

Currency Profile for the New Zealand Dollar



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A MarketLinkSM Service from Travelex Global Business Payments

NZD performance against the U.S. dollar:

Current bias for the NZD: Negative

NZD set a two-week low late February

Past week: -1.56%

Past month: -2.94%

Year-to-date: -4.39%

Sources of NZD strength:

Recent commentary from the RBNZ brought in the timeline for monetary policy normalization from “later in 2010” to “the second half of 2010”, a subtle but clear adjustment.

China’s 8.7% expansion in all of 2009 highlights the strong demand the regional power house has maintained for New Zealand’s key commodity exports.

Broadly improved investor risk appetite favors higher yielding assets like the NZD.

Soaring commodity prices remain a draw for the NZD. Crude oil near \$80/barrel and gold over \$1,100/ ounce remain broadly supportive of the nation’s key resource exports.

The rise in annual inflation to 2.0% from 1.7% in Q4 of last year could increase pressure on the RBNZ to raise rates.

Sources of NZD weakness:

Monetary tightening in China, as evidenced by the raising of reserve requirements for banks, could put the breaks on a key engine of global economic recovery and undermine some demand for New Zealand’s key commodity exports.

While recent signs of domestic and external economic stabilization have been encouraging, the RBNZ is still likely months away from raising lending rates from current levels.

Continued currency appreciation would choke off demand for the nation’s exports and spark more protests from officials.

While the global economy has improved markedly in recent months, the sustainability of the recovery remains suspect. Signs that growth is failing to meet the market’s elevated expectations would weigh on risk appetite and the NZD.

Monetary Policy: After slashing rates to a record low 2.50% in the wake of the financial crisis, the Reserve Bank of New Zealand (RBNZ) has remained sidelined since April 2009, forecasting that lending rates would remain on hold until later in 2010. Recent signs of improvement in both the domestic and global economies have prompted monetary officials to begin hinting that rates may be normalized sooner than previously expected. While the fourth quarter’s CPI fell on a quarterly basis, it rose to 2.0% year-over year. The figures were consistent with the steady outlook for lending rates until around the middle of 2010. Improved regional trade, elevated commodity prices and signs of a rebound in domestic demand have all helped bolster the view that New Zealand’s economy is finally making a meaningful break out of its longest recession in 30 years and that lending rates will eventually follow rates in Australia higher. However, given the still fragile state of the economy’s recovery, as highlighted by the drop in Q4’s home sales to an 18-year low and the second monthly slowdown in services sector growth in January, the RBNZ is likely to proceed with caution. Additionally, monetary tightening in China, expected to continue over the coming months, threatens to dampen regional growth and demand for the nation’s key commodity exports and amount to de facto policy tightening in New Zealand. As a result, investors are tentatively looking around mid-year for an RBNZ hike.

NZD Outlook: Balance of market opinion: Neutral

The New Zealand dollar has been one of the main beneficiaries of the revival in global investor risk appetite in 2009. Much of the kiwi’s strength for the better part of last year was the result of the improving global economic outlook in the wake of the worst financial crisis in generations. Improving optimism about recovery and the resulting demand for higher yielding and growth-dependent assets spurred a wave of demand for the New Zealand dollar, which was complimented by the rise in the price of the nation’s key commodity exports. The fact that the RBNZ’s policy stance took on a more neutral bias late last year and that investors brought in their timeline for an eventual interest rate hike helped bolster the appeal of the kiwi in 2009. Most recently though, the New Zealand dollar’s rally has lost steam amid concerns that its key trading partner, China, is applying the breaks on its economy, which has been a key source of demand for the nation’s exports. Moderating growth in China and a general sense of disappointment in the pace of global recovery could limit NZD gains in the months ahead. However, the currency should continue to draw support from positive domestic data that suggests rates could rise sometime before June.

Upcoming critical events:

Mar 10: NZ February PMI

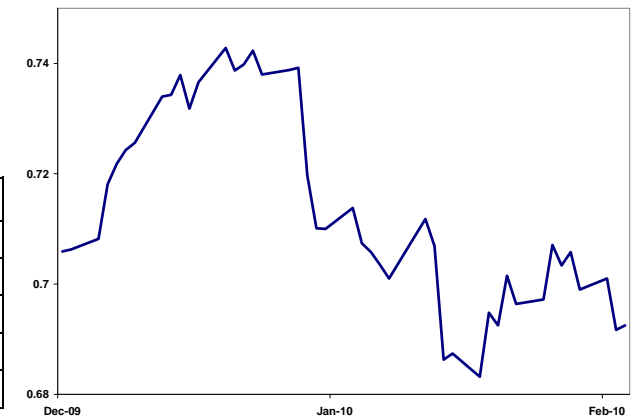
Mar 11: NZ January Retail Sale

Mar 11: RBNZ Monetary Policy Meeting

Mar 16: NZ Q1 Consumer Confidence

Mar 24: NZ Q4 GDP

| Economic indicators | NZD | USD |
|-------------------------|----------|------------|
| 3-month Deposit Rate | 2.75% | 0.40% |
| GDP (annual rate) | -0.7% | 5.7% |
| Inflation (annual rate) | 2.0% | 2.7% |
| Unemployment | 6.5% | 9.7% |
| Trade Balance (US\$) | -0.8 bln | -517.0 bln |



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