

Morning Report

Foreign Exchange Market

	Previous Range		Today's Open		Expected
	Asia	Overnight	8.00am NZD cross	Range Today	
NZD	0.6435-0.6467	0.6386-0.6481	↓0.6389		0.6360-0.6440
AUD	0.8037-0.8080	0.8024-0.8109	↑0.8071	↓0.7916	0.8030-0.8100
JPY	96.17-97.00	96.25-96.97	↑96.63	↓61.740	96.30-97.00
EUR	1.4000-1.4054	1.4018-1.4202	↑1.4148	↓0.4516	1.4100-1.4180
GBP	1.6412-1.6488	1.6381-1.6546	↑1.6480	↓0.3877	1.6440-1.6520

NZ Domestic Market (Previous day's closing rates)

Cash Curve	Govt Stock	Swap Rates (Qtrly)
Cash 2.50%	Jul-09 2.60%	1 Year 3.00%
30 Days 2.78%	Nov-11 3.77%	2 Years 3.78%
60 Days 2.80%	Apr-13 4.76%	3 Years 4.50%
90 Days 2.80%	Apr-15 5.40%	4 Years 4.97%
180 Days 2.81%	Dec-17 5.92%	5 Years 5.28%
1 Year 2.93%	May-21 6.44%	7 Years 5.62%
		10 Years 5.95%

World Bourses and Indices

AUD		USD	
Cash 3.00%	0.00	Fed Funds 0.00-0.25%	
90 Day 3.16%	-0.03	3 Mth Libor 0.59%	-0.01
5 Year Bond 5.15%	-0.07	10 Year Notes 3.54%	+0.01
10 Year Bond 5.50%	-0.02	30 Year Bonds 4.34%	+0.02
NZX 50 2780.4	-15.7	CRB 251.2	+1.2
All Ords 3872.3	-75.5	Gold 939.8	+12.8
Nikkei 9939.9	-18.5	Copper Fut. 233.75	+6.55
FT100 4340.7	+91.5	Oil (WTI) 69.32	-0.50
DJI 8504.1	+57.1	NZ TWI 60.20	-0.77

Events Today

Country	Release	Last	Forecast
NZ	Jun ANZ Commodity Prices	2.7%	-
Aus	May International Trade Balance, AUDbn	-0.09	-0.7
US	Jun Non-Farm Payrolls chg	-345k	-400k
	Jun Unemployment Rate	9.4%	9.6%
	Initial Jobless Claims w/e 27/6	627k	610k
	May Factory Orders	0.7%	2.0%
Eur	May Unemployment Rate	9.2%	9.5%
	May Producer Prices %yr	-4.6%	-5.2%
	ECB Rate Decision	1.00%	1.00%
UK	PMI Construction	45.9	46.0

Latest Research Papers/Publications

- NZ Q2 Employment Confidence Index (1 July)
- NZ Weekly Forex Outlook (29 June)
- NZ Q1 GDP Review (26 June)
- NZ Q1 Current Account Review (25 June)
- NZ Q2 Consumer Confidence (24 June)
- NZ Weekly Forex Outlook (24 June)
- Funding it tough (23 June)

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

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News and views

US economic data last night had a mildly bearish tone overall – ADP payrolls were weaker than expected (although this series is acknowledged to be a poor indicator of the more important non-farm payrolls series), ISM manufacturing met consensus, and construction spending and pending home sales were weaker. The S&P500 opened 10 points higher, but lost ground from then on to close +0.4%. US 10yr treasuries are unchanged, although the front end of the curve is 6bp lower. NAB issued USD 2.75 billion 5yr government guaranteed bonds at swap + 50bp.

The US dollar followed equities' lead and weakened throughout the London session, losing around 0.7%. China popped up late in the day asking for the next G8 meeting to discuss the global reserve currency, to little effect. **EUR** posted a strong rally to 1.4200, a story on the magnitude of European banks' potential losses unable to dampen the move. **GBP** underperformed, initially gaining 1.5 cents to 1.6550, but slipping back to 1.6470.

AUD rebounded from its Sydney closing low of 0.8025 to 0.8108, but has slipped during the past few hours to 0.8080.

NZD was the underperformer of the evening, weighed by fears of large outflows from NZD Eurobonds in July, as well as another weak Fonterra milk powder auction (down 3% since last month). From the Sydney closing high of 0.6475, it fell to 0.6387 (the milk result was immediately worth around -30 pips), staged a small rally, and is back near the lows as we write. AUD/NZD is higher at 1.2630.

US ISM factory index up from 42.8 to 44.8 in June. The ISM factory survey posted its sixth consecutive monthly gain, just bettering our 44.5 June forecast, although at 44.8 that still represents a significant pace of industrial decline. Within the June detail we see an encouraging rise in the production index but renewed modest slippage in orders (which had turned positive in May).

US construction spending fell 0.9% in May, with weakness in housing and public spending more than offsetting unexpected strength in the private non-residential component, which if sustained may require us to tweak higher our forecast contribution from business investment to Q2 GDP growth. Also, pending sales of existing homes posted their fourth consecutive gain, up just 0.1% in May, but up 12.8% from their recent low-point in January. In contrast, completed existing home sales were up just 6.2% compared to the start of this year. This result suggests there is still some upward momentum (from very depressed levels) in the house sale data, even if it mainly driven by the distressed sales of foreclosed houses at knock-down prices.

ADP estimates that US private payrolls fell 473k in June, a marginal improvement on the revised 485k fall estimated for May. Now we know that in May ADP was significantly weaker than the official BLS payrolls report; if that were to continue in June, then payrolls might show an even smaller fall than in May. Or, ADP might be signalling that May's payrolls outcome overstated the improvement taking place in the labour market. We somewhat favour that latter scenario. Our forecast for total payrolls in June, out tomorrow Thursday July 2, is for a 400k fall.

German retail sales up 0.4% in May, their third consecutive monthly gain, enough to reverse most of the steep fall in sales at the start of the year, although the annual sales pace of -2.9% yr is still quite negative, partly a function of one less trading day in May this year.

UK factory PMI 47.0 in June. As with most factory PMIs from around the world, the UK index was stronger in June, for the fourth month running, implying a significantly slower pace of contraction in the industrial sector in Q2, compared to earlier this year.

Outlook

Global sentiment towards NZD has deteriorated during the past two days, but as we pointed out earlier, tonight's US payrolls report is the week's major event risk. We expect a better than consensus outcome, which should at least support NZD for a day or two. Next week, though, risk aversion should start reasserting itself, with the seasonal Q3 volatility spike, US data poised to disappoint, US mortgage defaults likely to rise, and Chinese support for commodities likely to stall. Today, 0.6480 should cap domestic price action, with a risk of 0.6550 after tonight's payrolls report.

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With contributions from Westpac Economics