

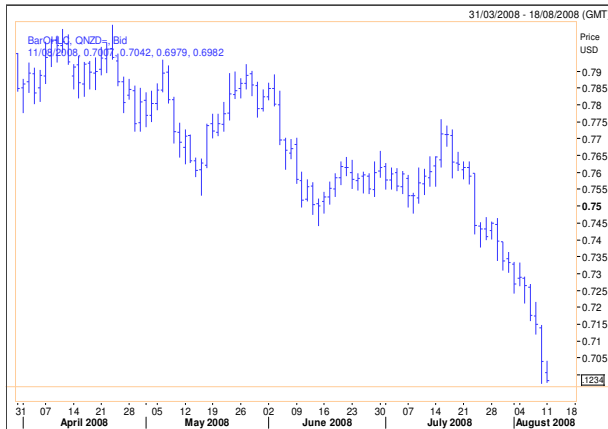
NEW ZEALAND

Trichet has finally stopped hiking interest rates
The Eurozone is rooted – deep in dire straits
The Kiwi's had a spanking
The Aussie dollar's tanking
The USD is rallying, heading north devoid of mates.

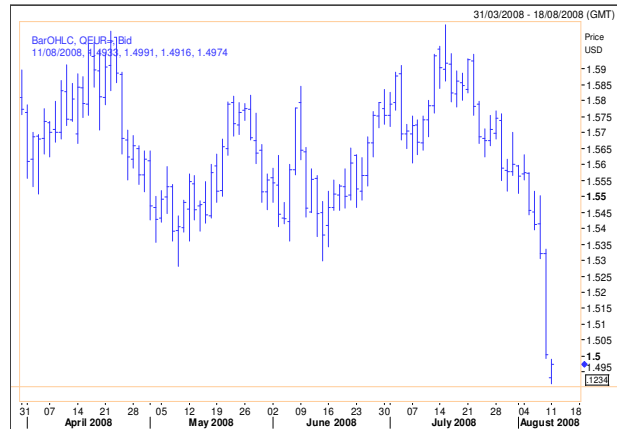
It's been a long time since the Kiwi didn't have a "7" in front of it – in fact almost exactly a year to the day. Exporters had forgotten what it looked like and perhaps wondered if they were ever going to see it again but on Friday afternoon that pesky "7" dropped from the front of the screen quote. Those that enjoyed an end of the week long lunch might have thought the waiter had slipped a little something extra in their drink when they returned to work to turn off the PC and saw 0.6980 / 0.6990 staring up at them.

The NZD gave up nearly four cents last week and most of it was sparked by a combination of a decision made 12,000 miles away in Frankfurt by the ECB, and the loss of support in the AUD. The domestic picture locally had already set the scene for a weaker NZD at some stage, which started after Dr Bollard moved to ease rates, but it really required the USD to rise as the Kiwi couldn't fall on its own. That finally happened after ECB boss Trichet finally admitted what everyone else knew which was that Europe was struggling so there would be no more rate rises. His conciliatory tone, a euphemism for the big-about-face, was enough to spark the USD buying and since most of the world (not us of course) was the wrong way round, people started to bail out of their short USD positions. Momentum and panic did the rest of the damage.

It's been a big move higher for the USD across the board. The Euro is off more than 10 cents since its high just a month ago, the Aussie dollar has been smashed 10 big figures also, the Canadian dollar is at its lowest levels in a year and Pound gave up 6 pence in a week. Most majors look the same on the chart so here's the Euro and Kiwi for comparison.



NZD / USD



EUR / USD

Even to the untrained eye the above charts indicate these currencies to be a bit overcooked on the downside. The trouble is while we will definitely get a bounce we might see another cent or three first so the sensible thing is to go with it and call the correction when it occurs rather than preempt it. Picking bottoms can be a rather unpleasant business.

We actually think this is only the start for the USD and there is plenty more to come. We have updated a lot of our medium term targets at the back of the report. While the numbers on there look reasonably aggressive, when currency markets trend they go further and faster than everyone expects them to.

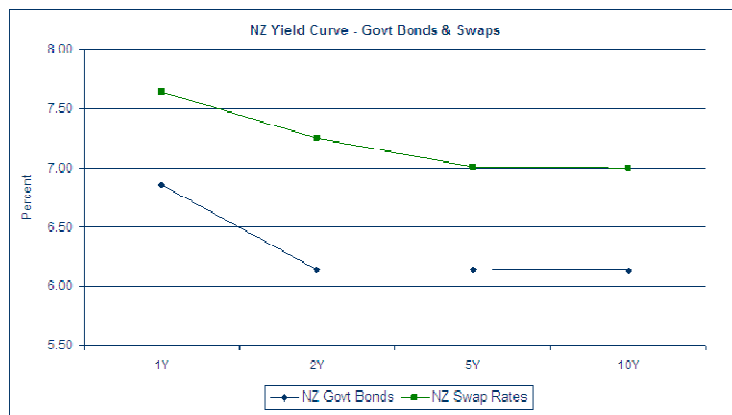
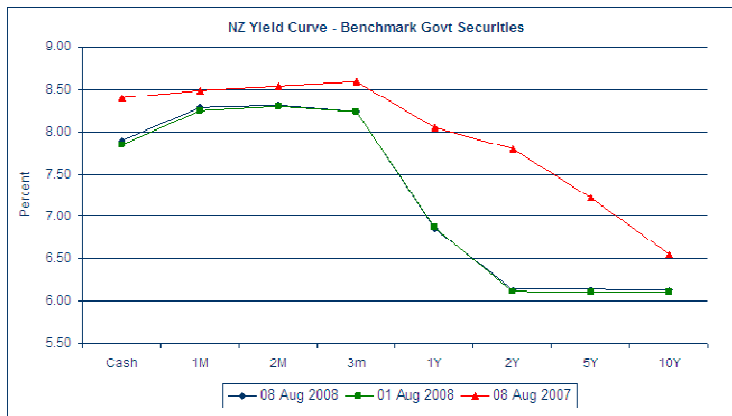
On the crossrates it is quite a different story. NZD/AUD has issued a medium-term buy signal before 0.8000 has been seen so we are going with it. We are looking for three to five cents on the upside so something in the 0.8200 to 0.8300 range. Likewise, we think NZD/EUR has turned and is headed back for 0.5000. Conversely, NZD/JPY looks at risk of going lower as 78.00 has given way. Importers are at risk of a drop into the 60's over coming months if our analysis is correct.

As far as the Kiwi goes it should head lower during the week as more long positions are closed out but we will be looking for a corrective rebound soon as it has been one way traffic down since 0.7700 a few week's ago. We just don't know if it will come off 0.6800 or 0.6600.

A few weeks back we talked about how most major currencies had given up at least 10 percent against the USD and the only two currencies that hadn't were the AUD and EUR and that they were well due. The very next week the AUD tanked (softer tone RBA) and then late last week we got the same move in the Euro (softer tone ECB) so we've had not too bad a run, particularly in terms of timing which is the toughest thing with currencies. It's just a shame the wife's behaviour isn't this predictable. Happy trading.

INTEREST RATES

This week we focus back home on wholesale swap rates that have eased further across the swap yield curve narrowing the gap with NZ government securities to less than 100 basis points in many cases – a level last seen prior to the credit crisis about 12 months ago. The most notable exception (see chart below) being the 2 year term at 7.24% (111 basis points or 1.11% above the equivalent term government security). This also happens to be one of the most popular terms for residential borrowers to fix their mortgage rates. It is pleasing to see overall however that these wholesale spreads have narrowed on the back of easing credit concerns, recent offshore inflation beginning to ease (e.g. oil), and an impending slowdown in economic growth which has also led the RBNZ to commence a series of rate cuts to the OCR.



However, if you were to think you are getting a relatively good rate from the banks currently, you are mistaken. The wholesale swap rate 12 months ago for the 2 year term was 8.37% (with a similar margin over government bonds of 1.24%). Hence we have seen an overall fall of 113 basis points of 1.13% in swap rates, yet mortgage rates are virtually the same. Why? One reason – counterparty risk. The risk of the counterparty default has risen dramatically in the past 12 months. One only has to look at the increasing number of mortgagee sales, and business liquidations occurring to understand the banks are loathe to aggressively price their lending.

UNITED STATES

The US dollar saw its biggest one-day jump against the euro in eight years on Friday night and has continued to move higher to 1.4916 today. Comments by Jean-Claude Trichet, President of the European Central Bank, on Thursday that third-quarter growth in the euro-zone will be "particularly weak" was taken to mean interest rates will be held or even reduced supporting the Buck. The dollar's strength has also been boosted by declines in the oil price, sliding to under \$115 from \$147 in July. Against the pound, the dollar pulled back to just under \$1.92, its strongest performance since November 2006. Meanwhile, an interest rate hike in the US is coming, but maybe not for a while. Interest rate Futures on the Chicago Board of Trade show a 40% chance the Fed will raise its target rate at least a quarter- percentage point by year-end and a 90% probability of higher borrowing costs by the end of March.

The Dow Jones meanwhile rose 3.6% for the week while the S&P 500 rose 2.86%. Friday night saw the majority of the move with the Dow rising 2.7% after the U.S. dollar soared. The outlook for stock markets however is mixed, should oil prices continue to be volatile, even if inflation becomes less of a threat going forward, the housing and credit market depression, sluggish corporate earnings and slow economic growth will continue to weigh on stocks. On the positive side, the weak dollar has boosted exports, which has been a major factor to why the US looks to have avoided a severe recession.

AUSTRALIA

Last week the AUD plummeted after the RBA kept rates on hold but said that it was close to loosening policy settings. Adding to the pressure on the AUD was the continuing downside in commodity prices, particularly gold. The currency had previously rallied to post float highs in tandem with commodity markets it's too be expected when this is taken away, and the RBA says rates are heading lower, that the dingo might come in for a bit of a towelling. The picture says it best.



By Friday the selling accelerated as the USD surged higher. The AUD fell to six month lows having shed nearly five cents on the week. Futures markets have priced in a 25 basis point cut as early as next month following the softer tone from the RBA. The central bank's Quarterly Monetary Policy Statement out today confirmed that although inflation is expected to increase over the next six months demand is slowing quickly and the RBA is ready to take the foot off the brake.

Data out this week includes the NAB Business Confidence for the month of July on Tuesday. Wednesday the 13th there is the Westpac Consumer Confidence for the month of August along with the Wage Cost Index for the Q2 and the YoY, with the expectation to be up 4.1% for the year.

EURO ZONE

The ECB kept interest rates unchanged at 4.25% last week amid signs of slowing economic growth. ECB President Jean-Claude Trichet said growth in the 15-nation bloc had been "particularly weak" in mid-2008. But he stressed that against the deteriorating outlook, the ECB's priority is to maintain price stability as inflation reaches record levels. Mr Trichet said that eurozone inflation, which has surged above 4%, was likely to remain above the ECB's 2% target for some time as a result of sharp increases in food and energy prices. "Annual inflation rates are likely to remain well above levels consistent with price stability over a protracted period of time and risks to price stability in the medium term remain on the upside," he said. He warned that spiralling wages to cope with the high costs of food and fuel will only add to further inflationary pressures and said the ECB would monitor the situation.

Central banks worldwide are facing the twin threats of accelerating inflation - caused by rising energy and food costs - and slowing economic growth. While tackling inflation remains a key concern of the ECB, analysts have pointed to recent eurozone figures highlighting how much the area's economy has slowed. The eurozone's services sector contracted at its fastest pace for five years in July, while separate figures showed retail sales for the region in June dropped by 3.1% year-on-year - the biggest fall since 1995. At the same time, recent data has highlighted the extent of inflationary pressures facing policymakers. Eurozone inflation increased to 4.1% in the year to July, the highest rate since the measurements began in 1997. With the eurozone economy already at risk of recession, markets are pricing in expectations of 2 rates cuts by year end.

UNITED KINGDOM










The Bank of England (BoE) last week kept interest rates on hold at 5% as it struggles to deal with the slowing UK economy and spiralling inflation. Seemingly endless recent reports have shown the economy heading for a significant slowdown or even a recession. But the Monetary Policy Committee's primary goal is to keep inflation at 2% and it currently stands at 3.8%. The fear is that inflation could top 5% before the end of the year, as energy firms raise their prices. At the same time, activity is slowing bigtime in all key sectors of the economy, business confidence is waning and falling house prices and tight credit conditions have dented consumer spending. The economy grew just 0.2% in the second quarter and the forecast is for growth of 1.4% this year and 1.1% in 2009. Despite the economy seeing its most significant slowdown since the early 1990s, the bank had held rates because of fears of pushing the economy into recession. It should not have come as surprise to anyone that, on balance, the bank felt it could do nothing but sit tight this month - a situation that is likely to prevail for a few more months. However, the fall in the price of oil and commodities may allow rates to be cut as early as November. However, the balance of risk appears to be shifting more rapidly. A cut in interest rates may be needed sooner rather than later to prevent the economy from drifting towards recession.

The Pound hit a 21-month low against a broadly buoyant USD on Friday, as investors took a warning from ECB main man Jean-Claude Trichet on slowing Euro-Zone growth as a signal to pick up the Greenback against a host of currencies. Sterling tumbled as low as \$1.9146, its lowest since November 2006, and had its worst weekly performance in percentage terms in roughly three years, as investors dumped the Pound against the Big Buck as the economy struggles. The UK currency has tumbled over 3 percent last week, its biggest drop since mid-2005. It has crashed from a 3 1/2-month high of \$2.0153 hit only three weeks ago. The Pound traded at a 3 month high of 78.40



pence against the Euro as the single currency was pressured lower due to its weakness against the Dollar. Trichet's remarks helped to fuel speculation that the weakness confirmed in the U.S. economy is now spreading to other countries.

TECHNICAL ANALYSIS

CURRENCIES	MEDIUM TERM TREND	RANGE	VIEW
NZD/USD		Last Week 0.6976 - 0.7333 Expected This Week 0.6875- 0.7100	The NZD has taken out our target level of 0.7200 and is now well on the way to our next target level of 0.6800, with 0.6600 targeted on a break of 0.6800. After this move down we will be then looking for a rebound back to 0.7200-0.7300. The trend is NZD down unless 0.7500 is breached. 11/08/08
NZD/AUD		Last Week 0.7797 - 0.7584 Expected This Week 0.7870 – 0.8020	The NZD has bottomed at 0.7700. We expect the NZD will now head back up and we're targeting 0.8100, then 0.8300 - 0.8350 for exporters to aim at. The trend is NZD up unless 0.7700 is breached 11/08/08
NZD/CAD		Last Week 0.7365 - 0.7584 Expected This Week 0.7400 - 0.7550	The NZD's fall through 0.7800 has turned the trend south. The target range for exporters is 0.74-0.75. Importers aim for 0.7700. The trend is NZD down unless 0.7800 is breached. 12/05/08
NZD/CHF		Last Week 0.7457 - 0.7670 Expected This Week 0.7400 – 0.7700	The trend is for NZD to weaken unless 0.8000 is breached. Importers use rebounds to 0.7800 top up cover. The risk for the NZD to drop to 0.7400. 19/05/08
NZD/EUR		Last Week 0.4584- 0.4704 Expected This Week 0.4650- 0.4750	The NZD has reached our 0.4700 target (0.4590 low). We believe the NZD has bottomed and we are looking for it to run back up towards 0.5000. Exporters continue to use any dips towards 0.4600 to increase cover. Importers place stop loss orders below 0.4580 while you target higher levels. 11/08/08
NZD/GBP		Last Week 0.3615- 0.3727 Expected This Week 0.3600- 0.3700	The expectation of a break to the NZD has turned lower. Our first target on this decline of 0.3850 has been reached. Our next target is 0.3650, for exporters to aim at, then 0.3500. The trend is NZD down unless 0.3900 is breached. 10/03/08
NZD/JPY		Last Week 76.46 – 79.16 Expected This Week 77.00 – 79.00	The NZD has broken lower with the NZD's fall through 78.00. The target range for exporters to aim at is 68.00 - 70.00. The NZD would have to get back over 82.00 to remove the downside risk. 11/08/08
NZD/SEK		Last Week 4.3115 – 4.4430 Expected This Week 4.3700 – 4.4500	The NZD has fallen through the base of its 10 month trading range at 4.6500. It is now expected to drop to 4.4000, 4.6000 is now the reversal level on top. 09/06/08
NZD/SGD		Last Week 0.9758 - 1.061 Expected This Week 0.9650 –0.9950	We expect 1.0400 to cap the NZD's topside at present as we look for the crossrate to drop to 0.9700 - 0.9800. The trend is NZD down unless 1.0400 is breached. 12/11/07

CURRENCIES	MEDIUM TERM TREND	RANGE		VIEW
		Last Week	Expected This Week	
AUD/USD	↓	0.8864- 0.9346	0.8650 – 0.9050	The AUD's recent fall has switched the trend to AUD down. The first target is the 0.89-0.90 range. Our m/t target is 0.8200. The reversal level is set at 0.9450. 04/08/08
EUR/USD	↓	1.4908 - 1.5631	1.4600 - 1.5150	The Euro has finally reached our 1.5000 target. We expect there is further Euro weakness to come with our next target being 1.44-1.45. Topside rebounds should now be limited to 1.5300, with the trend reversal set at 1.5800. 11/08/08
GBP/USD	↓	1.9107 – 1.9760	1.9000 – 1.9300	The Pound has continued lower as expected, reaching our 1.9300 target. We are now targeting 1.8600, then 1.8300 on a break of 1.8600. Topside rebounds should now be held by 1.94-1.95, with the trend reversal level set at 2.00 11/08/08
USD/JPY	↑	107.43 – 110.38	109.00 – 112.00	The Yen's rally has reversed on the move back over 106.00. We expect it will now weaken to the 110-112 range. 108.00 should now hold any corrections but it would take a drop below 105.00 to reverse the trend. 16/06/08
USD/CAD	↑	1.0260 – 1.0696	1.0150 - 1.0350	The USD has finally broken through resistance at 1.0350 and is well on the way to our 1.09 - 1.10 target range. Our medium term target is 1.1750. We expect 1.0400 will now contain any CAD rallies. The trend is CAD to weaken unless 0.9950 is breached. 11/08/08

FOR PERSPECTIVE – THE CEO

A fellow had just been hired as the new CEO of a large tech corporation. The CEO who was stepping down met with him privately and presented him with three numbered envelopes. "Open one of these if you run up against a problem you don't think you can solve," he said.

Things went along pretty smoothly but six months later, sales took a downturn and the CEO was really catching a lot of heat. About at his wits end he remembered the envelopes. He went to his drawer and took out the first envelope. The message read, "Blame your predecessor."

The new CEO called a press conference and tactfully laid the blame at the feet of the previous CEO. Satisfied with this comments, the press and Wall Street responded positively, sales began to pick up and the problem was soon behind him.

About a year later, the company was again experiencing a slight dip in sales, combined with serious product problems. Having learned from his previous experience, the CEO quickly opened the second envelope. The message read, "Reorganise."

This he did, and company quickly rebounded.

After several consecutive profitable quarters, the company once again fell on difficult times. The CEO went to his office, closed the door and opened the third envelope. The message said, "Prepare three envelopes."

REGARDS

FOREX LIMITED