



CNS Treasury System

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

Foreign Exchange Outlook – 30th July 2010

NZD Crosses

NZDUSD

| | |
|----------|---------|
| Rate | 0.7209 |
| Change | 0.0040 |
| % Change | ▼ 0.55% |

NZDAUD

| | |
|----------|---------|
| Rate | 0.8002 |
| Change | 0.0109 |
| % Change | ▼ 1.36% |

NZDEUR

| | |
|----------|---------|
| Rate | 0.5512 |
| Change | 0.0066 |
| % Change | ▼ 1.19% |

NZDJPY

| | |
|----------|---------|
| Rate | 62.67 |
| Change | 0.73 |
| % Change | ▼ 1.16% |

NZDGBP

| | |
|----------|---------|
| Rate | 0.4617 |
| Change | 0.0031 |
| % Change | ▼ 0.67% |

Majors

EURUSD

| | |
|----------|---------|
| Rate | 1.3023 |
| Change | 0.0079 |
| % Change | ▲ 0.60% |

USDJPY

| | |
|----------|---------|
| Rate | 86.59 |
| Change | 0.51 |
| % Change | ▼ 0.59% |

AUDUSD

| | |
|----------|---------|
| Rate | 0.8968 |
| Change | 0.0069 |
| % Change | ▲ 0.77% |

Foreign Interest Rates

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

Other Rates

| | |
|-------------|--------|
| NZDHKD | 5.5990 |
| NZDFJD | 1.3806 |
| NZDCAD | 0.7466 |
| NZDSGD | 0.9823 |
| NZDXPF | 65.73 |
| NZDTHB | 23.18 |
| NZDZAR | 5.2594 |
| NZDDKK | 3.6185 |
| NZDSEK | 5.1931 |
| 90 Day Bill | 2.76% |

RBNZ Remains Exporter Friendly

The Kiwi has managed to claw back some ground against the US\$ following yesterday's soft RBNZ statement ahead of this evening's US Q2 GDP announcement. Concerns are tonight's second quarter GDP numbers will become the latest in a growing trend of US economic releases that have disappointed the market, expectations are for the data to show annual growth of 2.6%. (Q1 has been revised down to just 2.7% from 3.2% initial estimate, both well down on the +5.6% rebound in Q4 2009). The NZDAUD cross rate has traded down into the mid 0.80's after a fortnight stuck in the low 0.81's. This creates a hedging opportunity for exporters ahead of next Tuesday's Reserve Bank Australia meeting. We expect no change from the RBA and given the soft inflation data released this week for the second quarter (0.6%) their announcement should be softer than previously expected. If the RBA leave the Aussie cash rate at 4.50% and the RBNZ moves the NZ cash rate to 3.50% by year end then this should be supportive of the NZDAUD cross over time.

On reflection; the RBNZ statements seem a measured assessment of the economy. We think the RBNZ have called the economy (local and global) pretty well, and that wisely, the current position seems pretty export friendly. The RBNZ do need to remove emergency stimulus, least the super-low rates become ingrained, but also they don't want to disrupt the fragile, export led recovery that has been fostered over the past six months. Dr Bollard went so far as to directly comment on the currency yesterday, a subject not usually discussed by the RBNZ, especially not in an OCR announcement. Dr Bollard said "The New Zealand dollar has appreciated in recent weeks. This appreciation is inconsistent with the softening in New Zealand's economic outlook and moderation in our export commodity prices" in attempt to jaw bone down expectations for the Kiwi. Further supporting Dr Bollard's exporter friendly comments was yesterday's trade data for June which showed a \$268 million trade surplus, the first June trade surplus in 8 years. As you can see from today's chart, the trade picture has improved drastically for New Zealand.

The Export-led recovery continues; this is the first June trade surplus in 8 years

