

Australia, New Zealand Dollars Reach 2-Week Highs on U.S. Plan

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The Australian and New Zealand dollars traded near the highest levels in more than two weeks versus the U.S. currency amid speculation a U.S. plan to ease credit-market losses will spur demand for higher-yielding assets.

The currencies were also near two-week highs against the yen as the U.S. government plan, which includes spending \$700 billion on financial companies' troubled assets, encouraged investors to use cheap financing in Japan for investment in the two South Pacific nations.

"News of the bailout triggered a strong recovery in global equity markets," said Danica Hampton, currency strategist at Bank of New Zealand Ltd. in Wellington. It "underpinned risk appetite and demand for currencies like the New Zealand dollar."

Australia's currency traded at 83.08 U.S. cents at 4:48 p.m. in Sydney from 83.40 cents in New York on Sept. 19. It touched 84.03 cents, the highest since Sept. 3. The Aussie, as the currency is called, gained 1.4 percent to 88.37 yen, after earlier trading as high as 89.79 yen. It touched 89.80 on Sept. 19, the highest since Sept. 8.

New Zealand's dollar reached 69.19 U.S. cents, the highest since Sept. 2, before trading at 68.55 U.S. cents from 68.90 cents in late New York trading on Sept. 19. The Kiwi reached 74.13 yen on Sept. 19, the highest since Sept. 8, and was recently at 73.00 yen.

Both currencies advanced as Asian stocks rose following gains in the Standard & Poor's 500 index on Sept. 19.

The New Zealand dollar surged 1.8 percent against the U.S. dollar and 3.8 percent against the yen on Sept. 19. The Australian currency jumped 5.6 percent against the yen and 3.7 percent versus the greenback.

Carry Trades

New Zealand's benchmark interest rate is 7.5 percent and Australia's stands at 7 percent, compared with 0.5 percent in Japan and 2 percent in the U.S., making the nations' assets favorites with investors seeking higher returns.

The currencies pared some of their earlier gains after U.S. House Speaker Nancy Pelosi said that Democrats, who control both houses of the U.S. Congress, wanted more oversight of the federal program. Democrats said they would seek changes, including limiting executive compensation and offering new help to homeowners struggling to avoid foreclosure.

"There's been some concern on comments from U.S. House Speaker Pelosi," said Sue Trinh, a senior currency strategist at RBC Capital Markets in Sydney. "That's knocked carry trades a little bit lower."

Bonds Fell

Australian government bonds fell. The yield on the 10-year note rose 26 basis points, or 0.26 percentage point, to 5.824 percent. The price of the 5.25 percent security maturing in March 2019 fell 1.968, or A\$19.68 per A\$1,000 face amount, to 95.545, the lowest since Aug. 20. Bond yields move inversely to prices.

“It's an unwinding of some of the flight to quality flows that we'd seen,” said Sally Auld, interest rate strategist at JP Morgan Securities Australia Ltd.

New Zealand's two-year swap rate, a fixed payment made to receive floating rates, rose to 6.965 percent, from 6.895 percent on Sept. 19.

Source: Bloomberg