

Morning Report

Foreign Exchange Market				
	Previous Range		Today's Open	Expected
	Asia	Overnight	8.00am NZD cross	Range Today
NZD	0.6240-0.6379	0.6272-0.6396	↑0.6316	0.6280-0.6360
AUD	0.7861-0.7955	0.7901-0.8068	↓0.7947 ↑0.7948	0.7900-0.8010
JPY	96.52-97.88	96.08-97.27	↓96.48 ↓60.930	96.10-97.20
EUR	1.3748-1.3824	1.3800-1.3934	↑1.3838 ↓0.4564	1.3810-1.3920
GBP	1.6211-1.6329	1.6259-1.6507	↑1.6418 ↓0.3847	1.6360-1.6480

NZ Domestic Market (Previous day's closing rates)					
Cash Curve	Govt Stock		Swap Rates (Qtrly)		
Cash	2.50%	Jul-09	2.65%	1 Year	2.98%
30 Days	2.82%	Nov-11	3.76%	2 Years	3.86%
60 Days	2.82%	Apr-13	4.78%	3 Years	4.55%
90 Days	2.80%	Apr-15	5.42%	4 Years	5.00%
180 Days	2.82%	Dec-17	5.94%	5 Years	5.28%
1 Year	2.90%	May-21	6.53%	7 Years	5.66%
				10 Years	6.05%

World Bourses and Indices					
AUD			USD		
Cash	3.00%	0.00	Fed Funds	0.00-0.25%	
90 Day	3.27%	-0.03	3 Mth Libor	0.62%	0.00
5 Year Bond	4.96%	-0.07	10 Year Notes	3.66%	-0.07
10 Year Bond	5.43%	-0.07	30 Year Bonds	4.48%	-0.10
NZX 50	2786.2	-39.0	CRB	255.7	-0.7
All Ords	3957.9	-72.5	Gold	933.9	+6.6
Nikkei	9752.9	-286.8	Copper Fut.	226.50	-3.15
FT100	4328.6	+2.6	Oil (WTI)	70.47	-0.08
DJI	8505.2	-106.9	NZ TWI	60.12	-0.09

Events Today				
Country	Release	Last	Forecast	
Aus	Apr Westpac-MI Leading Index	-5.1%	-	
	Q1 Dwelling Commencements	-11.9%	-3.0%	
US	May CPI	0.0%	0.4%	
	May CPI Core	0.3%	0.2%	
	Q1 Current Account Balance \$bn	-132.8	-80.0	
	Fedspeak: Bernanke			
Eur	Apr Trade Balance €bn sa	-2.1	-1.5	
UK	Jun BoE Minutes			
	May Unemployment ch '000	57.1k	50k	
Can	May Leading Indicators	-1.1%	-0.6%	

Latest Research Papers/Publications	
•	NZ Weekly Forex Outlook (15 June)
•	RBNZ MPS Review (11 June)
•	NZ Q1 Terms of Trade (10 June)
•	NZ Agribiz June 2009 (8 June)
•	RBNZ MPS Preview (8 June)
•	NZ Weekly Forex Outlook (8 June)
•	Housing pickup unsustainable (4 June)

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

News and views

Better data. Mixed US data and consensus-beating numbers from the UK and Germany supported a London session rally in risk, although things turned around in NY. US housing starts were much stronger than expected, but PPI and IP were a touch weaker. The S&P500 closed down 1.3%, and commodities were mixed, copper falling 1.4%. US 10yr notes gained overall, down 6bp. The draft communiqué from the BRIC meeting made no specific mention of the US dollar's reserve currency status, limiting the session's dollar selloff to -0.5% (DXY).

EUR initially rallied from 1.3800 to 1.3934, before falling back to 1.3850 on weaker equities. Initial strength came from stronger German ZEW data, as well as EU comments the recession is bottoming and the ECB saying there will be no expansion in asset purchases for now. **GBP** rallied from 1.6259 to 1.6507 before heading back to around 1.6400. Positives here included the consensus-beating CPI, BoE talk of exit strategies, and solid demand for the new 25yr gilt. **USD/JPY** gyrated between 96.08 and 92.27, unchanged overall at around 96.50.

AUD reached 0.8068 during London, the Rio Tinto rights issue supporting the currency, as well as a McCrann article suggesting no rate cut is likely within the next 2 months, but the falloff in risk during NY dragged it back to 0.7950.

NZD almost touched 0.6400, but is now a cent lower. AUD/NZD made a 1.2550 low overnight, recovering to around 1.2600.

US housing starts jump 17.2% in May, boosted by a 62% jump in the volatile multiples component, after a similar sized cumulative fall in the previous two months. But even excluding multiples, single family house starts rose 7.5%, their fourth straight month without a decline, and single family permits posted a similar May rise. The level of activity remains very weak, at just 532k starts annualised, compared to 2.3mn annualised at the peak in early 2006, nevertheless the data are consistent with other evidence that the housing market is bottoming out. It remains to be seen how the recent sharp gain in mortgage rates impacts on this nascent recovery in coming months.

US industrial production down 1.1% in May, dragged lower by autos as the Chrysler plant shutdowns impacted. The other detail revealed broad-based weakness, including in business equipment which is a sign that capital spending remains in the doldrums. Capacity use fell to a new record low (data go back 40 years), which should help prevent production sector driven inflationary pressures from emerging any time soon.

US PPI up 0.2%, core down 0.1%, in May. The headline and core PPI measures were very subdued, and for once auto and light truck prices, both flat or close to it, were not a major influencing factor. But there was some evidence that higher materials costs were pushing up crude price pressures in May.

The Bank of Japan left the uncollateralised call rate at 0.10%. There was no word on unconventional policy measures, in line with expectations. The commentary offered nothing that new, with the basic point being that the maturity of the inventory cycle will leave future developments in output solely to final demand.

The German ZEW outlook jump from 31 to 45 indicates that the 350 or so German analysts and economists surveyed by the institute continue to think things can only get better, and in June, for the first month in nine, the current measure also posted a modest gain. In other news, inflationary pressures eased on two fronts: the May Euroland CPI was confirmed at 0.0% yr, while the core rate fell from April's 1.8% yr to 1.5% yr in May. Euroland labour costs growth eased from 4.0% yr to 3.7% yr in Q1.

UK annual inflation eased slightly to 2.2% yr in May, holding above the 2.0% target for the 20th month running. Higher taxes on cigarettes and alcohol introduced in the April budget, and higher imported goods prices due to the weaker pound sterling earlier this year, were factors at play.

Outlook

Last night's NZD rally to near 0.6400 did not breach the pivotal 0.6400 level, so our lower-NZD view remains intact.

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With contributions from Westpac Economics