

# Liftout Business



## Kiwi tipped for record

Currency trader picks soaring dollar, adding to the pain already being felt by exporters



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**T**he New Zealand dollar's strength against the greenback is already a headache for exporters, but things could get much worse – local currency trader Nick McDonald is picking the kiwi will reach US90c in the next 12 to 18 months.

McDonald, also the chief executive of trading education provider Trade With Precision, said he wouldn't be surprised if the currency reached parity with the US dollar in the next four to five years.

The dollar was trading at US80.15c on Friday afternoon, up from the week's low of US79.33c.

If the kiwi were to reach US90c that would beat the post-float record of US88.43c it hit in August last year.

Though the prospect of the kiwi gaining more ground against the greenback might be good news for New Zealanders planning overseas holidays or flat-screen TV purchases, it's unlikely to bring any joy to exporters.

A strong dollar erodes returns on locally made products and makes them less competitive in overseas markets.

### Stronger dollar

#### Winners

**Consumers:** Cheaper overseas holidays and lower prices on imported goods.

**Importers:** Firms importing goods from overseas – coffee roasteries, for example – have greater buying power.

#### Losers

**Exporters:** Returns on exports are eroded and a strong dollar also makes locally made products less competitive overseas.

**Tourism operators:** New Zealand becomes a more expensive destination for foreign tourists.

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McDonald said interest rates were the main driver of his bullish view on the New Zealand dollar.

At 2.5 per cent, this country's official cash rate was high compared with the major players in the currency world, such as the US (0.25 per cent) and Japan (0.1 per cent). He said it was

that difference in interest rates that fuelled the so-called "carry-trade" – money flowing out of countries with low interest rates into those with higher rates, such as New Zealand and Australia – which drove up the kiwi.

Another reason for his US90c pick was the New Zealand dollar's "trend momentum", which McDonald said had been trending upwards for the past 10 years, apart from a dip when the global financial crisis hit in 2008.

"Little pullbacks like we've seen in the last few days are insignificant, they're virtually nothing at all in the scale of the longer-term trend which is up and heading towards that US90c level." The kiwi's strength was also the result of weakness in the greenback, McDonald said.

Westpac senior market strategist Imre Speizer also said the kiwi could hit US90c over the next 12 months, provided a recovery in the global economy took place. "You can have all the goodness in New Zealand you like, but if global financial markets haven't recovered then you're not going to get the kiwi rising," he said.

ANZ chief economist Cam-

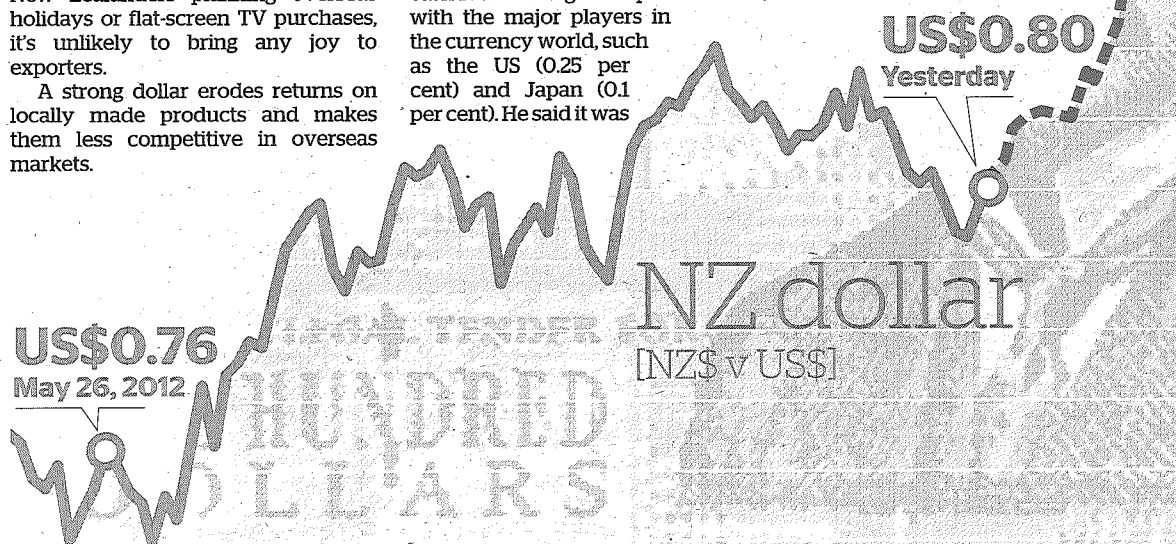
eron Bagrie said he expected the kiwi to remain in the US75c to US80c range and if it were to climb higher there would be a lot of "collateral damage".

"The brutal reality is I don't think the New Zealand economy or export sector can live up around 90c."

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No export sector at US90c, says industry leader

John Walley gives a blunt response when asked what impact a kiwi dollar trading at US90c would have on the local export sector. "There won't be one [a sector]," says the chief executive of the Manufacturers and Exporters Association. "Folk hang on because they have to – they don't have a choice. But if it's bad at US80c it's much worse at US90c and I know of a number of people who are marginal right now and it'll really come down to their balance sheets whether they can weather that particular storm. "As long as we stick to the out-moded inflation targeting regime while everyone else is throwing away the rule book then we'll see [a rising kiwi] and it simply crucifies the external sector," Walley said.



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