NZD volatile

Wednesday, 03 December 2008

The New Zealand Dollar remained very volatile last week, with the cross trading in a range between 2.75 and 2.85. The Reserve Bank of New Zealand's (RBNZ) latest survey of business managers reinforced expectations that interest rates could be cut this coming week, with inflation and employment conditions anticipated to decline over the next two years. The New Zealand Dollar was also undermined by further weak housing data, with building approvals plunging in October to their lowest level since at least 1982.

The Reserve Bank of New Zealand has cut rates during their past three meetings, each more aggressive than the last, and the same is expected for the next announcement on Wednesday. A Bloomberg News poll has shown that economists anticipate that the central bank will slash rates by a huge 150 basis points to a 5-year low of 5.00 percent. Following the bank’s last rate decision, RBNZ Governor Alan Bollard suggested that future rate cuts would depend on data confirmation of easing inflation pressures and “how the global financial developments play out.”

Thus far, economic data in New Zealand has showed slowing growth, as the RBNZ’s 2-year inflation expectation survey fell to 2.7 percent from 3.0 percent in Q4 and food prices fell negative for the first time in 14-months during October. Meanwhile, financial market conditions have deteriorated, coupled with the fact that the jobless rate has risen to a five year high, leaving the odds very much in favour of a sharp rate cut by the RBNZ that could trigger declines in the New Zealand Dollar on Wednesday.