



CNS Treasury System

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Foreign Exchange Outlook – 19th July 2010

NZD Crosses

NZDUSD	
Rate	0.7063
Change	0.0000
% Change ▼	2.30%
NZDAUD	
Rate	0.8150
Change	0.0002
% Change ▼	0.75%
NZDEUR	
Rate	0.5471
Change	0.0001
% Change ▼	2.51%
NZDJPY	
Rate	61.07
Change	0.00
% Change ▼	3.90%
NZDGBP	
Rate	0.4621
Change	0.0000
% Change ▼	1.43%

Majors

EURUSD	
Rate	1.2854
Change	0.0002
% Change ▼	0.21%
USDJPY	
Rate	86.13
Change	0.01
% Change ▼	1.15%
AUDUSD	
Rate	0.8626
Change	0.0005
% Change ▼	0.06%

Foreign Interest Rates

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

Other Rates

NZDHKD	5.4909
NZDFJD	1.3571
NZDCAD	0.7460
NZDSGD	0.9732
NZDXPF	65.24
NZDTHB	22.71
NZDZAR	5.3469
NZDDKK	3.6185
NZDSEK	5.1774
90 Day Bill	2.76%

Kiwi Stumbles on Fragile US Consumers

The Kiwi starts this week around 0.71 against the US dollar, down almost 2 cents from Friday mornings dig up toward 0.73. The decline comes as global equity markets continue to falter, compounded on Friday by poor US consumer confidence numbers. After stumbling earlier last week following disappointing US retail figures, equity markets continued to come off over the weekend; the Nikkei declined a further 2.85% on Friday, European exchanges fell between 1 and 2% and the S&P500 lost almost 3%. The currency markets were not immune with the Pound, Kiwi, Canadian and Aussie all on the back foot against the US\$. The Kiwi, last week's best performer, this time took the biggest hit against the US\$ and lost ground on the crosses as well. The University of Michigan consumer confidence survey declined to 66.5 for July vs expectations of 74 and down from 76 prior.

While we expect the New Zealand dollar to appreciate in the future as the fundamental picture in this economy continues to gradually improve and as interest rates gradually add back yield, the Kiwi will remain vulnerable to systematic shocks and sell-offs driven by the goings on off shore. On the face of things, the major threats to markets at the moment are that the US economic recovery will falter, the risk of a banking crisis or sovereign default in Europe or if some major implosion in China eventuates (probably in the form of the housing market bursting). At least these are currently at the forefront of investors' minds and hence produce a significant reaction when some adverse news develops.

NZ CPI data came in slightly milder than expectations on Friday at 0.3% for the second quarter and 1.8 % annually against expectations of 0.5% and 1.9%. This caused the Kiwi to dip slightly as it shows no inflation pressure and therefore no need for a hawkish stance from the RBNZ, although the RBNZ is in a process of taking their foot off the accelerator (to use their expression). Softer inflation data will not interrupt their gradual series of 0.25% hikes, the next of which is due on July 29th.

