

Morning Report

Foreign Exchange Market

	Previous Range		Today's Open		Expected
	Asia	Overnight	8.00am	NZD cross	Range Today
NZD	0.6426-0.6477	0.6422-0.6526	↑0.6503		0.6460-0.6560
AUD	0.8010-0.8085	0.7984-0.8097	↑0.8083	↑0.8045	0.8020-0.8120
JPY	95.16-96.59	95.16-96.16	↑96.03	↑62.450	95.50-96.50
EUR	1.4003-1.4078	1.3982-1.4103	↑1.4082	↑0.4618	1.4040-1.4140
GBP	1.6451-1.6524	1.6430-1.6564	↑1.6568	↑0.3925	1.6520-1.6620

NZ Domestic Market (Previous day's closing rates)

Cash Curve	Govt Stock	Swap Rates (Qtrly)
Cash 2.50%	Jul-09 2.59%	1 Year 3.01%
30 Days 2.77%	Nov-11 3.83%	2 Years 3.82%
60 Days 2.80%	Apr-13 4.82%	3 Years 4.54%
90 Days 2.81%	Apr-15 5.45%	4 Years 5.01%
180 Days 2.81%	Dec-17 5.96%	5 Years 5.32%
1 Year 2.94%	May-21 6.52%	7 Years 5.66%
		10 Years 6.00%

World Bourses and Indices

AUD			USD		
Cash	3.00%	0.00	Fed Funds	0.00-0.25%	
90 Day	3.25%	+0.01	3 Mth Libor	0.60%	0.00
5 Year Bond	5.18%	-0.07	10 Year Notes	3.49%	-0.04
10 Year Bond	5.49%	-0.12	30 Year Bonds	4.30%	-0.03
NZX 50	2775.1	+4.5	CRB	254.3	+3.0
All Ords	3882.7	-16.8	Gold	937.3	-0.8
Nikkei	9783.5	-93.9	Copper Fut.	233.25	+2.35
FT100	4294.0	+53.0	Oil (WTI)	71.47	+2.31
DJI	8517.3	+90.5	NZ TWI	61.30	+0.55

Events Today

Country	Release	Last	Forecast
NZ	Jun NBNZ Business Confidence	1.9%	-
Aus	May Private Credit	0.1%	0.1%
US	Apr House Prices %yr	-18.7%	-18.8%
	Jun Chicago PMI	34.9	39.0
	Jun CB Consumer Confidence	54.9	56.0
	Jun Milwaukee PMI	43.0	46.0
	Jpn	May Household Spending %yr	-1.3%
Jpn	May Unemployment Rate	5.0%	5.2%
	Jun Nomura PMI	46.6	-
	Jun Small Business Confidence	34.1	-
	May Cash Earnings %yr	-2.7%	-3.0%
	May Housing Starts %yr	-32.4%	-27.8%
	May Construction Orders %yr	-25.9%	-
	May Money Supply M3 %yr	4.9%	4.7%
Eur	Jun CPI Flash Estimate %yr	0.0%	-0.2%
	Jun Unemployment Chg	1k	45k
Ger	Q1 GDP (F)	-1.9% a	-1.9%
	Q1 Current Account Deficit £bn	-7.6	-6.7
	Jun GfK Consumer Confidence	-27	-25
Can	May Industrial Product Prices	-0.5%	-0.6%
	Apr GDP	-0.3%	-0.1%

News and views

US data had a weak tone, Chicago Fed activity weaker than previous, and Dallas Fed manufacturing weaker than market expectations. Despite this, the S&P500 opened strongly and held onto the gains through the session, up 1.0% near the close. Quarter end window dressing (buying the winners and selling the losers) seemed to be the main factor behind the strength. Shanghai's equity index posted a new 2009 high, and is at June 2008 levels. Oil rose 3.4% on fresh rebel attacks on Shell's Nigerian facilities. US 10yr treasuries rallied 6bp down to 3.48%, perhaps relieved by the more positive latest rhetoric from China regarding US dollar reserves.

The US dollar index benefited from China's pro-dollar comments (a reversal from last week's tone) until the Sydney close, but suffered from equities strength, the DXY currently unchanged over 24hrs. **EUR** rallied from just below 1.40 to just over 1.41. **GBP** was also stronger from 1.6430 to 1.6585, M&A news involving Chinalco and Anglo-American helping. Lower mortgage approvals than expected failed to stifle the move. **USD/JPY** ranged sideways around 95.50 until the NY morning, when it jumped to 96.20.

AUD followed the broader dollar move and rose from 0.7985 to 0.8095.

NZD rose from 0.6420 to 0.6525, getting closer to key 0.6600 resistance. NZD outperformance saw AUD/NZD fall back to the 1.24 support level.

US Dallas Fed factory index rose slightly in June from -21.5% to -20.3%, the strongest read since August 2008, though short of market expectations. Production, capacity utilisation and new orders improved slightly, but employment remained broadly unchanged.

Japanese industrial production rose 5.9% in May, the same rise as April. The second consecutive large rise in Japanese IP is a strong sign that the vicious de-stocking phase that characterised Q4 and much of Q1 is basically over. Also today, **retail sales** fell 2.9%yr in May, versus -2.8%yr in April, modestly weaker than expectations.

EU Commission economic sentiment surveys were mostly stronger in June, with the overall index rising from 69.3 to 73.3. Industrial, consumer and services sentiment rose, while retail sentiment fell. The third straight improvement in the index, following 10 months of decline, confirms that confidence is on the rise again; we now await some sign of improvement in the activity data.

Eurozone retail PMI rose from 47.1 to 47.5 in June, remaining below the break-even mark of 50 for the 13th straight month. The country breakdown showed a slowing in the pace of decline in France and Italy, but a faster deterioration in Germany.

UK mortgage approvals rose slightly to 43.4k in May according to Bank of England data, continuing the gradual recovery from the lows of late 2008. However, net growth in mortgage lending fell to £0.32bn, the weakest month on record.

Outlook

NZD rallied last night, but remains shy of the key 0.66 level, and so we retain a bearish outlook for the month ahead. Today's NBNZ business confidence survey for June may be weaker than previous (no consensus figures are published for this indicator), if the earlier BNZ survey is any guide, which should then cap the NZD during today's domestic session.

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With contributions from Westpac Economics