



halofinancial

“Finding the Kiwi’s bottom”

published in Fresh Start September 2005

What have we got to do to knock the New Zealand Dollar off its pedestal? Even an inconclusive election result and a very public wrangle over who will form the next government didn't impede the NZ Dollar's advance. It seems that international investors are so enamoured with the 6.75% base interest rate in New Zealand and understandably thrilled by the prospects for even higher interest rates that they have lost sight of the impact that a lame government can have on an economy.

Awkward coalitions are an unfortunate side effect of proportional representation and until the 218,000 ex pat votes are counted and the last of the haggling is over, the path for the NZ Dollar will remain unclear. In fact, if you were a chartist - and I am - you might be tempted to think the path is pretty clear already.

Sterling has declined against the NZ Dollar in a controlled slide that started back in 2002 after a dramatic rise in the exchange rate that began as early as 1996 and stalled into a sideways shuffle between 2000 and 2002. A chart of these enormous ranges is reminiscent of the views in the Southern Alps; from NZ\$2.20 in 1996, the rate raced to NZ\$3.65 in 2001, consolidated in a range between NZ\$3.25 and NZ\$3.60 for two years and then started the steep decline that brings us up to date around NZ\$2.55.

The very attractive interest rate yield had drawn international investors away from the declining US Dollar and this, combined with the vastly improved level of commodity prices, which are so influential on the New Zealand economy, had allowed the Kiwi Dollar to push to the strongest level against the Pound in 8 years. It is still hovering around that level and, sadly for New Zealand bound migrants, is showing little sign of wanting to weaken from this position of strength.

If the Reserve Bank of New Zealand was hinting at interest rate cuts, we might see a decline but they may be forced to hike rates again to stifle rampant house price inflation and consumer demand. If the commodity prices or overseas demand for NZ products was on the ebb, things might be different but exports are relatively strong in spite of the expensive Kiwi Dollar. If the US Dollar's recent strength had sucked funds away from the New Zealand bond markets, we could see the NZ Dollar fall but whilst Asian funds are flooding into the US, they are apparently not flowing from New Zealand because the NZ Dollar remains static. In fact, the growth in Japan is adding to the regional economic growth and the NZ economy is being swept along as well. But imports are outstripping exports at a record pace as consumers invest in cars, electrical goods and clothing with seemingly limitless amounts of disposable income.

The Kiwi economy has a history of dramatic boom and bust and the present situation has an ominous feeling of the over inflated bubble but the growth in the global economy could keep the economy inflated for a lot longer than past periods of deflation.

All of these factors are creating a stronger NZ Dollar and, although every NZ bound migrant would love to get more NZ Dollar's for their Pounds, it doesn't look like that will happen in the immediate future. Consequently, grabbing your NZ Dollar's towards the top of the current range (NZ\$2.5950 or thereabouts) makes the best sense until we do see something that will put a bottom in place on this GBP/NZD exchange rate and change the direction of this trend. Although, right at the moment, it is hard to see what that change might be.

Sophie Stride is an FX Consultant with Halo Financial Ltd, a specialist foreign exchange company providing expert currency exchange services to both companies and private individuals. If you are at the start of buying an overseas property or in the process of buying currency to pay for a new home, it is never too soon or too late to save money on foreign exchange. Halo Financial can be contacted on +44 (0)20 7350 5474 and their website can be viewed at www.halofinancial.com

The guiding light in foreign exchange