

Morning Report

Friday 3 February 2012

Foreign Exchange Market					
	Previous Range		Today's Open		Expected
	Asia	Overnight	8.00am NZD cross	Range Today	
NZD	0.8316-0.8351	0.8311-0.8370	↓ 0.8339	0.8300-0.8380	
AUD	1.0694-1.0758	1.0679-1.0748	↓ 1.0706 ↑ 0.7789	1.0670-1.0750	
JPY	76.12-76.35	76.05-76.18	↓ 76.16 ↓ 63.51	75.70-76.60	
EUR	1.3145-1.3197	1.3085-1.3193	↓ 1.3148 ↑ 0.6342	1.3100-1.3200	
GBP	1.5818-1.5857	1.5796-1.5859	↓ 1.5807 ↑ 0.5276	1.5760-1.5860	

NZ Emissions Trading Scheme (previous day's closing rates)			
Spot New Zealand Units (NZUs)	Bid	7.55	
	Offer	7.75	
Spot Certified Emission Reductions units (CERs) in EUR	Settle price	€4.28	
Spot Certified Emission Reductions units (CERs) in NZD	Settle price	\$6.75	

NZ Domestic Market (Previous day's closing rates)					
Cash Curve	Govt Stock		Swap Rates (Qtrly)		
Cash	2.50%	Jan-12	2.50%	1 Year	2.74%
30 Days	2.71%	Apr-13	2.49%	2 Years	2.83%
60 Days	2.72%	Apr-15	2.79%	3 Years	2.99%
90 Days	2.73%	Dec-17	3.34%	4 Years	3.19%
180 Days	2.72%	Dec-19	3.58%	5 Years	3.39%
1 Year	2.66%	May-21	3.81%	7 Years	3.78%
				10 Years	4.12%

World Bourses and Indices					
AUD			USD		
Cash	4.25%	0.00	Fed Funds	0.00% - 0.25%	
90 Days	4.32%	0.00	3 Mth Libor	0.53%	-0.01
3 Year Bond	3.18%	+0.07	10 Year Notes	1.82%	-0.02
10 Year Bond	3.77%	+0.04	30 Year Bonds	3.01%	-0.00
NZX 50	3314.6	+12.8	CRB	310.0	-1.6
S&P/ASX200	4225.7	-37.0	Gold	1755.0	+8.2
Nikkei	8876.8	+67.0	Copper Fut.	377.00	-6.00
FT 100	5796.1	+5.4	Oil (WTI)	95.86	-2.54
S&P500	1324.6	+0.5	NZ TWI	73.11	+0.05

Upcoming Events				
Date	Country	Release	Last	Forecast
Fri 03	NZ	Dec net migration	-50	-150
	Eur	Jan PMI services final	50.5	-
		Dec retail sales	-0.8%	-
UK	Jan PMI services	54.0	52.0	
	US	Jan non-farm payrolls change	200k	150k
Jan unemployment rate %		8.5%	8.6%	
Jan ISM non-manufacturing		52.6	52.5	
Dec factory orders		1.8%	-	
Can	Jan employment change	18k	-	

Market wrap

Markets consolidated. US equities failed to extend the mini-rally rally 30 January, the S&P500 currently unchanged on the day despite the mildly positive news flow. Spanish and French government bond auctions were successful, China's Premier confirmed it was considering greater involvement in the EFSF and ESF Eurozone rescue funds, and Fed Chairman Bernanke reiterated to Congress his frustration with the slow pace of US economic recovery (leaving the door open for QE3) while noting improvement on some fronts. Separately, Fed dove, but non-voter, Evans favoured a new and aggressive round of treasury and MBS purchases. The CRB commodities index is 0.6% lower, oil -2.0%, copper -1.6%, but gold +0.7%. US 10yr treasury yields are 1bp lower at 1.82% after slipping from the Asian session high of 1.85% (the previous support level and now resistance). Following the successful auctions, French 10yr yields are 13bp lower but Spain's are 8bp higher. Portugal's 10yr yield continued to decline, down 42bp to 14.80% - where it was before the late January panic but still historically high.

The US dollar index is little changed and most currencies were quiet ahead of tonight's important US payrolls report. **EUR** consolidated between 1.3086 and 1.3193. **USD/JPY** settled above 76.05. After making a slightly higher high of 1.0757 in Sydney, **AUD** retreated into a 1.0680-1.0747 range, currently unchanged from the previous day's NY close. **NZD** probed slightly higher to 0.8370 in NY but retreated into its 0.8310-0.8350 overnight range. **AUD/NZD** ground lower from 1.2870 to 1.2830.

Economic wrap

US initial jobless claims fall 12k to 367k in the week ended Jan 28, suggesting a slower pace of employee layoffs, compared to earlier in Q4 last year. With no special factors at play, the 4 week average pace of claims was 376k, down from 405k in the last week of October 2011. However in other job market news, corporate layoff announcements were up 38.9% yr in Jan, compared to a 30.6% yr rise in Dec. And nonfarm productivity growth was 0.7% annualised in Q4, compared to 1.9% in Q3. Consequently unit labour costs which fell 2.1% in Q3 were up 1.2% in Q4.

In other US news, the NY factory ISM jumped from 51.7 to 60.1 in Jan, its strongest reading since the first half of last year (as with the national factory ISM yesterday). Also chain store sales rose 4.8% yr in Jan, their fastest growth pace since Sep 2011.

Fedspeak - nothing especially new from Fed chair Bernanke in budget committee testimony and Charles Evans from the Chicago Fed reiterated his preference for further QE, possible as much as another \$1 trillion.

Euroland producer prices fell 0.2% in Dec for an annual PPI pace of 4.3% yr, its lowest since October 2010.

UK PMI construction slipped from 53.2 to 51.4 in Jan. It did not dip into the contractionary range below 50 at all in 2011, when its lowest reading was 50.1 in Sep.

Market outlook

AUD/USD and NZD/USD outlook next 24 hours: Markets will keep much of their powder dry until tonight's US payrolls report. AUD retains positive momentum but the 1.0750-1.0765 resistance area is formidable and should hold during the domestic session. NZD momentum is also positive but it is technically stretched and a pullback to 0.8300 support is likely pre-London.

Imre Speizer, Senior Market Strategist, NZ, Ph: (09) 336 9929
With contributions from Westpac Economics