



Foreign Exchange Outlook – 20th July 2010

**NZD Crosses**

**NZDUSD**

Rate	0.7030
Change	0.0033
% Change ▼	0.47%

**NZDAUD**

Rate	0.8083
Change	0.0068
% Change ▼	0.84%

**NZDEUR**

Rate	0.5428
Change	0.0043
% Change ▼	0.79%

**NZDJPY**

Rate	61.01
Change	0.06
% Change ▼	0.10%

**NZDGBP**

Rate	0.4612
Change	0.0009
% Change ▼	0.19%

**Majors**

**EURUSD**

Rate	1.2896
Change	0.0042
% Change ▲	0.32%

**USDJPY**

Rate	86.45
Change	0.32
% Change ▲	0.37%

**AUDUSD**

Rate	0.8658
Change	0.0032
% 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	5.4657
NZDFJD	1.3716
NZDCAD	0.7415
NZDSGD	0.9676
NZDXPF	64.74
NZDTHB	22.63
NZDZAR	5.3657
NZDDKK	3.6185
NZDSEK	5.1645

90 Day Bill 2.76%

**Kiwi Down as Traders Ease RBNZ Expectations**

The Kiwi continued to slip back against the Greenback, Aussie, Euro and Pound during the last 24 hours whereas most of the other major currencies and stock markets were either flat or just a touch softer. It seems that some of the cash that was so eager to push up the Kiwi over the last 2 weeks is making for the exits hence greater selling in the Kiwi than in its peers; the change of heart looks to be traders marginally reducing expectations of RBNZ interest rate hikes, a further 1.16% over the next 12 months is expected which would take the OCR to approximately 3.91%. Previously and extra 1.22% was priced in, the market will receive guidance at the next RBNZ meeting on July 29<sup>th</sup>.

The signals were mixed last night as the US corporate earnings season continue to provide positive surprises, helping offset the US homebuilders confidence index that slipped back to its lowest level for a year, largely led down due to expiring tax credits for new home buyers.

Early rumblings about the bank stress test in Europe suggest that Hypo bank, the Germany mortgage giant who previously had to be bailed out by the Government, would fail the downside scenario of the stress test; hardly shocking news given their history and given the fact they still hold approximately EUR72 billion in Greek, Italian and Spanish debt. They are expected to be the only German bank that would not pass the stress tests. The rest of the results are due to be released on Friday although some are questioning their usefulness; they may be designed more to ease investor concerns over the state of the banking system rather than provide an unbiased assessment. Yes they seem to have leaked news that Hypo would fail the downside test but Hypo only exists on German government lifelines as it is so that is really nothing new. It seems doubtful that the test would identify any currently independent banks as possible failures; that would quickly become a self fulfilling prophecy and the bureaucrats would not want the blood of a bank run on their hands.

The Kiwi has pulled back of recent highs although further upside is likely later this year

