

# Morning Report

## Foreign Exchange Market

	Previous Range		Today's Open		Expected
	Asia	Overnight	8.00am NZD cross	Range Today	
NZD	0.7168-0.7232	0.7193-0.7275	↑0.7269		0.7200-0.7320
AUD	0.8955-0.9048	0.9020-0.9119	↑0.9101	↑0.7987	0.9040-0.9140
JPY	90.04-90.43	90.20-91.05	↑90.94	↑66.100	90.30-91.30
EUR	1.4679-1.4734	1.4723-1.4847	↑1.4848	↑0.4896	1.4800-1.4900
GBP	1.6392-1.6456	1.6417-1.6592	↑1.6564	↑0.4388	1.6500-1.6600

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

Cash Curve	Govt Stock	Swap Rates (Qtrly)
Cash 2.50%	Nov-11 4.25%	1 Year 3.48%
30 Days 2.78%	Apr-13 5.04%	2 Years 4.49%
60 Days 2.78%	Apr-15 5.45%	3 Years 5.07%
90 Days 2.80%	Dec-17 5.69%	4 Years 5.42%
180 Days 2.93%	May-21 5.99%	5 Years 5.64%
1 Year 3.41%		7 Years 5.91%
		10 Years 6.18%

## World Bourses and Indices

AUD			USD		
Cash	3.50%	0.00	Fed Funds	0.00-0.25%	
90 Day	3.95%	+0.02	3 Mth Libor	0.28%	0.00
5 Year Bond	5.21%	+0.02	10 Year Notes	3.51%	+0.03
10 Year Bond	5.53%	-0.01	30 Year Bonds	4.37%	+0.03
NZX 50	3166.7	+7.7	CRB	276.3	+0.1
All Ords	4547.6	+7.6	Gold	1088.1	+3.9
Nikkei	9844.3	+41.3	Copper Fut.	298.55	+2.95
FT100	5107.9	+70.7	Oil (WTI)	79.99	+0.75
DJI	9889.0	+110.8	NZ TWI	65.17	+0.25

## Upcoming Events

Date	Country	Release	Last	Forecast
5 Nov	NZ	Q3 HLFs Employment	-0.5%	-0.2%
		Q3 HLFs Unemployment	6.0%	6.5%
	Aus	Sep Int'l Trade Balance, AUDbn	-1.524	-2.20
		RBA Governor Stevens speaking		
	US	Q3 Productivity % annualised	6.6%	5.4%
		Q3 Unit Labour Costs % ann'l'sd	-5.9%	-2.9%
		Initial Jobless Claims w/e 31/10	530k	522k
		Oct Chain Store Sales %yr	0.1%	-
	Jpn	Bank of Japan Minutes		
	Eur	Sep Retail Sales	-0.2%	0.2%
ECB Rate Decision		1.00%	1.00%	
UK	Sep Industrial Production	-2.5%	2.2%	
	BoE Rate Decision	0.50%	0.50%	
	BoE Asset Purchase Target	175	200	
Can	Sep Building Permits	7.2%	1.8%	
	Oct Ivey PMI nsa	61.7	58.0	
6 Nov	Aus	Oct AiG PCI	50.8	-
		RBA Statement on Monetary Policy		
		RBA Dep. Gov. Battellino speaking		
	US	Oct Non-farm Payrolls Change	-263k	-150k
	Oct Unemployment Rate %	9.8%	10.0%	

## News and views

**Better risk appetite last night was helped by components in the ISM services report**, such as that showing new order rose, and speculation the Federal Reserve's (FOMC) meeting shortly will continue to signal record low rates for an extended period. The S&P500 rose sharply at the open and then consolidated, currently up 1.0%. Banking stocks underperformed, down 1.2%. Oil is up 1.1%, a report showing a surprise drop in imports and refineries less active. Gold posted a record high of \$1096 on the dollar's weakness. US 10yr notes rose 5bp after Sydney closed.

The US dollar fell to the low end of its weekly range in advance of the Fed meeting. **EUR** left Sydney at 1.4726 and climbed to 1.4845. Shunning safe havens proved worse for the **yen**, weakening to 91.00 against the dollar. **CAD** was subdued by central bank rhetoric, unchanged at 1.0650.

**AUD** closed the domestic session at 0.9114 and then formed another leg higher to 0.9118.

**NZD** rose from 0.7200 to 0.7275. AUD/NZD did little, happy to consolidate its recent gains around 1.2540.

**The US Fed left rates unchanged at 0-0.25%** following this week's FOMC meeting. The statement acknowledged recent better economic data but assessed that "conditions in financial markets were roughly unchanged, on balance, over the intermeeting period", and the conclusion that "economic activity is likely to remain weak for a time" was unchanged from the September statement. The big news of course was that the clause "economic conditions ... are likely to warrant exceptionally low levels of the federal funds rate for an extended period" was also preserved in its entirety.

**US ISM non-manufacturing slipped by 0.3 pts to 50.6 in October**, mainly because of a 3.2 pt decline in the employment index, which took it to its lowest since May. However the activity index edged up slightly and new orders rose to a two year high. Despite the soft jobs news, this report suggests that services will contribute a little more to Q4 GDP growth than in Q3, which looked to be predominantly a factory-driven growth story.

**US ADP private payrolls down 203k in Oct**, continuing to show an improving labour market, although it has lagged the official payrolls data somewhat. Layoff announcements continued to diminish as well last month. Given these developments, and the weaker ISM non-factory jobs index, we remain comfortable with our forecast for a 150k non-farm payrolls decline (data due Friday night), whereas the various factory surveys earlier this week and late last month had suggested we might need to revise our forecast a little higher (i.e. to a smaller fall).

**Euroland Oct services PMI revised higher from 52.3 to 52.6** indicates the Euroland services sector is now more clearly expanding. Also Euroland producer prices fell 0.4% in September, but base effects limited the slippage in the annual pace of decline to 0.2 ppts, to -7.7% yr.

**The UK services PMI continues to rise, to 56.9 in Oct**, its highest in over two years, adding to the weight of evidence pointing to an end to the recession in Q4 (though the Q3 signals were also persuasive - yet wrong!). In other news, consumer confidence was unchanged last month according to the Nationwide index, and there were no big swings in shop price inflation, which was 0.0% yr in Oct.

## Outlook

**AUD/USD and NZD/USD outlook today:** Yesterday's bounces in these currencies should continue today, barring a hawkish shock from the FOMC. AUD should be supported at 0.9050 and we favour it moving above 0.9120 towards 0.9200. Similarly for NZD which has support at 0.7230 for an advance past 0.7275 towards 0.7300. Events to watch for today are the FOMC at 8:15am (NZT), RBA's Stevens speaking, RBNZ's Bollard speaking, and the NZ employment report.

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With contributions from Westpac Economics