

Morning Report

Foreign Exchange Market

| | Previous Range | | Today's Open | | Expected |
|-----|----------------|---------------|------------------|-------------|---------------|
| | Asia | Overnight | 8.00am NZD cross | Range Today | |
| NZD | 0.7177-0.7312 | 0.7160-0.7245 | ↓0.7218 | | 0.7180-0.7250 |
| AUD | 0.9041-0.9148 | 0.9025-0.9126 | ↑0.9103 ↓0.7929 | | 0.9050-0.9150 |
| JPY | 90.30-91.34 | 89.98-90.65 | ↓90.68 ↓65.450 | | 90.00-91.00 |
| EUR | 1.4823-1.4910 | 1.4811-1.4918 | ↑1.4868 ↓0.4855 | | 1.4800-1.4900 |
| GBP | 1.6497-1.6598 | 1.6467-1.6637 | ↑1.6583 ↓0.4353 | | 1.6540-1.6640 |

NZ Domestic Market (Previous day's closing rates)

| Cash Curve | Govt Stock | Swap Rates (Qtrly) |
|----------------|--------------|--------------------|
| Cash 2.50% | Nov-11 4.26% | 1 Year 3.47% |
| 30 Days 2.77% | Apr-13 5.03% | 2 Years 4.47% |
| 60 Days 2.77% | Apr-15 5.47% | 3 Years 5.05% |
| 90 Days 2.79% | Dec-17 5.72% | 4 Years 5.41% |
| 180 Days 2.93% | | 5 Years 5.63% |
| 1 Year 3.39% | May-21 6.02% | 7 Years 5.90% |
| | | 10 Years 6.17% |

World Bourses and Indices

| AUD | | | USD | | |
|--------------|--------|--------|---------------|------------|-------|
| Cash | 3.50% | 0.00 | Fed Funds | 0.00-0.25% | |
| 90 Day | 3.98% | +0.03 | 3 Mth Libor | 0.28% | 0.00 |
| 5 Year Bond | 5.26% | +0.05 | 10 Year Notes | 3.53% | +0.02 |
| 10 Year Bond | 5.56% | +0.03 | 30 Year Bonds | 4.41% | +0.04 |
| NZX 50 | 3144.5 | -22.2 | CRB | 274.8 | -1.5 |
| All Ords | 4519.2 | -28.4 | Gold | 1088.7 | +0.6 |
| Nikkei | 9717.4 | -126.9 | Copper Fut. | 296.65 | -2.65 |
| FT100 | 5125.6 | +17.7 | Oil (WTI) | 79.89 | -0.10 |
| DJI | 9973.7 | +171.6 | NZ TWI | 64.65 | -0.52 |

Events Today

| Country | Release | Last | Forecast |
|---------|-----------------------------------|-------|----------|
| 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% |
| | Sep Wholesale Inventories | -1.3% | -1.0% |
| | Sep Consumer Credit \$bn | -12.0 | -15.0 |
| | Fedspeak: Evans and Duke | | |
| Ger | Sep Factory Orders | 1.4% | 1.0% |
| UK | Oct PPI %yr | 1.4% | 2.0% |
| Can | Oct Unemployment Change | 30.6k | 10.0k |

Latest Research Papers/Publications

- NZ Q3 HLFs Review (5 November)
- Q3 LCI and QES Review (3 November)
- NZ Weekly Forex Outlook (2 November)
- RBNZ OCR Review (29 October)
- NZ Q3 labour market preview (27 October)
- NZ Weekly Forex Outlook (27 October)

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 are higher for the fourth consecutive day, the S&P500 currently up 1.2%, as are all 10 of the industry sub-indices. Data releases (jobless claims, worker productivity) beat consensus, and bellwether Cisco Systems, the world's largest network equipment manufacturer, beat earnings estimates and talked of a positive outlook for sales fuelled by economic recovery. The VIX risk aversion index is back at 25.90 after flirting with danger level 30 early this week. Commodities were subdued, copper 1.0% lower to continue a two-week ranging pattern. US treasuries are little changed.

The US dollar is slightly lower after a choppy overnight session. **EUR** initially dipped from 1.4850 to 1.4811, then bounced to 1.4917, and slipped to 1.4850 again. The ECB's policy rate statement was neutral, but Trichet's "not all liquidity measures will be needed in future" caused the EUR to bounce briefly. **GBP** was similarly boosted by the BoE's meeting, disappointed that the quantitative easing program was only increased by £25bn, reaching 1.6636.

AUD continued slightly lower after Sydney's close to 0.9026 before rallying to 0.9124. RBA's Stevens gave an upbeat assessment of Australia's recovery prospects.

NZD also continued lower to 0.7160, but the bounce was dull to only 0.7244. As a result, the AUD/NZD cross made a post-August high of 1.2647.

US productivity growth surges. Reflecting positive GDP growth but falling jobs and hours worked in Q3, productivity growth last quarter surged 9.5% annualised, very solid as it typically is in the early stages of recovery, but not a record. Consequently unit labour costs fell 5.2% annualised, their third consecutive quarterly decline.

US initial jobless claims more than reversed their previous two weeks' gains last week, falling 20k to 512k, their lowest level since the start of 2009, and maintaining a decent downtrend. Continuing claims a week earlier posted their seventh consecutive decline, dropping to their lowest since March this year. That could simply reflect claimants running out of benefit and so dropping off the list, or it could be a further genuine sign of labour market conditions improving.

The European Central Bank left its repo rate unchanged at 1.00%. At the press conference ECB chief Trichet described rates as "appropriate" and reiterated that "the Governing Council will make sure that the extraordinary liquidity measures taken are phased out in a timely and gradual fashion" but once again there was no hint re the timing of this or indeed a more conventional monetary policy tightening, which we consider to still be up to a year away. On the data front, Euroland retail sales were down 0.7% in Sep and 3.6% over the year. Very soft.

The Bank of England left rates on hold at 0.50% and extended its asset purchase (quantitative easing) program by £25bn to £200bn, exactly as we expected.

UK industrial production failed to fully recover from August's extended summer shutdown slump, rising 1.6% in Sept, and as such output is still lower than it was back in July. This outcome could contribute to a slight downward revision to already weak Q3 GDP growth of -0.4%.

Canadian building permits up 1.6% in Sept. The rise in permits masked a 9.4% jump in the residential component, however non-res was down 9.1%. Residential permits are in a clearly strong up-trend, but the commercial property sector is still in some difficulty. Also the non-seasonally adjusted Ivey PMI, which tends to slip in October, was down only 0.5 pts to 61.2 last month, so that suggests some underlying confidence among the survey respondents.

Outlook

AUD/USD and NZD/USD outlook today: Improved risk sentiment should support AUD today at 0.9025. NZD looks less convincing, with strong resistance overhead at 0.7300. The RBA releases its Monetary Policy Statement today.

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With contributions from Westpac Economics