

Morning Report

Foreign Exchange Market

	Previous Range		Today's Open		Expected
	Asia	Overnight	8.00am NZD cross	Range Today	
NZD	0.5282-0.5348	0.5251-0.5343	↑0.5296		0.5200-0.5400
AUD	0.6399-0.6474	0.6396-0.6487	↑0.6416 ↓0.8254		0.6350-0.6500
JPY	92.86-93.65	92.53-93.41	↓92.78 ↓49.140		92.20-93.60
EUR	1.2683-1.2743	1.2603-1.2730	↓1.2660 ↑0.4183		1.2600-1.2720
GBP	1.4865-1.4935	1.4662-1.4900	↓1.4717 ↑0.3599		1.4680-1.4800

NZ Domestic Market (Previous day's closing rates)

Cash Curve	Govt Stock	Swap Rates (Qtrly)
Cash 6.50%	Jul-09 4.65%	1 Year 4.74%
30 Days 5.54%	Nov-11 4.45%	2 Years 4.87%
60 Days 5.46%	Apr-13 4.59%	3 Years 5.06%
90 Days 5.34%	Apr-15 4.73%	4 Years 5.20%
180 Days 5.14%		5 Years 5.28%
1 Year 4.75%	Dec-17 4.84%	7 Years 5.41%
		10 Years 5.61%

World Bourses and Indices

AUD		USD	
Cash	4.25% 0.00	Fed Funds	1.00% 0.00
90 Day	4.53% +0.11	3 Mth Libor	2.19% -0.01
5 Year Bond	3.70% -0.06	10 Year Notes	2.67% -0.03
10 Year Bond	4.20% -0.14	30 Year Bonds	3.19% -0.01
NZX 50	2706.8 +55.7	CRB	227.4 -4.6
All Ords	3476.5 +3.1	Gold	768.0 -12.4
Nikkei	8004.1 +140.4	Copper	3535.5 -35.5
FT100	4170.0 +47.1	Oil (WTI)	47.36 -1.58
DJI	8462.8 +41.9	NZ TWI	54.11 +0.14

Events Today

Country	Release	Last	Forecast
NZ	RBNZ Monetary Policy Review	6.50%	5.50%
Aus	Oct Trade Balance AUDbn	1.46	1.8
	Oct Dwelling Approvals	-7.2%	-1.0%
US	Initial Jobless Claims w/e 29/11	529k	544k
	Oct Factory Orders	-2.5%	-7.0%
	Nov Chain Store Sales %yr	-0.9%	-1.0%
Jpn	Q3 Capital Spending %qtr	-6.5%	-9.8%
Eur	Q3 GDP (Prelim)	-0.2% a	-0.2%
	ECB Rate Decision	3.25%	2.50%
UK	BoE Rate Decision	3.00%	2.00%
Can	Oct Building Permits	13.4%	-5.0%
	Nov Ivey PMI	52.2	49.0

Latest Research Papers/Publications

- NZ Weekly Forex Outlook (1 December)
- RBNZ MPS Preview (28 November)
- NZ Weekly Forex Outlook (24 November)
- NZ Weekly Forex Outlook (17 November)
- NZ Q3 Retail Sales Review (13 November)
- NZ Economic Overview November 2008 (11 November)

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 equities held their ground last night, on more stimulatory noises from the Fed, who will buy USD500 billion of mortgage and agency debt. This sent US lending rates lower. The data was typically negative, ISM non-manufacturing employment hitting a record low, and a private forecaster, ADP, estimating the US lost 250,000 jobs in November – lower than the economist's consensus. At the time of writing, both the Dow and the S&P500 have slipped to just under the previous close.

Last night, the NZD ranged between the short-term 0.5250 support and 0.5350 resistance levels we mentioned in yesterday's report, and was expectedly lacklustre ahead of the RBNZ meeting at 9am this morning. It currently is at 0.5290.

A similar range for a subdued AUD, around 64 to 65 cents last night, they too aware of the potential impact of the pending RBNZ announcement, particularly on the AUD/NZD cross which has settled for now slightly above 1.21.

More negative data from Eurozone, PMI services lower than expected at 42.5, and retail sales at -2.1% yoy (-1.5% was expected), while the UK, a consumer confidence reading 50 was also below expectations. One positive was the UK's announced plan to allow households to defer mortgage interest payments for 2 years. EUR and GBP sold off on the bad data, to around 1.26, and 1.49, currently higher at 1.2650 and 1.4730, respectively. USD/JPY has hardly budged from 93.

US ISM non-manufacturing drops from 44.4 to 37.3 in Nov, to its lowest since the survey's inception in 1997. This provides yet more evidence that the modest contraction in economic growth reported for Q3 will deepen in Q4.

US ADP private payrolls down 250k in Nov. The sharp fall in the ADP measure of private payrolls for Nov represents a further serious downturn in this particular jobs indicator. Recently, ADP has on average reported a fall in non-government jobs about 110k less than the official BLS private payroll estimate. If that relationship were to hold in Friday's report, Nov payrolls might be expected to fall by around 340k (-360k for private payrolls plus about 20k for government jobs which rarely fall). And -340k happens to be our long-standing forecast for Nov non-farm payrolls. Still on the labour market, corporate layoff announcements totalled 182k in November, up 148% compared to the same month last year. Unsurprisingly financial companies topped the list with 91k layoffs.

US Beige Book: weaker overall activity across the US. Economics activity has weakened across all 12 Fed districts, since early October, while price pressures have eased with the declines in retail and energy prices. Manufacturing activity declined noticeably. Labour markets weakened as firms in many districts reported accelerating layoffs, and wage pressures were largely subdued. Consumer spending slumped, with retail sales decreasing, and vehicle sales declining sharply in most regions. Housing markets remained weak, with sales down and selling prices lower in almost every region. Lending contracted and lending standards tightened. In summary, the report portrayed grim conditions in most areas of economic activity, and supports a 50bp cut at the 15-16 December meeting.

Euroland services PMI was revised down by a steep 0.8 pts to 42.5 in Nov, indicating even weaker mid-quarter services sector activity in Q4, following Q3's consistently sluggish outcomes. This is a solid signal that Q3's 0.2% GDP contraction will be followed by a steeper decline in the current quarter (we now expect -0.5%). Also, retail sales, already sluggish, lost more momentum in October, down 0.8%.

UK services PMI slumped to 40.1 in Nov, a fresh low in the twelve year history of the series. Along with very weak factory and construction PMIs, this confirms that the UK recession is deepening. We expect Q4 GDP to contract 1.0%, following Q3's 0.5% fall. Also, consumer confidence fell to a record low (although the Nationwide index has only been surveyed since 2004) despite aggressive rate cuts from the Bank of England and falling petrol prices – people are more worried about the economic outlook and their job prospects. Also the BRC reported shop prices decelerating further to 2.7% yr in November.

Outlook

While we maintain our weak bias for the NZD, today's price action will be determined by the RBNZ's OCR announcement at 9am. A 100bp rate cut will see NZD fall, likely through the 0.5250 support and target 0.5200, while a 150bp cut may see a small and temporary bounce, but ending the day largely neutral.

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With contributions from Westpac Economics