



CNS Treasury System

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

Foreign Exchange Outlook – 31st August 2010

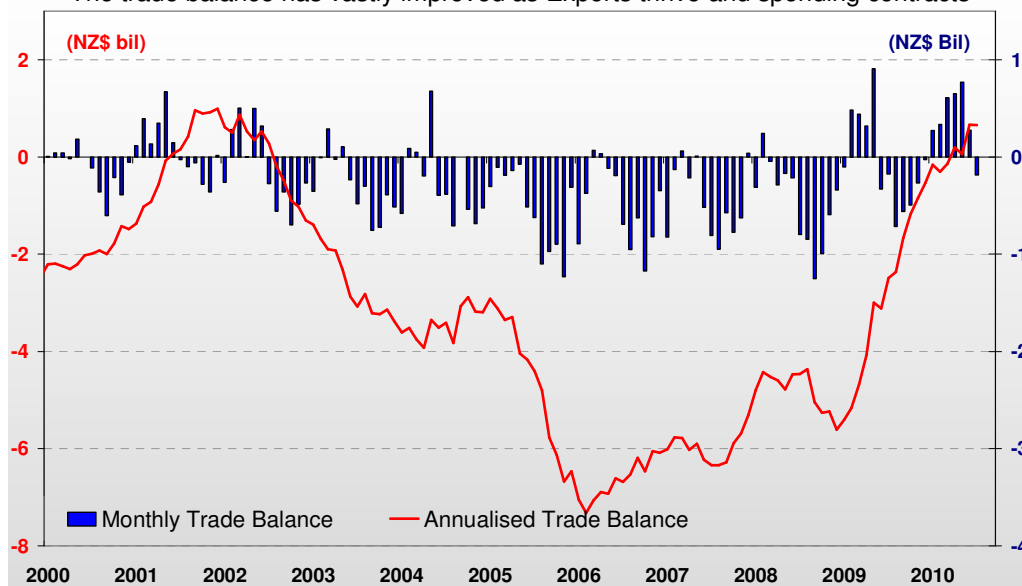
Japan Disappoints, China Disappears and Risk Retraces

Markets moved away from risk last night with stocks across Europe and the US losing ground and the Euro, Pound, Aussie and Kiwi all slipping back against the safe-haven US Dollar. News stories point to slightly softer personal income and manufacturing data in the US although a weaker than expected trade balance for NZ yesterday morning and a relatively sharp fall in NZ business confidence saw the Kiwi softer through yesterday's session. New Zealand ran a trade deficit of NZD186 million in July (against expectation of a NZD40 million deficit), annually NZ produced a NZD573 million surplus; this is a vast improvement from the almost NZD6 billion shortfall just 2 years ago. The business confidence index declined from 32.4 to 25.7 and firms own outlook eased from 27.9 to 16.4. The Kiwi is down half a cent to the mid 0.70's, after a brief flirt with 0.7900 overnight the NZDAUD cross has gained almost half a cent and is trading in the mid to low 0.79's this morning. Aussie building approvals and retail sales figures are released at 1.30 today.

Also on the wires overnight are rumors that the head of the Peoples Bank of China (the central bank) may have defected following losses on US Bond bets. While the rumors are unconfirmed as yet, they come at a time of particular political tension as the Chinese government makes preparation for a leadership transition in 2012. The losses, while rumored to be in the hundreds of billions, will be water off a ducks back in the greater scheme of things, it is the signs of instability that has the markets wary; it was enough to encourage investors to retrace overnight.

Yesterdays highly anticipated and publicised emergency meeting at the Bank of Japan was a fizzer. There has recently been much talk from Japanese officials regarding the unwelcome Yen strength, excitement spiked with the Bank of Japan Governor leaving early from the weekends Central Bank summit at Jackson Hole in America to return to Japan. Yesterdays proposed measure involves increasing the liquidity provision from 20 to 30 trillion Yen, a sign, as much as anything, that the Bank of Japan does not have the tools or the vision to stimulate the economy or control the Yen. There is an uncomfortable reality of Monetary policy at the moment; rhetoric affirms support for the economy (in the US as well as Japan) but it seems usual tools have been expended and no real game-changing ideas have yet been put forward. The Yen regained most of the ground lost over Friday night to be back trading at 84.50 vs the USD and below 60.00 vs the NZD.

The trade balance has vastly improved as Exports thrive and spending contracts



NZD Crosses

NZDUSD

Rate	0.7042
Change	0.0068
% Change	▼ 0.96%

NZDAUD

Rate	0.7886
Change	0.0013
% Change	▲ 0.16%

NZDEUR

Rate	0.5558
Change	0.0011
% Change	▼ 0.20%

NZDJPY

Rate	59.50
Change	1.23
% Change	▼ 2.06%

NZDGBP

Rate	0.4552
Change	0.0022
% Change	▼ 0.48%

Majors

EURUSD

Rate	1.2611
Change	0.0101
% Change	▼ 0.80%

USDJPY

Rate	84.20
Change	0.87
% Change	▼ 1.03%

AUDUSD

Rate	0.8886
Change	0.0103
% Change	▼ 1.15%

Foreign Interest Rates

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

Other Rates

NZDHKD	5.4768
NZDFJD	1.3419
NZDCAD	0.7456
NZDSGD	0.9546
NZDXPF	66.31
NZDTHB	21.99
NZDZAR	5.1606
NZDDKK	3.6185
NZDSEK	5.2077

90 Day Bill	2.76%
-------------	-------