Friday 30 July 2010

Westpac InstitutionalBank

Morning Report

Foreign Exchange Market

	Previous Range		Today's Open		Expected
	Asia	Overnight	8.00am	NZD cross	Range Today
NZD	0.7202-0.7293	0.7215-0.7287	↓0.7239		0.7180-0.7280
AUD	0.8906-0.8966	0.8952-0.9044	↑0.9003	↓0.8041	0.8950-0.9050
JPY	87.11-87.52	86.57-87.45	↓86.86	↓62.88	86.40-87.40
EUR	1.2969-1.3016	1.3006-1.3107	↑1.3078	↓0.5535	1.3020-1.3120
GBP	1.5572-1.5625	1.5580-1.5663	↑1.5612	↓0.4637	1.5550-1.5650

NZ Domestic Market (Previous day's closing rates)

Cash Curve		Govt Stock		Swap Rates (Qtrly)	
Cash	3.00%	Nov-11	3.70%	1 Year	3.74%
30 Days	3.01%	Apr-13	4.19%	2 Years	4.10%
60 Days	3.11%			3 Years	4.37%
90 Days	3.27%	Apr-15	4.65%	4 Years	4.57%
180 Days	3.46%	Dec-17	5.07%	5 Years	4.73%
				7 Years	5.01%
1 Year	3.67%	May-21	5.36%	10 Years	5.29%

World Bourses and Indices

AUD			USD		
Cash	4.50%	0.00	**Fed Funds**	0.00-0.25%	
90 Day	4.79%	-0.01	**3 Mth Libor**	0.47%	-0.01
3 Year Bond	4.72%	+0.02	**10 Year Notes**	2.99%	-0.01
10 Year Bond	5.25%	+0.04	**30 Year Bonds**	4.08%	+0.01
NZX 50	3033.0	+10.8	**CRB**	270.2	+4.0
S&P/ASX200	4524.1	-5.8	**Gold**	1168.2	+3.9
Nikkei	9696.0	-57.3	**Copper Fut.**	328.50	+3.70
FT100	5314.0	-5.7	**Oil (WTI)**	78.30	+1.24
S&P500	1103.4	-2.7	**NZ TWI**	67.36	-0.72

Upcoming Events

Date	Country	Release	Last	Forecast
30 Jul	NZ	Jun Building Consents s.a.	–9.6%	11.0%
	Aus	Jun Private Sector Credit	0.5%	0.4%
	US	Q2 GDP % ann'lsd	2.7%	2.5%
		Q2 Employment Cost Index	0.6%	0.5%
		Jul Chicago Purchasing Manager	59.1	55.0
		Jul NAPM-Milwaukee	59.0	55.0
	Jpn	Jun Industrial Production	0.1%	0.2%
		Jul Nomura PMI	53.9	–
		Jun Unemployment Rate	5.2%	5.2%
		Jun National CPI %yr	–0.9%	–0.7%
		Jun Household Spending %yr	–0.7%	–0.8%
		Jun Housing Starts %yr	–4.6%	1.8%
		Jun Construction Orders %yr	9.2%	–
	Eur	Jun Unemployment Rate	10.0%	10.0%
		Jul CPI Flash %yr	1.4%	1.7%
	Ger	Jun Retail sales	0.4%	–0.2%
	UK	Jul GfK Consumer Confidence Survey	–19	–20
	Can	May GDP	0.0%	0.2%
2 Aug	NZ	Jul Commodity Price Index	–1.2%	–
	Aus	Jul TD Securities Inflation	0.3%	–

News and views

US equities fell sharply after opening, but largely recovered and the index is currently down 0.2%. Minor negative news, which may have contributed to the move, included a number of US company earning results missing analyst estimates, a fraud probe into the military insurance sector, and Fed member Bullard opining the central bank should not pledge to keep rates low but rather buy US treasuries (the latter news was likely a coincidental rather than causal factor). Commodities had solid gains, oil up 1.9%, copper up 1.4% to a post-4 May high, and Baltic Dry shipping costs continued to rebound from the 15 July low. US 3mth Libor fell 1bp to 0.466% as funding pressures ease slightly. US treasuries were little net changed, the 7yr auction a more tepid affair than Wednesday's 5yr, bidding coverage around average at 2.8 times, but foreign appetite weaker.

The US dollar index ranged narrowly in NY after a positive risk tone saw it lose ground in Asia. **EUR** pushed higher in Asia and early Europe to a 1.3107 high, last seen on 4 May. **USD/CHF** fell from 1.0500 to 1.0374, the franc the day's outperformer. The **yen** also fared well, from 87.50 to 86.57 against the dollar.

AUD continued its domestic session run higher to 0.9043, consolidating thereafter around 0.9000.

NZD followed the AUD higher to 0.7287, settling later around 0.7240. AUD/NZD added slightly to yesterday's post-RBNZ bounce, reaching 1.2460.

US initial jobless claims fall 11k to 457k last week, which is probably a fair estimate of where claims are really at, after several weeks of volatile and distorted data caused by seasonal adjustment issues related to the temporary summer shutdown of auto plants for new model retooling. Continuing claims in the prior week jumped 81k to 4565k but that outcome would have reflected those seasonality issues as much as any genuine move in ongoing claims.

Japanese retail sales +0.4% in June and +3.2%yr as expected. Department store sales remained weak, declining by 0.9% in June and 7.4% over the year. However, supermarket sales were up 1.8% in the month and 0.4% over the year.

European business/confidence surveys stronger in July. The business climate indicator rose from 0.40 to 0.66 and economic confidence lifted from 99.0 to 101.3 in July, both outcomes indicative of some nonchalance on the part of survey respondents re the potential impact of fiscal retrenchment on European growth prospects.

German unemployment falls 20k in July, pulling jobless rate down from 7.7% to 7.6% (compared to recent 8.3% peak a year earlier). The short-work scheme (cutting hours not jobs) has helped turn the labour market around earlier than would have otherwise been the case.

UK house prices fall 0.5% in July, according to Nationwide, for a 6.6% yr annual growth pace (down from 10.5% yr in April). More housing supply is coming onto the market dampening previous upward price pressure. Other data showed a £0.1bn fall in consumer credit outstandings; a weak £0.7bn rise in mortgage outstandings; and 48k new mortgage approvals in June (lowest since Feb). These outcomes don't directly feed into GDP estimates but the subdued credit picture at the end of Q2 does hint at some downside revision when revised GDP estimates are published next month.

Canadian industrial product prices down 0.9% in June, their first fall in three months, led by lower prices for petroleum and metals.

Outlook

AUD/USD and NZD/USD outlook next 24 hours: US equity fatigue should constrain the currencies overhead. AUD is unlikely to breach Wednesday's high of 0.9070. AUD is showing early signs of a major reversal, and should be capped by 0.9000 today. NZD looks heavy without yield support and 0.7280 caps for now.

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With contributions from Westpac Economics