

# Morning Report

## Foreign Exchange Market

	Previous Range		Today's Open		Expected
	Asia	Overnight	8.00am NZD cross	Range Today	
NZD	0.6494-0.6544	0.6438-0.6550	↓0.6451		0.6420-0.6500
AUD	0.8067-0.8125	0.8039-0.8156	↓0.8053	↓0.8011	0.8010-0.8090
JPY	95.66-96.33	95.31-96.52	↑96.40	↓62.190	96.00-96.60
EUR	1.4071-1.4132	1.4000-1.4153	↓1.4027	↓0.4599	1.4000-1.4100
GBP	1.6547-1.6662	1.6422-1.6745	↓1.6453	↓0.3921	1.6420-1.6520

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

Cash Curve	Govt Stock	Swap Rates (Qtrly)
Cash 2.50%	Jul-09 2.60%	1 Year 3.02%
30 Days 2.78%	Nov-11 3.80%	2 Years 3.82%
60 Days 2.80%	Apr-13 4.77%	3 Years 4.55%
90 Days 2.81%	Apr-15 5.41%	4 Years 5.02%
180 Days 2.81%	Dec-17 5.93%	5 Years 5.32%
1 Year 2.94%	May-21 6.46%	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	3.19%	-0.06	3 Mth Libor	0.60%	0.00
5 Year Bond	5.22%	+0.04	10 Year Notes	3.53%	+0.04
10 Year Bond	5.52%	+0.03	30 Year Bonds	4.32%	+0.02
NZX 50	2796.1	+21.0	CRB	250.0	-4.3
All Ords	3947.8	+65.1	Gold	927.0	-10.3
Nikkei	9958.4	+174.9	Copper Fut.	228.05	-4.55
FT100	4249.2	-44.8	Oil (WTI)	69.82	-1.65
DJI	8441.3	-81.9	NZ TWI	60.97	-0.33

## Upcoming Events

Date	Country	Release	Last	Forecast	
1 Jul	NZ	Q2 Employment Confidence Index	93.2	-	
		Aus	Jun AiG PMI	37.5	-
			May Retail Sales	0.3%	0.5%
	US	May Building Approvals	5.1%	2.0%	
		Jun Corp Layoff Announcements	111k	-	
	Jpn	Jun ADP Private Payrolls Chg	-532k	-390k	
		Jun ISM Factory	42.8	44.5	
		May Construction Spending	0.8%	0.5%	
		May Pending Home Sales	6.7%	1.1%	
		Jun Auto Sales mn ann'lsd	9.9	9.8	
	Eur	Q2 Tankan Large Manufacturing	-58	-45	
		Q2 Tankan Large Non-Mfg	-31	-31	
		May Bank Lending %yr	3.0%	-	
	Ger	Jun PMI Factory (F)	42.4a	42.4	
May Retail Sales		0.5%	0.0%		
UK	Jun PMI Factory	45.4	46.0		
	Jun House Prices %yr	-16.3%	-10.8%		
2 Jul	NZ	Jun ANZ Commodity Prices	2.7%	-	
	Aus	May Int'l Trade Balance, AUDbn	-0.09	-0.7	
	US	Jun Non-Farm Payrolls chg	-345k	-400k	
Jun Unemployment Rate		9.4%	9.6%		

## News and views

**Investors shrugged off slightly improved US home price data** and the Chicago PMI to focus on the disappointing consumer confidence report. Near the close, the S&P500 is down 0.8%, continuing a two month sideways pattern. The consumer confidence report also knocked commodities, oil down 2.2% and copper down 2.1%. US 10yr treasury yields spiked over 10bp to 3.82% as recent long positions were squeezed and a large Oracle corporate bond issue was hedged, but the data reversed most of those losses to close +3bp.

The US dollar was moderately stronger on the selloff in risk. **EUR**, which had earlier ground higher to 1.4150, fell quickly to 1.4000. **GBP** spiked to 1.6745 at the London open, but slid thereafter to 1.6425, the negative surprise to the UK GDP revision (-2.2% q/q is the biggest contraction since 1958) helping it on its way. **USD/JPY** rose from 95.30 to 96.50, yesterday's poor Japanese jobs data denting the yen.

**AUD** fell from 0.8155 to 0.8040 on the broad-based flight from risk. An article from influential columnist Terry McCrann, suggesting no rate cut next Tuesday, had no currency impact.

**NZD** fell from 0.6550 to 0.6440, and the AUD/NZD cross rallied to a 1.2520 high.

**US Chicago PMI rose from 34.9 to 39.9 in June**, with gains across all of the components – orders, production, prices paid and jobs. This survey has underperformed in the last couple of months, reflecting the region's exposure to the auto industry during the partial shutdowns by GM and Chrysler.

**US NAPM Milwaukee rose from 43 to 50 in June**, making it the second regional factory survey to suggest that activity is no longer contracting.

**US Conference Board consumer confidence fell from 54.8 to 49.3 in June**, against market expectations of a small gain. Present conditions fell from 29.7 to 24.8, while expectations fell from 71.5 to 65.5. Inflation expectations rose from 5.6% to 5.9%, which may explain some of the drop in confidence – there is evidence that consumers in this survey are more inflation-sensitive than in other surveys.

**US Case Shiller house price index fell 0.6% in Apr**, a much improved result compared to the 2%+ monthly declines seen since Oct last year. Indeed, prices actually rose in eight of the 20 cities covered in the survey. The annual rate of decline eased from 18.7% to 18.1%.

**Japanese data:** The Nomura manufacturing PMI improved from 46.6 to 48.2 and the small business confidence survey rose from 34.1 to 38.0. The unemployment rate rose to 5.2% in May (on expectations). The jobs-to-applicants ratio fell to 0.44 from 0.46, indicating that the economy is not generating anywhere near enough job opportunities to either absorb new entrants or the newly redundant. Real household spending is up 0.3%yr. Housing starts fell to an annualised level of 758k in May, well below expectations of an 800k rise. Construction orders also tumbled, down 41.9%yr in May after falling 25.9%yr in April.

**Eurozone flash CPI estimate fell to -0.1%/y in June**, the first annual decline since the series began in 1996. Meanwhile, money supply growth slowed more than expected, with annual growth falling from 4.9% to 3.7%. These weak outcomes continue to provide ex-post justification for the ECB's monetary policy easing.

**German unemployment rose by 31k in June**, less than market forecasts. The unemployment rate ticked up to 8.3%.

**UK Q1 GDP was revised from -1.9% to -2.4%** in the final estimate, making it the largest quarterly drop since 1958. The biggest downward revisions were in construction and services, reflecting changes in the calculation methodology.

**UK Nationwide house prices rose 0.9% in June**, following a 1.3% rise in May. While the other myriad house price measures haven't shown the same degree of strength, there is growing evidence that the UK housing market is at least stabilising.

## Outlook

Currency market volatility is likely to be rise during the next 48 hours, a consequence of tonight's US ISM manufacturing survey, tomorrow's US payroll data, and the week ending a day early in the US. NZD could range as wide as 0.6350 to 0.6600 for the remainder of this week, with a bias towards the upside. Today's Westpac employment confidence report for Q2 (released at 2pm) is not yet widely publicised, so market reaction may be minimal.

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With contributions from Westpac Economics