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NZ election: One flew over the Kiwi's nest

A new poll in New Zealand has turned the campaign on its head, with the incumbent National party looking vulnerable for the first time in a decade as Labour pulls in front for the first time (led by its newly installed leader of just four weeks who has come out of the blue to storm the polls). Markets, after seeing Trump triumph in the US, Brexit win in the UK and surviving a close-shave with Le Pen in France, are understandably cautious, as the Labour party has not ruled out a coalition with a party determined to threaten the RBNZ's independence. NZD has been steadily dropping the run up to the vote, which takes place on September 23... Here's our initial take.

The essential info:

- **When is the election?** Saturday, September 23, 2017. Polls are open from 09:00 to 19:00 local time.
- **When do we expect to get results?** Preliminary results released progressively after 19:00 local time on September 23 (from 08:00 BST/ 03:00 EDT). Official results will be confirmed on October 7. No exit polls on day of.
- **Who is standing?**
 - **National Party:** (also known as National or 'Nats') Centre-right party led by PM Bill English. Currently in government, with a supply and agreement deal with smaller parties. Won 47% of the vote in 2014 election.
 - **Labour Party:** Centre-left party, founded on democratic socialism. Currently the official opposition. Jacinda Ardern was elected leader of the party on August 1, and since then, the party has surged in the polls.
 - **Green:** Left-wing environmentalist party
 - **NZ First:** Populist, nationalist party
 - **Maori:** Indigenous-rights-based party
 - **ACT:** Centre-right, liberalist ("Association of Consumers and Taxpayers")
 - **United Future:** Centrist party
- **What is the status quo?**
 - National (incumbent) and Labour are the two 'big' parties (making up approx. 70% of overall vote between them).
 - National is currently in power, propped up in a confidence-and-supply agreement, by three smaller groups - the Maori, ACT and United Future parties.

- Beyond those parties, either Green (alone) or Green + NZ First could play an important role in a coalition, should Labour inch ahead of National. NZ First may find itself as kingmaker, which we explore below.

Why has this election ruffled feathers?

- New Zealand is not a country known for its political turbulence. Unlike its antipodean neighbor, NZ doesn't have a habit of ousting sitting Prime Ministers (there was a point in 2015 when Australia had had five Prime Ministers within five years). In contrast, New Zealand's National party has been in power for a decade.
- **Surprise poll:** A poll published on Thursday, August 31, commissioned by "1 News" has made a few waves – there is a suggestion that the incumbent National Party might actually be threatened by the Labour Party, whose support has reportedly surged. National's share of the vote has fallen to 41% in the poll (its lowest showing since 2005).
- **'Jacindamania':** The shock poll was released just before a [TV debate](#) in which housing, the economy and immigration were all hot topics. Labour's newly-elected charismatic leader, Jacinda Ardern is enjoying a moment in the spotlight dubbed "Jacindamania" by local media sources, particularly in comparison to the incumbent PM, Bill English. She seeks to resolve the housing crisis and significantly cut immigration by up to 30k a year (from the current record levels it is at of around 70k). This is fast becoming an election fought over personalities: Labour has now risen 19 points in the four weeks since Ardern took over as leader. Bill English was asked in the opening question: "Bill, why are you losing?"
- **The fear of 'New Zealand First' as Kingmaker:** While the overall battle is between Labour and National, whoever wins will undoubtedly need to form a coalition with smaller parties in order to establish a stable government. What is causing the market to worry is that New Zealand First, a controversial populist party, may find itself as kingmaker. Winston Peters, who leads NZ First, has said he would change Overseas Investment Office rules regarding foreign investment if elected to power, making it harder for overseas entities to buy New Zealand land and businesses ([article here](#) in Waikato Times). The party has also pledged to take an axe to the Reserve Bank Act, which governs the RBNZ and ensures its independence. Labour's more natural coalition partner would be the Green Party, but their support has collapsed due to a benefits scandal – even with them, they would likely still need NZ First to govern. For his part, Winston Peters has said he will talk first to the biggest party in Parliament in negotiations to form the next government.
 - **Winston Peters, of NZ First, on the RBNZ:** "This idea that you're going to set up this wholly independent organization that's not answerable in any way politically to anyone at all, which they're not, unlike the Reserve Bank of England - it's responsible for reporting to the Chancellor of the Exchequer - in New Zealand, nothing at all" ([article here](#)). It remains to be seen whether these views would make it into policy in a coalition with either major party.
- **Is Labour wobbly on the economy?** Beyond NZ first, the market is undoubtedly a little concerned about the prospect of the Labour Party being in power. It is something of an unknown entity, given that Jacinda Ardern has only been leader of the party since August 1, 2017 (and only an MP since 2008), as opposed to the vast experience of sitting PM Bill English (who was finance minister before that). Beyond that, her party is calling for radical changes to immigration policy, on infrastructure grounds, which the government claims will threaten growth. In the TV debate, Bill English attacked what he called Labour's "vague and confusing" policies and reiterated his party's tax cut policies. Labour's fiscal plan includes spending an additional \$20bn over four years. Ardern said in the debate that the money would come from cancelling tax cuts, paying off debt more slowly and cracking down on international tax avoidance.

Latest polling – Putting the cat amongst the kiwis...

As discussed above, the latest 1 News poll is a shock to the system, putting Labour ahead for the first time. Below is a quick rundown of the latest:

1 News-Colmar-Brunton Poll on August 31 (change from prior poll in brackets):

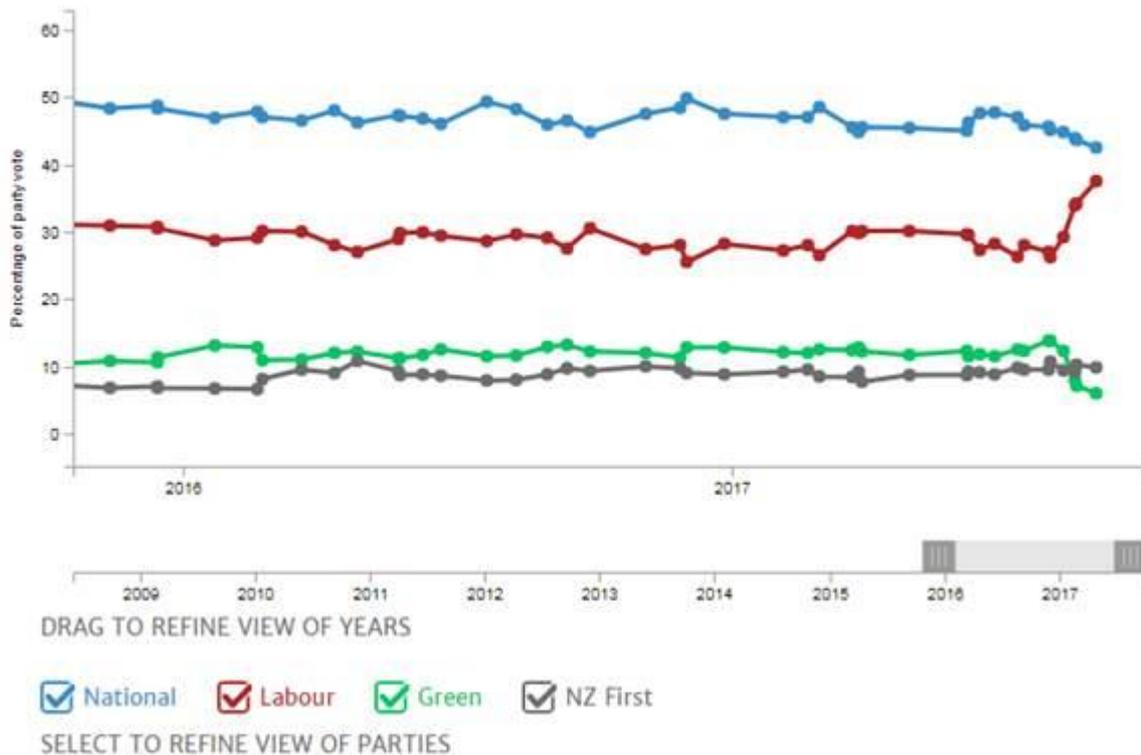
- Labour: 43% (+6)
- National: 41% (-3)
- New Zealand First: 8% (-2)
- Greens: 5% (+1)

Poll of polls

[How we calculate the poll of polls](#)

Latest polling on New Zealand political parties

[Click graph to see polling numbers](#)



Source: Stuff.co.nz

- Under the NZ system, parliamentarians are chosen using mixed-member proportional representation (similar to Germany's Bundestag), so the party's vote percentage is converted into a number of seats in parliament. Parties that do not pass a 5% threshold will gain no seats. There is also the special exception of Maori-reserved seats, of which there are 7 in total.

Wikipedia list of NZ polls/seat projections (minus the latest as seen above):

Party	Newshub ^[114] 2–8 Aug 2017 poll	1 News ^[115] 26–30 Aug 2017 poll	Stuff ^[116] as of 28 July 2017	RNZ ^[117] as of 28 August 2017	NZ Herald ^[118] as of 21 August 2017
National	55	50	56	53	55 (±2)
Labour	41	52	34	44	41 (±2)
NZ First	11	10	12	12	15 (±3)
Green	10	7	15	8	8 (±1)
Māori	2	2	2	2	2 (±1)
ACT	1	1*	1	1	1
United Future	1*	0	1*	0	0
Overall result (majority)	National–NZ First coalition (66) or Labour–Green–NZ First coalition (62)	Labour–NZ First coalition (62) or National–NZ First–Māori coalition (62)	National–NZ First coalition (68) or Labour–Green–NZ First coalition (61)	National–NZ First coalition (65) or Labour–Green–NZ First coalition (64)	National–NZ First coalition (70) or Labour–Green–NZ First coalition (64)

Source: Wikipedia

Who is likely to win?

Over the past few weeks, it would have been easy to dismiss the NZ election as a situation of overblown risk, and argue that Labour stood little chance of ousting National. Thursday's controversial poll may well be an outlier, but there is no denying that Jacinda Ardern has reinvigorated the Labour campaign, momentum is building, and the vote looks to be much closer than previously thought. Given the coalition dynamics in play, if NZ First and the Greens both do as well as expected, then things might be very difficult for PM Bill English. Should the National Party come out in front, but lacking a majority with their smaller parties, they may have to speak to NZ First, and risk adopting some policies they wouldn't ordinarily embrace.

Scenario outcomes for FX

Results seem to be quite polarized and are skewed to the downside, hence the recent depreciation of NZD (beyond RBNZ's Wheeler's obvious attempts to do so via comments). We are still some way off from the vote, and we will revisit these scenarios closer to the time, when spot levels are apparent:

- **Should National win clearly**, and the party is able to re-establish a government with the help of the smaller parties (ACT, Maori and United Future) then the status quo is restored, no changes to policy, risk is removed, and **NZD rallies**.
- **National come close first**: Then they may be forced to discuss a coalition with not only the smaller parties, but also with NZ First. **NZD small negative**.
- **Labour win, require just Greens**: Expect a more socialist economic agenda, with tax cuts scrapped, immigration much reduced and huge spending. **NZD small negative**.
- **Labour win, need Greens AND NZ First**: May have to offer concessions on Overseas Investment Office rules and the Governance of the RBNZ. **Significant NZD negative**.

Options note (as at August 31): Our [options desk notes](#) that we are seeing a lot of interest to own options for the September 29, date which includes both the election and September RBNZ. The daily vol for each event is now trading around 20 and we mainly continue to see buying interests at these levels, especially out of Asia. RRs have gone aggressively better bid in NZDUSD as well -1m is hovering around 1.0. Gamma is bid.

STIRT note (as at August 31): Front end rates should be broadly unchanged, as we expect no immediate impact upon inflation. In the scenarios above where NZ First gains a meaningful role in a coalition, we would expect some knee-jerk rally, but don't believe parliament would ever move to threaten the RBNZ's independence.

Some potential FX Ideas:

We will be monitoring polls very carefully going forward. The likelihood (at present), given that this is just one poll, is that it is an outlier, the Labour Party will not cause an upset and National to recover to pull off the win (if a pattern emerges then this view will change very swiftly indeed). We would therefore suggest that risk is being overblown here. We think that NZD could continue to weaken into the vote, and therefore like playing long GBPNZD going into September, but the currency should then pick up again once the risk is removed and focus can return to an improving domestic picture against a context of widespread tax cuts.

Some important levels to watch, courtesy of CitiFX Technicals:

- **NZDUSD Supports:** Strong support in this area from 0.7090-0.7131 where the March 21 high and the 200 day MA converge. A close below would open the way for a move down to the 2017 low of 0.6818.
- **NZDUSD Resistance:** The 2017 high of 0.7558 should serve as strong resistance. Beyond there the April 2015 high of 0.7744 should provide additional resistance
- **GBPNZD Supports:** Support comes in at the trend line from the lows that is currently at 1.7492. A weekly close below there would open the way for a move down to the 2016 low of 1.6537.
- **GBPNZD Resistance:** The 2017 high of 1.8963 should serve as good resistance. A weekly close above would open the way for a move to the 200 week moving average at 1.9921.

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