

Morning Report

Foreign Exchange Market

	Previous Range		Today's Open		Expected
	Asia	Overnight	8.00am	NZD cross	
NZD	0.6410-0.6469	0.6416-0.6480	↑0.6453		0.6430-0.6500
AUD	0.8005-0.8076	0.8030-0.8088	↑0.8072	↓0.7994	0.8030-0.8100
JPY	95.66-96.02	95.04-96.05	↓95.24	↓61.460	94.80-95.80
EUR	1.3983-1.4062	1.4014-1.4110	↑1.4057	↓0.4591	1.4000-1.4100
GBP	1.6360-1.6445	1.6375-1.6561	↑1.6524	↓0.3905	1.6480-1.6580

NZ Domestic Market (Previous day's closing rates)

Cash Curve	Govt Stock	Swap Rates (Qtrly)
Cash 2.50%	Jul-09 2.58%	1 Year 3.02%
30 Days 2.77%	Nov-11 3.88%	2 Years 3.87%
60 Days 2.80%	Apr-13 4.87%	3 Years 4.61%
90 Days 2.80%	Apr-15 5.50%	4 Years 5.08%
180 Days 2.81%	Dec-17 6.02%	5 Years 5.39%
1 Year 2.95%	May-21 6.58%	7 Years 5.73%
		10 Years 6.07%

World Bourses and Indices

AUD		USD	
Cash 3.00%	0.00	Fed Funds 0.00-0.25%	
90 Day 3.24%	0.00	3 Mth Libor 0.60%	0.00
5 Year Bond 5.25%	-0.13	10 Year Notes 3.53%	-0.01
10 Year Bond 5.61%	-0.07	30 Year Bonds 4.33%	+0.01
NZX 50 2770.6	-0.1	CRB 251.3	-2.1
All Ords 3899.5	+48.0	Gold 938.1	-1.0
Nikkei 9877.4	+81.3	Copper Fut. 230.90	-0.70
FT100 4241.0	-11.6	Oil (WTI) 69.16	-0.54
DJI 8438.4	-34.0	NZ TWI 60.75	-0.16

Events Today

Country	Release	Last	Forecast
NZ	May Merchandise Trade NZDm	276	490
	May Building Consents s.a.	11.2%	3.0%
US	May Chicago Fed National Activity Index	-2.06	-
	Jun Dallas Fed Factory Index	-21.5	-16.0
Jpn	May Industrial Production	5.9%	7.0%
	May Retail Sales %yr	-2.8%	-2.6%
Eur	Jun Retail PMI	47.1	-
	Jun Business Climate Index	-3.17	-3.10
	Jun Consumer Confidence	-31	-30
	Jun Economic Confidence	69.3	70.0
UK	May Net Consumer Credit £bn	0.3	0.3
	May Net Mortgage Lending £bn	1.0	1.2

Latest Research Papers/Publications

- NZ Q1 GDP Review (26 June)
- NZ Q1 Current Account Review (25 June)
- NZ Q2 Consumer Confidence (24 June)
- NZ Weekly Forex Outlook (24 June)
- Funding it tough (23 June)

These papers/publications are available on Online Research on Westpac Institutional Bank's website (www.wib.westpac.co.nz)

News and views

US economic data failed to inspire investors and the S&P500 closed 0.3% lower in a dull session pricewise. US 10yr treasuries initially rallied to 3.49% on a surge in the savings rate and subdued consumer spending, but a late NY 5bp selloff after consumer confidence was revised higher saw them close unchanged. Oil fell 1.5%, but the broader commodity index was unchanged.

The US dollar weakened throughout the London session, but bounced off its recent 79.60 support in NY to close down 0.6% for the day. China's central bank had earlier criticised the dollar dominating the global monetary system. **EUR** rose to 1.4120 in a choppy manner (peaking late London) before falling back to 1.4055. The ECB Shadow Council reportedly is recommending a rate cut to 0.5%, not reflected in the price action. Without SNB presence, EUR/CHF drifted from 1.53 to 1.52. **JPY** weakened against the dollar, from 96.00 to 95.05.

AUD firmed only slightly, from 0.8040 to 0.8085, a McCrann article speaking of risks to the economy and the potential for rate cuts.

NZD followed suit, 0.6425 to 0.6490, and opening in Wellington this morning at around 0.6450. AUD/NZD slipped to 1.2450 (noon London), then recovered to just above 1.2500.

US consumer sentiment revised higher. Consumer sentiment was revised higher in the final June UoM report by 1.8 pts, reflecting a downward revision to the current index and a larger upward revision to the outlook index. The main impact of these revisions was to effectively remove the fall in the outlook between the May and June surveys; the current measure still showed a decent gain. Overall sentiment is now up for four months running, and inflation expectations are creeping higher too.

US personal income jumps 1.4% in May. The further sharp rise in personal income reflected a one-off payment to welfare recipients (part of the latest fiscal package); the wages and salaries component fell 0.1% in May, consistent with the weakness in hours worked and earnings that we saw in the May payroll report. The modest rise in spending and the subdued 0.1% core PCE deflator were in line with expectations and reflect the underlying softness in the economy in mid Q2.

Japanese inflation data on the softer side. Nationwide headline CPI fell 1.1% from a year earlier in May (vs -0.1% in April and the market forecast of -1.0%), while the exclusion measures were on expectations. The Tokyo series for June was softer than anticipated, with headline (-1.5%yr vs f/c of -1.2%) and ex fresh food (-1.3% versus f/c of -0.9%) well below expectations. The economy is engulfed in extreme excess of supply at present, with output and labour gap of similar magnitude to those seen around the Asian Crisis.

Japanese tertiary activity index rose 2.6% in April. The large jump in industrial production is the main factor here. Outside that 5.9% gain, the rest of the economy was still contracting.

German inflation rose slightly to 0.1% yr in June, against expectations it might turn slightly negative, although the underlying picture of minimal price pressure in Germany remains intact, in part due to plunging import prices, down 10.4% yr in May.

Outlook

Since 3 June, the NZD has traded sideways with a cap at 0.65 and major overhead resistance at 0.66. The latter giving way would argue for a higher NZD, and US data this week has the potential to spring some positive surprises, which would be supportive of risk, and therefore the NZD this week. Our longer term view remains bearish NZD, but this week could disrupt that view. This morning's trade balance and building permits data should be mildly supportive on the day.

Imre Speizer, Senior Market Strategist, NZ, Ph: (04) 470 8266

With contributions from Westpac Economics