



CNS Treasury System

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Foreign Exchange Outlook – 10th August 2010

NZD Crosses

NZDUSD

Rate	0.7254
Change	0.0041
% Change	▼ 0.56%

NZDAUD

Rate	0.7911
Change	0.0014
% Change	▼ 0.18%

NZDEUR

Rate	0.5482
Change	0.0004
% Change	▼ 0.07%

NZDJPY

Rate	62.31
Change	0.12
% Change	▲ 0.19%

NZDGBP

Rate	0.4561
Change	0.0034
% Change	▲ 0.74%

Majors

EURUSD

Rate	1.3180
Change	0.0059
% Change	▼ 0.45%

USDJPY

Rate	85.55
Change	0.63
% Change	▲ 0.73%

AUDUSD

Rate	0.9127
Change	0.0038
% Change	▼ 0.41%

Foreign Interest Rates

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

Other Rates

NZDHKD	5.6309
NZDFJD	1.3733
NZDCAD	0.7452
NZDSGD	0.9775
NZDXPF	65.36
NZDTHB	23.12
NZDZAR	5.1985
NZDDKK	3.6185
NZDSEK	5.1394
90 Day Bill	2.76%

All Eyes on Bernanke

It was a relatively quiet night in the currency markets as most attention falls toward tomorrow mornings Fed announcement (6.15 am NZ time); the trade de jour of late has been selling US\$, a progressively weaker USD has kept the Kiwi supported around US\$0.7300 for the past 2 weeks (while the NZD has gradually lost ground against the GBP, EUR, JPY and AUD). The Kiwi fell lightly into the high 0.72's overnight as USD selling activity cools ahead of tomorrow morning, the Aussie slipped back as well but by a smaller margin holding the NZDAUD rate under 0.80 for Exporters.

So what can we expect from tomorrow mornings Fed meeting? As we suggested yesterday, it seems the Fed has exercised all the tools at its disposal. Interest rates are near zero, 2 and 10 year bond rates are also at record lows, and quantitative easing has provided huge amounts of cheap cash although this is circulating inside the banking system and not stimulating the broader economy. Progress now will have to come more from Government initiative rather than monetary policy. The recent falls in the US\$ are attributed to fears of a double dip recession in the US and expectations of further quant easing. In our view the US is more likely to experience a sideways muddle through path for GDP rather than the double dip priced in and therefore further QE is not really going to be needed. If this view was shared by the Fed tomorrow then a disappointed market will be pushed to buy back the large short US\$ position meaning today's rate in the high 0.72's are still attractive to Importers. All eyes will be on the Fed's forecasts tomorrow morning.

Other highlights for the week include Aussie business confidence released at 1.30 today and consumer confidence released tomorrow, AU unemployment is due on Thursday REINZ and NZ retail sales data is scheduled for Friday. Lastly, US inflation and retail sales will be released Friday night. The Aussie data in particular will be interesting to watch; the domestic economy in Australia has been noticeable slower in the last quarter although mining and housing continue to pressure the RBA.

Recent US\$ weakness has been caused by fears of Double Dip and further Quant easing

