

Morning Report

NZX 50	4185.5	-26.1	CRB	300.4	-1.5	AUD			USD		
All Ords	5872.9	+2.0	Gold	658.5	+5.1	Cash	6.25%	0.00	Fed Funds	5.25%	0.00
Nikkei	17292.5	+0.2	Oil (WTI)	57.86	-0.51	90 Day	6.37%	-0.01	3 Mth Libor	5.36%	0.00
FT100	6346.4	-23.1	NZ TWI	68.27	+0.21	5 Year Bond	5.98%	+0.02	10 Year Notes	4.73%	-0.03
DJI	12629.3	-35.4				10 Year Bond	5.82%	+0.02	30 Year Bonds	4.84%	-0.03

Foreign Exchange Market

	Previous Range	Today's Open	Expected
Asia	Overnight	8.00 am NZD cross	Range Today
NZD	0.6843 - 0.6894	0.6846 - 0.6879	↑0.6868
AUD	0.7763 - 0.7813	0.7785 - 0.7815	↑0.7814 ↓0.8789
JPY	120.58 - 120.92	120.76 - 121.44	↑121.15 ↑83.210
EUR	1.3011 - 1.3024	1.2975 - 1.3043	↓1.3034 ↑0.5269
GBP	1.9692 - 1.9724	1.9542 - 1.9730	↓1.9574 ↑0.3509

NZ Domestic Market (Previous day's closing rates)

	Cash Curve	Govt Stock	Swap Rates (Qtrly)
Cash	7.25%	Jul-08	6.73%
30 Days	7.55%	Jul-09	6.56%
60 Days	7.64%	Nov-11	6.35%
90 Days	7.71%	Apr-13	6.15%
180 Days	7.88%	Apr-15	5.99%
1 Year	8.03%	Dec-17	5.95%
			10 Years
			7.87%
			2 Years
			7.77%
			3 Years
			7.52%
			4 Years
			7.40%
			5 Years
			7.29%
			7 Years
			7.06%
			10 Years
			6.92%

New Zealand Dollar

Employment data gives NZD boost

Q4 employment data was released yesterday and, while the data was slightly off market expectations, they were robust numbers proving the labour market is still tight and that wage pressures are still evident. The NZD immediately rallied from 0.6830 to 0.6494 and traded around 0.6875 for the remainder of the local session. Volatility continued offshore and the NZD bounced between 0.6845 and 0.6880 with plenty of liquidity and good two-way flows. We open under pressure this morning as Fin Min Cullen, in an early morning speech, says NZ is considering imposing a levy on home mortgages to slow construction growth.

Australian Dollar

Aust unemployment at 30 year low

The AUD remained relatively quiet on Thursday as many other currencies exhibited increased volatility. Aust employment data for Jan came in slightly weaker-than-expected but when put in context with other recent jobs data shows that unemployment will remain low going into 2007. The AUD rallied from 0.7765 to 0.7810 after the number. Overnight the AUD gave back all its gains and then rallied back to the high at 0.7815 on the close.

Major Currencies

Euro remains firm following Trichet comments

The euro has bounced off overnight lows of 1.2975 to a high of 1.3043 following the ECB meeting where interest rates were left on hold but President Trichet remarks used the phrase "strong vigilance" on the method of controlling euro zone inflation. The yen has continued to weaken to an overnight high of 121.44 on the back of the stronger euro and comments from a BoJ member stating that a weak yen is positive for the Japanese economy. The BoE kept interest rates unchanged overnight which resulted in GBP selling after a small chance of a surprise rate hike had been previously priced into the currency.

Japanese bank lending growth held steady in Jan at 1.8%yr. The "core" series was also unchanged at 2.8%yr. M2+CDs edged up to

1.0%yr from 0.8% in Dec, while M1 contracted 0.1%yr. The average credit to nominal GDP ratio in Q4 was 0.78, up from -0.5 a year before.

US wholesale inventories fall 0.5% in Dec. The rare decline in wholesale inventories, and a downward revision to Nov, could signal a sizeable downward revision to the inventory-building contribution to Q4 GDP. By itself, that could see GDP shaved back to around 3% annualised from 3.5% in the advance report – but there may be offsetting revisions in the trade data (i.e. imports get revised down as well).

US initial jobless claims up 3k to 311k. Now largely holiday distortion-free, claims appear to be settling in a range a little above 300k per week, which is consistent with the jobs market ticking over at a decent pace (even if claims can't fall back below 300k where they were when the weather was unusually mild). The sharp 54k fall in continuing claims in the prior week also supports that positive interpretation.

Two extremes of data from the Canadian housing sector. Housing starts bounced 17% in Jan, lifted by a 31% surge in the multiples category, although single family starts were solid too, up almost 6%. That said, recent softer news on permits suggests starts might be softer in coming months. Meanwhile, back in Dec, new house prices failed to rise at all, their weakest monthly outcome in 7 years.

The European Central Bank left its repo rate unchanged at 3.50% following last night's Council meeting. However ECB chief Trichet warned that "strong vigilance remains of the essence so as to ensure that risks to price stability over the medium term do not materialise". That is code for "expect a rate rise in March".

The Bank of England left rates on hold at 5.25% following this week's monetary policy committee meeting. Next week the Bank will publish in quarterly inflation report which will provide guidance about the likely future direction of rates. We see the BoE on hold for the time being, though risks are still skewed to the upside. On the data front, house price inflation was steady at 9.9% yr in Jan, according to HBoS.

Events Today

Country	Release	Last	Forecast
Aust	Dec Housing Finance (no.)	-0.6%	1.0%
US	Fedspeak: Poole		
Jpn	Dec Machinery Orders	3.8%	3.0%
Ger	Dec Industrial Production	1.8%	0.5%
UK	Dec Global Visible Trade Balance £bn	-7.2	-6.9
Can	Jan Employment Ch'	62k	-5k
G7	Dec OECD Leading Index	105.5	n/f
	Ministers Meet In Essen		

Latest Research Papers/Publications

- NZ Q4 HLFS Review (8 February)
- NZ Q4 LCI and QES Review (5 February)
- NZ Weekly Forex Outlook (5 February)
- Labour force participation in NZ (31 January)
- The will to work (31 January)
- NZ Q4 labour market preview (30 January)
- NZ Weekly Forex Outlook (29 January)
- NZ Economic Overview January 2007 (25 January)

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