



CNS Treasury System

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Foreign Exchange Outlook – 11th August 2010

NZD Crosses

NZDUSD

Rate	0.7209
Change	0.0045
% Change ▼	0.62%

NZDAUD

Rate	0.7889
Change	0.0022
% Change ▼	0.28%

NZDEUR

Rate	0.5467
Change	0.0015
% Change ▼	0.27%

NZDJPY

Rate	61.53
Change	0.78
% Change ▼	1.26%

NZDGBP

Rate	0.4545
Change	0.0016
% Change ▼	0.35%

Majors

EURUSD

Rate	1.3132
Change	0.0048
% Change ▼	0.36%

USDJPY

Rate	85.01
Change	0.54
% Change ▼	0.63%

AUDUSD

Rate	0.9099
Change	0.0028
% Change ▼	0.31%

Foreign Interest Rates

USD	0.25%
AUD	4.50%
GBP	0.50%
EUR	1.00%
JPY	0.10%
NZD	3.00%

Other Rates

NZDHKD	5.5971
NZDFJD	1.3627
NZDCAD	0.7433
NZDSGD	0.9761
NZDXPF	65.19
NZDTHB	22.98
NZDZAR	5.1738
NZDDKK	3.6185
NZDSEK	5.1450

90 Day Bill	2.76%
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Fed to Support Government, Not Housing

The US Federal Reserve this morning kept US interest rates on hold at 0.25% but moved further to support the economy by announcing plans to reinvest cash into Government debt. Last year, in the midst of the Financial Crisis, the Fed bought USD 1.75 Trillion worth of debt (US\$300 billion of Government debt, US\$1.45 Trillion in Mortgage debt) in the open market. This increased its balance sheet by the same amount. Now, as some of those investments mature, the Fed has decided that rather than let its balance sheet shrink back down over time, they will reinvest the maturing money into Government debt only. Markets have reacted positively to the news with the US S&P500 currently down half a percent, this market was down as much as 1.5% prior to the announcement, and the Kiwi has bounced back from an overnight low just below 0.72 to trade at 0.7250.

The important detail to note is that the Fed will be investing all proceeds from matured securities into Treasury securities and not reinvesting maturing mortgage related assets back into housing support. There have been rumors circulating recently that President Obama, who is suffering from dwindling support ahead of midterm elections, will instruct government controlled mortgage lenders Fannie Mae and Freddy Mac to forgive perhaps 10% of the value of each mortgage to help 'underwater' borrowers. The Fed's decision to remain supporting the government bond market and gradually withdraw support from the housing market indicated the Fed is handing the housing problem back to the government. Whether this move by the Government to reduce mortgage debt will be enough to revive the economy remains to be seen. The biggest problem that we foresee is that Banks will now be keen to lend to the Government because of the Fed's support of the Treasury market, and perhaps less keen to lend to households. How growth will be revived in this scenario is hard to see. To us this looks like a further step down the road followed by Japan. Banks make easy profits by lending to the Government, no one borrows in the private sector and it is left to the Government to keep spending and propping up the economy. The Japanese Government's debt is now 220% of GDP, in the USA it is currently approx 70%. Whilst financial markets have reacted positively to the news this morning, the longer term growth prospects of the US look less than encouraging if they keep following this path. To emphasise our point today's graph is a long term picture of the Japanese share market; hardly a bullish outlook.

In other news; AU business confidence Index released yesterday showed a dip from 4 to 2 in July, reflecting the general downward step in many economic indicators from Australia recently and helping lead down the local currencies through yesterday's session. Aussie consumer confidence is due to be released at 12:30 this afternoon, in June the Index was at 113.1; expectations are that this measure will show a decline as well.

