NZD Crosses

NZDUSD	
Rate	0.7109
Change	0.0107
% Change ▲	1.50%

NZDAUD	
Rate	0.7873
Change	0.0022
% Change ▼	0.28%

NZDEUR	
Rate	0.5569
Change	0.0066
% Change ▲	1.18%

NZDJPY	
Rate	60.73
Change	1.63
% Change ▲	2.69%

NZDGBP	
Rate	0.4574
Change	0.0066
% Change ▲	1.44%

Majors

EURUSD	
Rate	1.2712
Change	0.0041
% Change ▲	0.32%

USDJPY	
Rate	85.07
Change	1.02
% Change ▲	1.19%

AUDUSD	
Rate	0.8989
Change	0.0156
% Change ▲	1.74%

Foreign Interest Rates

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

Other Rates

NZDHKD	5.5299
NZDFJD	1.3754
NZDCAD	0.7461
NZDSGD	0.9602
NZDXPF	66.40
NZDTHB	22.22
NZDZAR	5.1724
NZDDKK	3.6185
NZDSEK	5.2008
90 Day Bill	2.76%

Foreign Exchange Outlook – 30th August 2010

Markets Rally as Fed Talks the Talk

The weekends meeting of Central bankers at Jacksons Hole, Wyoming has given the market what feels like a rare opportunity to rally over the weekend as the Fed reiterated its commitment to stimulating the economy should the recovery continue to falter. US GDP was revised down to 1.6%, down from the 2.4% annualized rate previously measured, but better than the 1.4% expected. US stocks are up 1.65% and the US$ is down against the Euro, Kiwi and Aussie. The Kiwi has gained over half a cent since Fridays trading to sit above 0.71 this morning, the Aussie is up by a slightly larger margin to just under 0.90 leaving the NZDAUD cross back to the bottom of the recent range in the low 0.79's. The Pound was one of the few currencies not to gain against the US$ as softer trade balance data kept a lid on its appeal.

In the opening comments of the weekends conference, US Fed Chairman Ben Bernanke said "the pace of recovery in output and employment has slowed somewhat in recent months … policy options are available to provide additional stimulus". Bernanke went on to say that the "preconditions" for growth in 2011 are "in place" and the Fed would consider "unconventional measures" should existing policy tools fail to provide the injection needed. The market sees the weekend's comments as the most bullish comments for some time from the Fed, hence the willingness of the stock market and local currencies to rise. Bernanke said that in the first instance the Fed could resume purchases of longer term securities to drive down borrowing costs and/or to lower the interest paid on bank deposits held with the Fed to encourage banks to lend funds elsewhere in search of better yield. Interest rates are already low right across the curve (as can be seen from today's graph). With many expecting a 30% chance of a double-dip recession in the US, further intervention from either the Fed or the Government seems all but unavoidable, the question is, is lower interest rates the panacea needed or more direct, decisive government intervention the best way forward?

Today sees the release of NZ's July trade balance data at 10.45; after a string of surplus months the trade balance is expected to show imports outweighed exports by NZD40m, the first monthly deficit since December last year as exports enter the traditional quiet phase. Also today is NZ business confidence at 3.00pm this afternoon. Looking ahead to the week we also have Aussie retail sales and building approvals on Tuesday, AU GDP on Wednesday and US unemployment data on Friday.

Bernanke is prepared to lower rates but is that enough given how low rates already are?