

Morning Report

Foreign Exchange Market

	Previous Range		Today's Open		Expected
	Asia	Overnight	8.00am NZD cross	Range Today	
NZD	0.7625-0.7668	0.7645-0.7696	↑0.7708		0.7680-0.7750
AUD	0.9189-0.9234	0.9205-0.9274	↑0.9308	↓0.8281	0.9280-0.9350
JPY	114.53-114.81	114.53-115.51	↑115.38	↑88.930	115.00-115.60
EUR	1.4428-1.4455	1.4419-1.4473	↑1.4465	↑0.5329	1.4440-1.4490
GBP	2.0674-2.0709	2.0683-2.0791	↑2.0789	↑0.3708	2.0760-2.0820

NZ Domestic Market (Previous day's closing rates)

Cash Curve		Govt Stock		Swap Rates (Qtrly)	
Cash	8.25%	Jul-08	7.21%	1 Year	8.76%
30 Days	8.50%	Jul-09	7.17%	2 Years	8.62%
60 Days	8.60%	Nov-11	6.96%	3 Years	8.43%
90 Days	8.64%	Apr-13	6.84%	4 Years	8.27%
180 Days	8.76%	Apr-15	6.55%	5 Years	8.14%
1 Year	8.96%	Dec-17	6.45%	7 Years	7.96%
				10 Years	7.77%

World Bourses and Indices

AUD			USD		
Cash	6.50%	0.00	Fed Funds	4.50%	-0.25
90 Day	7.01%	+0.03	3 Mth Libor	4.89%	-0.02
5 Year Bond	6.62%	+0.11	10 Year Notes	4.45%	+0.06
10 Year Bond	6.22%	+0.08	30 Year Bonds	4.73%	+0.05
NZX 50	4209.1	-10.7	CRB	349.7	+3.7
All Ords	6779.1	+6.6	Gold	790.2	+6.6
Nikkei	16737.6	+86.6	Copper	7762.0	-100.0
FT100	6721.6	+62.6	Oil (WTI)	94.24	+2.55
DJI	13875.8	+90.1	NZ TWI	71.08	+0.15

Events Today

Country	Release	Last	Forecast
Aus	Sep Retail Sales	0.7%	0.3%
	Q3 Real Retail Sales	-0.2%	1.5%
	Sep Trade Balance AUDbn	-1.61	-0.95
US	Oct Corporate Layoff Announcements	72k	n/f
	Sep Core PCE Deflator	0.1%	0.2%
	Sep Personal Income	0.3%	0.5%
	Sep Personal Consumption	0.6%	0.5%
	Initial Jobless Claims w/e 27/10	331k	335k
	Oct ISM Manufacturing	52.0	52.5
	Oct Auto Sales mn ann'lsd	16.2	16.0
UK	Oct House Prices %yr	10.7%	n/f
	Oct PMI Manufacturing	55.1	54.2

Latest Research Papers/Publications

- NZ Q3 labour market preview (31 October)
- NZ Weekly Forex Outlook (29 October)
- RBNZ OCR Review (25 October)
- NZ Interest Rate Focus (25 October)
- NZ Weekly Forex Outlook (23 October)
- Oil slick contaminates inflation (19 October)

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

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New Zealand dollar

Business confidence gives NZD timely boost. The NZD opened just above 0.7650 and with a market reluctant to take on fresh positions ahead of the FOMC announcement all the early focus was on the NZD/AUD cross which faced renewed downward pressure after key support around the 0.8300 level was broken. This saw the NZD trade as low as 0.7625 against the USD. However, it managed to recover after a solid domestic business confidence report hit the wires. Overnight the NZD was well contained in a 50 point range just under 0.7700 but this morning spiked higher to 0.7735 after the FOMC announced a 25bps cut.

Australian dollar

AUD higher on strong building approvals data. The AUD opened on its lows just below 0.9200 but steadily ground higher throughout the day aided by better than expected building approvals data with the market nudging up the odds of a December move from the RBA. AUD/NZD was the main benefactor as it traded through the 1.2050 level for the first time since August 2006. An intra-day high of 0.9234 was seen before the AUD went into consolidation mode ahead of the FOMC. Overnight was a steady grind higher to 0.9270 then a sharp jump to 0.9340 after the announcement. It has since eased back from this level to currently sit just under 0.9320.

Major currencies

USD falls further despite expected US interest rate cut. The USD fell to a record low against the euro after the Federal Reserve cut interest rates by an expected 0.25%, stating that the pace of economic growth will slow this year but that strains on financial markets have eased. The statement mentioned that core inflation had improved modestly, but increases in energy and commodity prices may put renewed upward pressure on inflation; there was also a comment that the pace of economic expansion would likely slow in the near term, partly driven by weakness in the housing market. Prior to the rate release the USD gained ground on stronger-than-expected US private-sector jobs data and advanced GDP estimates which suggests the economy grew at its fastest pace in Q3 since the beginning of this year.

Economic data and events

US Fed cut its funds target by 25bp to 4.50%. The statement said that growth and inflation risks are now explicitly balanced (the balance was not specified after the Sep 18 cut), and the decision to cut was not unanimous (Hoening dissented for no change). That suggests the Fed's intention was to not provide any future direction on rates at this stage.

Strong US GDP the highlight of a busy data day. The highlight was Q3 GDP growth which accelerated to just shy of 4% in Q3, impressive for the quarter when the credit crunch really bit. The deepening housing slump was offset by healthy consumer spending, stronger than expected business investment, renewed stock-building, surging exports and only slight moderation in govt spending.

Other US data. Steady wages, slower benefits constrained the ECI to a 0.8% Q3 growth rate. ADP private payrolls grew 106k in Oct. The Chicago PMI provided a weak counterpoint to the other robust data, dropping to 49.7 in Oct, but the equivalent Milwaukee and New York surveys were solid.

Bank of Japan leaves rates on hold via 8:1 vote.

Japanese earnings data remain subdued. Ordinary earnings fell 0.5%yr in Sep while overtime payments rose 1.4%. Hours worked were also soft, falling 2.3% on the year, down from -0.6% in August. Overtime hours increased to 1.9%yr from 1.1%. Overall employment levels rose 1.6%yr, unchanged from the prior month.

Canadian GDP growth was 0.2% in Aug, the same as in June and July.

The European sentiment surveys covering the household sector and business were mostly sharply weaker again in October. However the jump in inflation to 2.6% this month helps emphasise the European Central Bank's view that while growth risks are to the downside, inflation risks are to the upside. Also Euroland unemployment eased to 7.3% and German retail sales jumped 2.3% (both Sep).

UK Consumer confidence fell 8 in Oct, its lowest since the start of the year, but house prices on the Nationwide BS measure jumped 1.1%, further eroding pessimism surrounding the near-term economic outlook.