently .6075)

Brief
Since our last report (some six weeks ago), this cross has remained trapped in a generally tight two cent range with a bias remaining towards the topside. This despite the RBNZ's rate dampener comments last week. Yes, local fundamentals will weigh on the local currency (at times), but this is not the only driver of this cross. The fundamentals remain very much against the Euro also this year, hence why I will repeat our view from our last report that "we expect to see this cross remain vulnerable to the topside to possibly as high as .65 or even .67 cent later this year". This remains the case today. Importers - light cover levels, exporters - heavy.

Strategy - EUR Importers
Despite the view that we see higher levels in this cross (eventually) we recommend to hold some cover in this cross. Maintain at least 25% of your next 12 months hedged off spot rates above .61 (not far from here). There is a cost to hedge forward, but this is part and parcel of importing from Europe. Off a .61 spot, you could look at a 2:1 option protecting .60 on the downside, selling .62 and .63 on the topside for just 20 pips. It's a cheap hedge for certainty and to participate somewhat on the topside. Beware of risks 100% and talk to your dealer first before dealing though.

Strategy – EUR Exporters
Our recommendations in the last few reports should have you well covered at .5800 worst case. If running light on cover, opportunities will present themselves, but these must be taken advantage of. These "opportunities may also not be as spectacular as you, (as an exporter) may like or want. Dips may only be limited to .60 cent from here. Remember buying a dip in at a spot rate at say .6000 still represents a 12 month forward cover rate of approx. .5840. That is still great Euro conversion levels. Look to buy dips from .6000 building cover to at least 50% of your next 12 month's exposures, building up to 75%. The risk remains for a higher cross with .65 possible by year's end.

NZD/JPY (currently 75.85)

Brief

The medium/long term range that we have suggested in this report on this cross for some months now remains broadly 72-82. We are smack bang in the middle of that range currently and have only seen less than a two cent range to take advantage of since the last report (some six weeks or so ago). Short term there remains risk that we can see further test towards the topside, but as we do, trade customers need to take note and adjust cover levels accordingly. Similar to the downside, which will get another test later this year, as we do see spot levels trade closer to 72, exporters should then become "busy".

Strategy – JPY Importers

In our report in December we suggested that "the rally in the past six weeks (72.50 to 78.50) must be taken advantage of" and suggested that "Importers with Yen exposure must look to lock in cover via FEC". Of course that was four months ago and cover levels will be running off. Again, should we see another push higher, look to replace this cover that is rolling off. Target 76.50 as the first port of call short term to cover via FEC. Do not overload cover percentage until we get closer to the top end (82) later in the year.

Strategy – JPY Exporters

Near term this cross is slightly supported with dips limited and shallow. So short term do not expect much outside of 74-76.50. Look to book cover levels in the 74's as the first port of call, short term. Also have orders in at 50 point intervals from 74 all the way down to 72 for small's just in case a risk off event happens and you are lucky enough to get set. It happens more times than not, especially in this cross. For those Exporters concerned or with zero cover levels, look at six-month collar options. Based off a 75.80 spot, to protect on the topside at 76.50 for a worst case cover level and sell a 73.20 put is zero cost. Well worth considering as a worst case scenario. A lower spot, you can book better collar option levels. Talk to your dealer to discuss.

NZD/GBP (currently .5190)

Brief

Brexit remains the main theme for the GBP and by default for the GBP cross with the kiwi dollar. Whilst Theresa May continues to have her Brexit deal rejected, the GBP remains vulnerable short term, (cross up). The Brexit issue will be known by the time this report is sent again (in six weeks time). So that will be the driver in the very near future. Both Importers and Exporters alike must not bet on the result that its positive or negative for the GBP and hence your position. This time must be used to hedge whilst levels are where they are using techniques to limit/lower your risk, not increase it.

Strategy – GBP Importers

We have maintained our recommendation for Importers with the UK to maintain "at a very minimum of a third of the next year's commitments covered via FEC". This remains the recommended strategy today. However, the higher the spot, the more percentage you should be covering. So currently = 33% of the next 12 months, if we move to say a .54 spot, raise this to 50%. I would raise it further if we were to see .57 or even .60 spot rates sometime soon. You never know. Also available (based off a .5235 spot) you could book a .50 protection with the top side coming in at .55 via a zero cost risk reversal. Remember if all breaks loose on the British exit, you're forced into cover at .55 if its above there in six months. So look for small (say 10%) of your next 12 months exposures.

Strategy – GBP Exporters

Exporters must realise that a positive Brexit may well see the cross well in your favour, however what if they leave the EU via a “no deal”, GBP/USD falls to 1.10 and cross gets pushed to .6100? I know, that is unlikely, but it remains a risk, albeit a very small one. Exporters must have at least 25% (of the next 12 months exposures) of cover in place before April the 12th. Any spot level below .5200 will suffice. You can add to that a further 25% via a collar option protecting .55 and selling a .50 cent NZD put. Not attractive, but it’s a worst case scenario here and it is a zero premium strategy. Talk to your dealer to discuss levels that suit.

This report is sent periodically to our Importing and Exporting clients. It is written with exposures due in 3, 6 and 12 months in mind with companies looking out that far to hedge their exposures. It should be remembered that exposures by client will vary greatly and are dependent on many things including the company’s competitive advantage, the market or industry they’re in and even their board’s risk appetite. These should all be taken into consideration when looking to hedge forward your exposures. This reports intent is to provide ideas and guidelines for Importers or Exporters with zero or little cover currently in place, so contacting your OMF advisor prior to transacting to discuss your specific needs would be advisable.

p.s. FEC = Forward Exchange Contract.