

# Morning Report

## Foreign Exchange Market

	Previous Range		Today's Open		Expected
	Asia	Overnight	8.00am NZD cross	Range Today	
NZD	0.5079-0.5155	0.5022-0.5154	↓0.5077		0.5000-0.5140
AUD	0.6445-0.6545	0.6354-0.6532	↓0.6461	↓0.7858	0.6380-0.6500
JPY	89.11-89.65	88.83-89.79	↑89.66	↑45.520	89.00-90.20
EUR	1.2939-1.3057	1.2814-1.3070	↓1.2849	↑0.3951	1.2780-1.2900
GBP	1.4330-1.4485	1.4324-1.4579	↑1.4461	↓0.3511	1.4380-1.4500

## NZ Domestic Market (Previous day's closing rates)

Cash Curve	Govt Stock	Swap Rates (Qtrly)
Cash 3.50%	Jul-09 3.16%	1 Year 3.06%
30 Days 3.95%	Nov-11 3.38%	2 Years 3.38%
60 Days 3.71%	Apr-13 3.79%	3 Years 3.68%
90 Days 3.49%	Apr-15 4.19%	4 Years 3.89%
180 Days 3.16%		5 Years 4.04%
1 Year 3.03%	Dec-17 4.50%	7 Years 4.35%
		10 Years 4.74%

## World Bourses and Indices

AUD		USD	
Cash	3.25% 0.00	Fed Funds	0.00-0.25%
90 Day	3.22% +0.19	3 Mth Libor	1.24% +0.01
5 Year Bond	3.32% +0.10	10 Year Notes	2.92% +0.10
10 Year Bond	4.27% 0.00	30 Year Bonds	3.68% +0.09
NZX 50	2768.6 -11.7	CRB	217.5 +1.3
All Ords	3382.3 -66.8	Gold	900.8 +7.7
Nikkei	8038.9 +213.4	Copper	3339.50 +197.75
FT100	4228.6 +64.1	Oil (WTI)	41.18 +0.81
DJI	7965.8 -112.5	NZ TWI	51.65 +0.28

## Events Today

Country	Release	Last	Forecast
NZ	Q4 HLFs Employment	0.1%	-0.5%
	Q4 HLFs Unemployment	4.2%	4.6%
US	Jan Chain Store Sales %yr		
	Q4 Productivity % ann'lsd	1.3%	0.0%
	Q4 Unit Labour Costs	2.8%	2.5%
	Initial Jobless Claims w/e 31/1	588k	590k
	Dec Factory Orders	-4.6%	-3.0%
	Fedspeak: Plosser and Bullard		
Eur	ECB Rate Decision	2.00%	2.00%
Ger	Dec Factory Orders	-6.0%	-4.0%
UK	BoE Rate Decision	1.50%	1.00%
Can	Dec Building Permits	-11.8%	-
	Jan Ivey PMI nsa	39.1	43.0

## Latest Research Papers/Publications

- NZ Q4 LCI and QES Review (2 February)
- NZ Weekly Forex Outlook (2 February)
- RBNZ OCR Review (29 January)
- NZ Weekly Forex Outlook (27 January)

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

Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (NZ division). Information current as at 5 February 2009. All customers please note that this information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. Australian customers can obtain Westpac's financial services guide by calling +612 9284 8372, visiting [www.westpac.com.au](http://www.westpac.com.au) or visiting any Westpac Branch. The information may contain material provided directly by third parties, and while such material is published with permission, Westpac accepts no responsibility for the accuracy or completeness of any such material. Except where contrary to law, Westpac intends by this notice to exclude liability for the information. The information is subject to change without notice and Westpac is under no obligation to update the information or correct any inaccuracy which may become apparent at a later date. Westpac Banking Corporation is regulated for the conduct of investment business in the United Kingdom by the Financial Services Authority. © 2004 Westpac Banking Corporation. Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

## News and views

**More evidence of a mild global pulse last night**, from the improved US ISM data and tightening credit spreads, supported risk. European equities closed up 1.5%, and the US followed suit until early NZ time, although a fade into the close sees the S&P500 down 0.5% as we write. It should be noted that the S&P Banks' sub-index, which tends to lead the broader index, has fallen for the past two sessions, pointing to a broader reversal ahead. Most commodities were largely unchanged, the exception being the Baltic Dry shipping index's 5% gain, supporting the pulse story. US Libor rates, an indicator of inter-bank lending, were again stable, and 10 year treasury yields rose 4bp. Norway cut rates by 50bp to 2.50%.

The **NZD** continued its corrective rally to 0.5150, a level it has attacked three times in the past 24 hours. Apart from the positive global sentiment, a Moody's report at noon NY helped the currency, and explains the two attempts to break higher. It failed, though, and currently is weaker at 0.5070.

**AUD** sold down to 0.6355, a large AUD/JPY structured product unwind supposedly responsible, although EUR weakness must have contributed. Risk sentiment helped it back up to 0.6520, from which it retreats as we write.

**EUR** was pressured by rumoured Russian intervention in the rouble, which necessitates EUR selling. Weak PMI and retails sales numbers did no favours either. **GBP** performed well to 1.4580, before retracing a cent. Large buying (versus the EUR and USD) ahead of the fixing was noted. The most stable pair this week, **USD/JPY**, remains locked in the 89 to 90 range.

**US ISM non-manufacturing up from 40.1 to 42.9 in Jan.** The Jan non-manufacturing ISM, whose respondents come from industries that make up almost 90% of the economy, rose for the second month running from its lowest reading since the survey's inception in 1997. It is now 5.5 pts above that Nov reading, and 2.2 pts higher than the Q4 average. This suggests that the pace of decline in the US economy might have moderated a touch at the start of Q1, consistent with the message from the ISM factory survey and the regional Fed surveys too. That said, the breakdown still shows serious weakness across activity, orders and jobs (that latter actually slipping slightly, though still higher than in Nov).

**US ADP measure of private payrolls for Jan at -522k** was not quite as weak as back in December. However the ADP index went from understating the extent of job market weakness through most of 2008 to overstating it last month when the survey methodology was revamped, so it is not clear what the implications for the January non-farm payrolls report are. Our forecast for is for a total payrolls decline of 550k, so ADP would be consistent with that. Still on the labour market, corporate layoff announcements totalled 242k in January, up 222% compared to the same month last year. There is not direct correlation with payrolls as layoffs can be announced well ahead of their taking place, but this is still further evidence that the job market is continuing to weaken.

**Euroland services PMI was revised down by 0.3 pts to 42.2 in Jan**, leaving only the smallest of possible rises in place relative to Dec's cycle low-point. This implies that services sector activity was continuing to fall away rapidly at the start of Q1. Meanwhile, Euroland retail sales were flat in December and all of November's rise was revised away, consistent with the bleak German retail data published yesterday. Consumer spending is likely to have been a drag on Q4 GDP growth (data due next week 13/2).

**UK services PMI stepped higher for the second month running**, though the 42.5 reading still implies a significant further slowdown in activity, even if not at Q4's rapid pace. The BRC found a slightly higher rate of inflation on the high street in Jan at 1.1% yr, partly due to the impact of the weaker pound on food prices. As with the GfK Jan confidence measure last week, the Nationwide index fell sharply, reflecting the gloom about the economy which is now impossible to avoid in the UK media.

## Outlook

The important Q4 employment data this morning will probably see an asymmetric response from the markets. An unemployment rate higher than 4.6% should result in a sell-off, while a smaller number should be neutral. Today's range should be capped at 0.5150, and supported at 0.5000, barring a weak unemployment result. Tomorrow is a national holiday, and domestic markets will be closed.

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

With contributions from Westpac Economics