

# Morning Report

## Foreign Exchange Market

	Previous Range		Today's Open		Expected
	Asia	Overnight	8.00am NZD cross	Range Today	
NZD	0.6375-0.6424	0.6282-0.6400	↓0.6293		0.6250-0.6330
AUD	0.8033-0.8099	0.7935-0.8055	↓0.7946	↑0.7920	0.7900-0.7980
JPY	96.38-96.72	95.70-96.89	↓95.91	↓60.360	95.40-96.40
EUR	1.4102-1.4160	1.3988-1.4128	↓1.4002	↓0.4494	1.3950-1.4030
GBP	1.6452-1.6501	1.6323-1.6570	↓1.6404	↓0.3836	1.6350-1.6430

## 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 3.73%	2 Years 3.71%
60 Days 2.79%	Apr-13 4.72%	3 Years 4.44%
90 Days 2.81%	Apr-15 5.34%	4 Years 4.90%
180 Days 2.81%	Dec-17 5.87%	5 Years 5.20%
1 Year 2.92%	May-21 6.35%	7 Years 5.53%
		10 Years 5.86%

## World Bourses and Indices

AUD		USD	
Cash	3.00% 0.00	Fed Funds	0.00-0.25%
90 Day	3.13% -0.03	3 Mth Libor	0.58% -0.01
5 Year Bond	5.10% -0.05	10 Year Notes	3.50% -0.04
10 Year Bond	5.41% -0.09	30 Year Bonds	4.32% -0.02
NZX 50	2768.2 -12.2	CRB	245.9 -5.3
All Ords	3875.2 2.9	Gold	929.5 -10.3
Nikkei	9876.2 -63.7	Copper Fut.	230.60 -2.45
FT100	4234.3 -106.4	Oil (WTI)	66.68 -2.64
DJI	8329.4 -212.3	NZ TWI	59.64 -0.56

## Upcoming Events

Date	Country	Release	Last	Forecast
3 Jul	Aus	Jun AiG PSI	39.9	-
	US	Independence Day Holiday		
	Eur	Jun PMI Services (F)	44.5 a	44.5
		May Retail Sales	0.2%	0.0%
	UK	Jun PMI Services	51.7	49.0
6 Jul		Q1 Mortgage Eq Withdrawal £bn	-8.0	-9.0
	Aus	Jun TD Securities Inflation	-0.3%	-
		Jun ANZ Job Ads	-0.2%	-
	US	Jun ISM Non-manufacturing	44.0	45.5
	Jpn	May Leading Index	76.2	-

## 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](http://www.wib.westpac.co.nz))

## News and views

**Sentiment soured after the US payrolls report**, showing more jobs lost than the market expected. The S&P500 fell immediately (via the futures contract, prior to the opening bell), the index down 2.3% near the close this morning. Oil fell 4%, copper 1%, in sympathy. US 10yr treasuries' gains were 12bp at one point, but late profit-taking resulted in a more moderate 4bp gain overall, the 2yr note outperforming at -6bp. US 3mth Libor was 1bp lower at 0.58%. In another surprise yesterday, Sweden's central bank cut rates by 25bp to 0.25%; only one of 20 economists polled expected it.

The USD was supported by the change in sentiment, gaining around 0.7% across a basket of currencies. EUR was already under pressure during yesterday's Sydney session, and extended that from 1.4100 to 1.3990 overnight. As expected, the ECB remained on hold and offered no comment on new monetary policy measures. GBP was only temporarily ruffled by the US data, and is roughly where it was at the London open (1.6420). Media comment urged the BoE to step up its QE program to avoid a protracted recovery.

AUD fell from 0.8050 to 0.7935 during the London session, and is consolidating just above that this morning.

NZD fell from 0.6400 to 0.6282, pausing there. AUD/NZD almost touched 1.27 after payrolls, but sits on 1.26 support this morning.

**US non-farm payrolls down 467k in June.** Payrolls fell by 467k in June, somewhat weaker than Westpac's 400k forecast decline, but certainly consistent with our view that May's fall (now revised to 322k) overstated the extent of improvement in US labour market conditions in the second quarter. The June result still leaves a less weak trend in place, with jobs down an average 395k in May-June, compared to 586k in March-April and 711k in January-February. Unemployment rate rose only 0.1 ppt to 9.5%, although we still see it hitting 10% before the end of this year. A 0.8% fall in hours worked in June, including a 1.7% drop in construction, 1.2% in factories and 0.7% in services, completes a quarter which saw hours down 7.9% annualised, little improved on the 8.9% slump in Q1 and worse than the 7.4% drop in Q4 last year. Given that Q4 and Q1 saw GDP growth down by around 6% annualised, it will take a hefty improvement in productivity in Q2 to prevent a similar sized GDP contraction in the quarter just finished. Falling hours worked and flat earnings growth in June mean constrained household income growth and hence spending is unlikely to pick up smartly anytime soon. In other jobs news, initial jobless claims fell 16k to 614k last week.

**The only new information in the US May factory orders report** was a petroleum price-driven 0.7% rise in non-durable orders; durables were unrevised at 1.8% gain.

**The European Central Bank left its repo rate unchanged at 1.00%** following today's Council meeting. There was no announcement of any addition to the ECB's €60bn covered bond purchase program, or indeed any other new measures or operations. However the Swedish Riksbank surprised by cutting its key rate 25bp to 0.50%. On the data front, Euroland unemployment kept rising to 9.5% and producer prices kept falling to -5.8% yr in May, maintaining the recent trends in both variables.

**The Bank of England's quarterly report** on credit conditions found that the supply of secured credit was improving but unsecured credit (eg credit cards) was less available. The UK construction PMI of 44.5 in June implied a slightly steeper pace of contraction in the sector last month, after three months when the pace of contraction diminished.

## Outlook

With the payroll data out of the way (along with it, upside risk to our bearish NZD view), we now expect a multi-month period of risk aversion to gradually assert itself, and push NZD lower to around the 0.55-0.58 area. The next major risks to our view lie in the mid-July US earnings results, the FOMC meeting (more QE?), and in New Zealand, next week's quarterly survey of business opinion. Technically, the NZD has broken below a 6-day ascending wedge, as well as the daily ascending support line (started March). We target 0.6250 during the next few days.

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With contributions from Westpac Economics