



CNS Treasury System

More info at <http://www.cnstreasury.com>

Foreign Exchange Outlook – 6th July 2010

NZD Crosses

NZDUSD

| | |
|------------|--------|
| Rate | 0.6850 |
| Change | 0.0001 |
| % Change ▼ | 0.01% |

NZDAUD

| | |
|------------|--------|
| Rate | 0.8162 |
| Change | 0.0028 |
| % Change ▲ | 0.34% |

NZDEUR

| | |
|------------|--------|
| Rate | 0.5462 |
| Change | 0.0007 |
| % Change ▲ | 0.13% |

NZDJPY

| | |
|------------|-------|
| Rate | 60.11 |
| Change | 0.07 |
| % Change ▲ | 0.12% |

NZDGBP

| | |
|------------|--------|
| Rate | 0.4525 |
| Change | 0.0018 |
| % Change ▲ | 0.40% |

Majors

EURUSD

| | |
|------------|--------|
| Rate | 1.2490 |
| Change | 0.0014 |
| % Change ▼ | 0.11% |

USDJPY

| | |
|------------|-------|
| Rate | 87.39 |
| Change | 0.11 |
| % Change ▲ | 0.13% |

AUDUSD

| | |
|------------|--------|
| Rate | 0.8354 |
| Change | 0.0031 |
| % Change ▼ | 0.37% |

Foreign Interest Rates

| | |
|-----|-------|
| USD | 0.25% |
| AUD | 4.50% |
| GBP | 0.50% |
| EUR | 1.00% |
| JPY | 0.10% |
| NZD | 2.75% |

Other Rates

| | |
|-------------|----------|
| NZDHKD | 0.8889 |
| NZDFJD | 0.8895 |
| NZDCAD | 109.5899 |
| NZDSGD | 0.0470 |
| NZDXPF | 0.67 |
| NZDTHB | 0.55 |
| NZDZAR | 0.0000 |
| NZDDKK | 0.0000 |
| NZDSEK | % Change |
| 90 Day Bill | 2.76% |

Markets Quiet with US Break; RBA at 4:30.

Markets were relatively sedate overnight with the Americans out for Independence Day; the Kiwi traded roughly sideways around 0.6900, the Aussie is just a touch softer sitting just shy of 0.8400 this morning leaving the NZDAUD cross up slightly at 0.8200. Most markets were moderately down if they moved at all, weakened by comments from ECB President Trichet urging austerity; investors are already jittery about slowing global growth following softer data from the US recently (namely unemployment and factory orders released last Friday), additional government austerity would further dampen expectations for global growth.

The big event for the locals today is the RBA interest rate announcement at 4:30 this afternoon; the market is expecting the RBA to leave rates unchanged at 4.50%, as it has been since May. It is a tricky time for the RBA; the perhaps overzealous rate hikes following the recovery in commodity prices and Chinese demand has perilously slowed some measures of domestic demand like retail sales and consumer confidence. Other parts of the economy (like house prices) run hot, stoking the threat of inflation. This is not to mention the Mining engine which continues to run at full speed, closely married to the fortunes of China, which can be a mixed blessing and one very difficult to predict. It seems likely that the RBA will wish to remain on hold until either the domestic economy catches up with rate hikes or until the RBA's hand is pushed by inflation. With unemployment at just 5.2% and house price growth exceeding 20% (28% in Sydney), the latter seems more likely at this stage. In fact this raises another concern; although house prices are racing away, demand for debt is muted, so its hard to see how house price gains will be sustained. Maybe it is cheap Chinese money chasing house prices, this could be reversed as china let's its currency appreciate.

The implications for the currency; with interests rates such a big determinant for the NZDAUD cross, a more dovish RBA statement today would help narrow the expected interest rate advantage in favour of New Zealand, providing a boost for the NZDAUD cross rate and giving importers further chance to add to cover. We note that moves above 0.82 have been rare and relatively brief over the past 18 months meaning Importers should be looking to take at least some action should this week provide an opportunity, rather than let the price slip back as it has done on the last few occasions. The risk to importers is that Inflation is currently running at an annual rate of 2.9% as of Q1 and is expected to move higher, outside the RBA target range, at the next announcement later this month. This could force the RBA into earlier action and drive the interest rate advantage further in favor of Australia.

The RBA could help boost the NZDAUD but opportunities for Importers have been fleeting

