Foreign Exchange Outlook – 7th July 2010

NZD Crosses

NZDUSD		
Rate		0.6903
Change		0.0053
% Change	▲	0.76%

NZDAUD		
Rate		0.8114
Change		0.0048
% Change	▼	0.59%

NZDEUR		
Rate		0.5471
Change		0.0009
% Change	▲	0.16%

NZDJPY		
Rate		60.42
Change		0.31
% Change	▲	0.51%

NZDGBP		
Rate		0.4562
Change		0.0037
% Change	▲	0.81%

Majors

EURUSD		
Rate		1.2570
Change		0.0080
% Change	▲	0.63%

USDJPY		
Rate		87.13
Change		0.26
% Change	▼	0.30%

AUDUSD		
Rate		0.8474
Change		0.0120
% Change	▲	1.41%

Foreign Interest Rates

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

Other Rates

NZDHKD	5.3755
NZDFJD	1.3671
NZDCAD	0.7287
NZDSGD	0.9562
NZDXPF	65.22
NZDTHB	22.33
NZDZAR	5.2800
NZDDKK	3.6185
NZDSEK	5.2380

90 Day Bill	2.76%

Locals Lifted; RBA Holds

The Kiwi and Aussie start the day up on yesterday morning's open at 0.6930 and 0.8515 respectively. The locals initially came off during our session, marking the return of the Asian markets who laid low on Monday with the US Bank holiday. By the end of our day though the negative sentiment had passed and Asian, then European stock markets rallied strongly lifting the local currencies with them (many European exchanges up as much as 3%). The US markets were not to follow suit with rallies of their own after the ISM manufacturing survey, a close barometer of US GDP, declined by more than expected, leaving markets suddenly less confident.

The RBA interest rate announcement did not make too much of a splash yesterday; rates remain on hold for a second month, as predicted by all 22 economists surveyed by Bloomberg. Governor Glen Stevens made the obligatory cautionary note regarding Europe and forecast inflation to move above the 3% upper band in the near term (next announcement is July 28th), but largely wrote this off as a hike in tobacco excise and not a flow through effect from the surge in house prices over the last year. The RBA expects continued growth in Australia (not really dwelling on the noticeably weaker consumer data) and seems to have left the door open for more hikes closer to Christmas.

What does this mean for the currency markets? As the difference between Aussie and Kiwi interest rates is such an important driver of the NZDAUD cross, and since the market was previously not expecting any further action from the RBA this year, if the RBA was to signal a further hike, or indeed deliver one before Christmas, this would help maintain Australia's interest rate advantage and make it difficult for the NZDAUD to maintain the rally. As we suggested yesterday, a higher than expected result from the next inflation announcement may be enough to force the hand of the RBA. With this in mind Importers from Australia could take more of an advantage of the current rate, perhaps setting Orders inside recent trading. The NZDAUD cross has lost half a cent already following the announcement.

As far as the relationship with the US; the dynamic for both the Kiwi and Aussie is still largely driven by the goings on in equities, which in turn derives from developments in the European debt crisis and the state of the US GDP outlook. We suggest that once these issues become resolved and the state of crisis is passed then individual markets will return to being valued on their individual merits - higher interest rates will eventually lead the local currencies higher although the near term outlook continues to be dominated by the headlines.

The RBA is expecting Growth to continue and Inflation to rise in the near term