

Forex Focus: Kiwi's Climb Has Come To An End

By Nicholas Hastings

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LONDON (Dow Jones)--All has turned sour for the kiwi.

The New Zealand currency started the week in fine form.

It looked poised to break through to a new high for the year over \$0.7740 and there even seemed a chance that it would resume its rally against its Australian counterpart too.

All this optimism came to shuddering halt on Thursday, however.

See the kiwi's latest rise:

<http://www.dowjoneswebservices.com/chart/view/4329>

The Reserve Bank of New Zealand increased interest rates as expected but then sharply lowered the profile for further rate hikes.

At the same time, the central bank made it clear that it wasn't happy with the currency's strength--warning that it was out of line with the country's faltering economic outlook as well as with moderating export commodity prices.

Instead of building momentum to scale new heights for 2010, the kiwi quickly found itself falling back and could well find itself sliding even more.

A dovish RBNZ wasn't the kiwi's only undoing.

Like other commodity currencies, the New Zealand currency remains very much at the mercy of global risk sentiment and market confidence that the global recovery is still underway.

And this week, some of that confidence started to unravel.

Disappointing economic data from the U.S. and lingering fears of a double-dip recession have once again made investors cautious of pushing commodity currencies too far.

The kiwi's relation to its antipodean cousin--the Aussie--hasn't helped either.

The Aussie has also had a bad week. Up until now, rising inflation pressures had been a key element raising expectations of an Australian rate hike as early as next week.

However, unexpectedly low consumer prices last month have changed all that with economists arguing that the Reserve Bank of Australia won't need to raise rates again until much later in the year.

In other words, the rate profiles of both countries have been lowered and both the Aussie and the kiwi can be expected to fall against the dollar.

The kiwi, though, is likely to fall against the Aussie as well.

Since staging a rally against its Australian cousin back in April, the New Zealand currency has been strong.

With exports coming under pressure and the economic outlook proving less strong than anticipated, it isn't surprising that the RBNZ pointed to risks that the currency's strength is posing.

By contrast, the RBA has expressed no such concerns about the Aussie, ensuring that there is little to hinder the currency's advance.

Next week, Australian retail sales and employment numbers from both countries could further fuel the kiwi's slide against the Aussie. Chances are the Australian currency will finally break through resistance at NZD1.24 and make it up to the NZD1.25 level that some strategists are looking for.

Early Friday, the kiwi was more or less flat against the dollar, which had come under selling pressure late Thursday after St. Louis Fed President James Bullard warned that the risks of U.S. deflation are higher.

This added to fears that the U.S. economic recovery is faltering even more seriously than anticipated. The market will now focus on more U.S. data due later in the day to see if they confirm market fears.

Some analysts reckon the dollar could also face more selling because of end-of-month rebalancing of portfolios.

By 0645 GMT, the kiwi was unchanged at \$0.7239 from late Thursday in New York, according to EBS.

The dollar bounced back a little with the euro falling to 1.3083 from \$1.3090 and to Y113.25 from Y113.77. The dollar was also down at Y86.49 from Y86.96.

Bloomberg TNI FRX POV

Reuters USD/DJ
Thomson P/1066 or P/1074

(Nick Hastings has covered the foreign exchange markets and industry for over 20 years. Apart from his written commentary and analysis, he also appears on Fox Business News and CNBC television in Europe, Asia and the U. S. He can be contacted on +44-20-7842-9493 or by email: nick.hastings@dowjones.com)

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