

NZD Crosses

NZDUSD

| | |
|------------|--------|
| Rate | 0.7036 |
| Change | 0.0007 |
| % Change ▲ | 0.10% |

NZDAUD

| | |
|------------|--------|
| Rate | 0.7887 |
| Change | 0.0033 |
| % Change ▼ | 0.42% |

NZDEUR

| | |
|------------|--------|
| Rate | 0.5555 |
| Change | 0.0023 |
| % Change ▲ | 0.41% |

NZDJPY

| | |
|------------|-------|
| Rate | 59.98 |
| Change | 0.19 |
| % Change ▼ | 0.32% |

NZDGBP

| | |
|------------|--------|
| Rate | 0.4532 |
| Change | 0.0009 |
| % Change ▲ | 0.20% |

Majors

EURUSD

| | |
|------------|--------|
| Rate | 1.2613 |
| Change | 0.0039 |
| % Change ▼ | 0.31% |

USDJPY

| | |
|------------|-------|
| Rate | 84.91 |
| Change | 0.35 |
| % Change ▼ | 0.41% |

AUDUSD

| | |
|------------|--------|
| Rate | 0.8882 |
| Change | 0.0046 |
| % Change ▲ | 0.52% |

Foreign Interest Rates

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

Other Rates

| | |
|-------------|--------|
| NZDHKD | 5.4664 |
| NZDFJD | 1.3394 |
| NZDCAD | 0.7403 |
| NZDSGD | 0.9542 |
| NZDXPF | 66.25 |
| NZDTHB | 22.07 |
| NZDZAR | 5.1667 |
| NZDDKK | 3.6185 |
| NZDSEK | 5.1899 |
| 90 Day Bill | 2.76% |

Call 09 300 9500 or 0800 100 301



CNS Treasury System

More info at <http://www.cnstresury.com>

Foreign Exchange Outlook – 24th August 2010

Drifting Out of Risk

Quiet but risk averse seems to be the theme for the markets recently; global equities continued to drop in Asia and America and currencies were generally softer against the US\$ and Yen; the Euro slid to its lowest close in 2 months. The Kiwi and Aussie spent much of yesterday grinding back to the post-Australian election drop only for the Kiwi to slump back 0.7050 (and the Aussie to 0.8920). Looking ahead to the week and the key offshore event will be the second reading of US 2Q GDP released on Friday night; ahead of this announcement we are expecting the general drift out of risk to continue.

New Zealand has only one data release this week and that is the Reserve Bank's survey of inflationary expectations looking out 1 and 2 years. Historically the Reserve Bank has been very sensitive to movements in the 2-year inflation expectations. With these expectations rising back towards 3.0% (last at 2.8%) the Reserve Bank will be hoping that this reflects a temporary push higher due to the upcoming increase in GST. The problem that the Reserve Bank faces is that its standard tool for fighting inflation is interest rates, but most of the persistent sources of inflation are from sectors that are immune to interest rate rises. In particular; Local Authority rates, Central Government charges and State owned power companies regularly just put the price up because there is no effective competition mechanism to keep price rises in check.

On balance we expect the Reserve Bank to look through the temporary rise in inflation expectations as the economic recovery continues to crawl along at a snails pace. This is a function of the much talked of deleveraging process that is going on, which just means people are living within their means and where possible are reducing the amount of debt that they have. When we look back at the previous boom we can see that most of the debt build up was based on the premise that house prices would keep going up forever so it didn't matter how much you borrowed because higher house prices would pay it all off. That game is now well and truly over and the slow grind of debt repayment has begun. In the absence of any future significant house price rises, this will be a long slow process. Against this backdrop most sectors will struggle to grow much faster than the overall rate of GDP growth with the exception of exports which can grow faster as they service much bigger markets and in the case of China, markets with much faster economic growth.

Historically 2 year inflation expectations have been a guide for the RBNZ, the GST increase has temporarily pushed these expectations up

