



China as well as oil-producing nations likely remain large suppliers of Australian fixed income. Weighty private investors such as Japan's GPIF tend to be more price-sensitive than reserve managers traditionally diversifying into AUD, and their demand may be peaking along with the rate differential (figure 4).

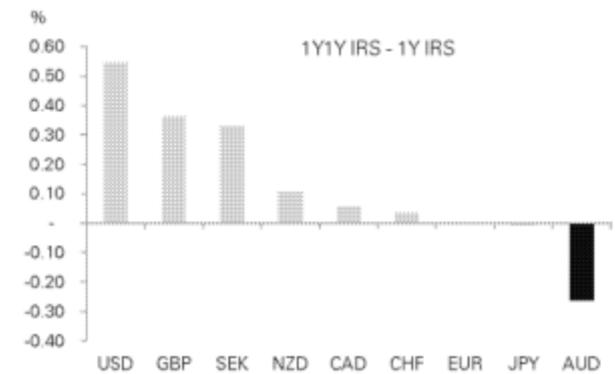
Unlike Australia, New Zealand retains a small trade surplus, but it pays foreigners 4% of its GDP in investment income, almost four times more than it could attract in FDI inflows over the past year. Portfolio flows are insufficient to fill the gap. While New Zealand's basic balance has long been in deficit, some FX demand previously came from reinsurance settlements. Yet these payments, formerly hidden in the 'net errors and omissions', have now been settled. The errors and omissions in the BoP statistics remain enormous, not least due to (Chinese) property inflows. While anecdotally these inflows continue, current Chinese policy regarding capital outflows makes it unlikely for now that inflows would accelerate. Hence, as New Zealand lives above its means, it increasingly accumulates financial liabilities that come with no tangible, FX-relevant inflows.

Positioning and valuations favourable as well
 Despite some downside skew in the options market, positioning is more favourable for shorts in both AUD and NZD than in a long time. Kiwi positioning is marginally long on the IMM. And while some core AUD shorts have proved resilient, the trade is far less crowded than in the second half of last year. Moreover, despite significant depreciation in the past year both Antipodes remain expensive on our BEER and PPP models relative to most of the FX universe. Both are close to PPP and have a long way to go before reaching overshoot levels observed in the past.

Domestic risks skewed to the downside
 We see little upside risk to the currencies from the rates markets, which price no full cut from either Reserve Bank in 2016. While our economists also see both Banks on hold in the coming months, risks are skewed to the dovish side. The RBNZ in particular may soon opt for jawboning in light of the strong TWI jeopardizing their inflation forecasts. Depreciation in NZD/USD needs to be very large indeed if the higher-weighted CNY depreciates at the same time. The TWI falling to the RBNZ's end-2016 forecast of 67.7 and CNY rising to 7 implies 0.59/USD, all else constant. The end-Q1 forecast implies 0.62/USD if CNY rises to 6.80.

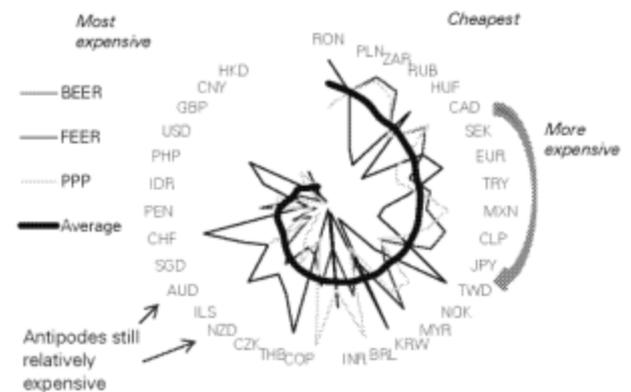
The RBA seems more content with the exchange rate, and last year's fall in the unemployment rate may permit some more 'chilling out'. Yet Australia's stunning run of data surprises in Q4 should soon mean-revert. Even if employment data continued to beat forecasts, the market will increasingly discount deviations from alternative indicators, which look solid rather than stellar.

4: Only Australian short-end rates priced to decline



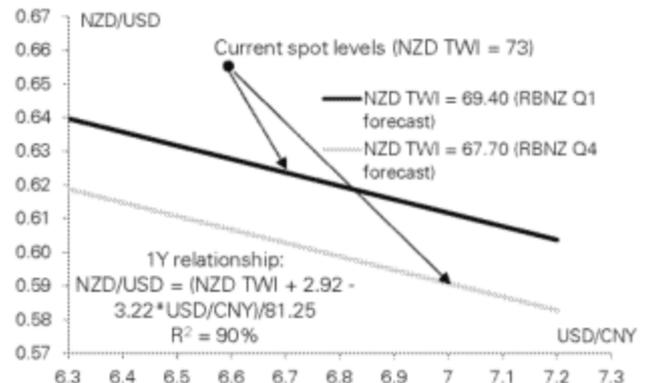
Source: Deutsche Bank, Bloomberg Finance LP

5: Antipodes still relatively expensive and nowhere near historically extreme PPP overshoot levels



Source: Deutsche Bank, Bloomberg Finance LP

6: RMB depreciation means that NZD/USD needs to weaken a lot for NZD TWI to fall to RBNZ forecasts



Source: Deutsche Bank, Bloomberg Finance LP

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