Monday 8 March 2010

Westpac InstitutionalBank

Morning Report

Foreign Exchange Market

	Previous Range		Today's Open		Expected
	Asia	Overnight	8.00am	NZD cross	Range Today
NZD	0.6853-0.6885	0.6871-0.6977	↑0.6958		0.6940-0.6990
AUD	0.8985-0.9013	0.8995-0.9093	↑0.9063	↑0.7677	0.9040-0.9100
JPY	88.96-89.35	89.20-90.60	↑90.41	↑62.910	90.00-90.60
EUR	1.3557-1.3603	1.3530-1.3631	↑1.3620	↑0.5109	1.3600-1.3660
GBP	1.5016-1.5067	1.4993-1.5168	↑1.5121	↑0.4602	1.5080-1.5150

NZ Domestic Market (Previous day's closing rates)

Cash Curve		Govt Stock		Swap Rates (Qtrly)	
Cash	2.50%	Nov-11	3.67%	1 Year	3.40%
30 Days	2.66%	Apr-13	4.42%	2 Years	4.12%
60 Days	2.80%			3 Years	4.58%
90 Days	2.68%	Apr-15	4.97%	4 Years	4.88%
180 Days	2.85%	Dec-17	5.44%	5 Years	5.09%
				7 Years	5.44%
1 Year	3.35%	May-21	5.73%	10 Years	5.77%

World Bourses and Indices

AUD			USD		
Cash	4.00%	0.00	**Fed Funds**	0.00-0.25%	
90 Day	4.23%	+0.01	**3 Mth Libor**	0.26%	0.00
5 Year Bond	5.18%	+0.08	**10 Year Notes**	3.69%	+0.09
10 Year Bond	5.46%	+0.05	**30 Year Bonds**	4.65%	+0.09
NZX 50	3214.6	+1.0	**CRB**	276.9	+2.0
All Ords	4773.4	+15.8	**Gold**	1133.8	+2.8
Nikkei	10369.0	+223.3	**Copper Fut.**	341.75	+4.20
FT100	5599.8	+72.6	**Oil (WTI)**	81.47	+1.22
DJI	10566.2	+122.1	**NZ TWI**	64.45	+0.83

Upcoming Events

Date	Country	Release	Last	Forecast
8 Mar	NZ	Q4 Building Work Put in Place	–4.9%	–
		Q4 Real Manufacturing Sales	–1.4%	–
	Jpn	Feb Bank Lending %yr	–1.7%	–
		Jan Current Account ¥bn s.a	1101	1250
	Eur	Mar Sentix Investor Confidence	–8.2	–12.0
	Can	Feb Housing Starts	186.3k	190.0k
9 Mar	NZ	Feb Electronic Card Transactions	1.1%	–
	Aus	Feb NAB Business Survey	3	–
		Feb ANZ Job Ads	–8.1%	–
	US	Feb NFIB Small Business Optimism	89.3	–
		Mar IBD-TIPP Economic Optimism	46.8	48.0

Latest Research Papers/Publications

- RBNZ MPS Preview (4 March)
- Agribiz February 2010 (18 February)
- The bigGST step (12 February)
- Q4 Retail Sales Review (12 February)
- Q4 HLFS Review (4 February)
- RBNZ OCR Review (28 January)

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

News and views

The main event on Friday evening was the stronger than expected US payrolls report. Equities rallied on the news (S&P500 +1.4%, US banks +2.5%), as did commodities (CRB +0.8%, oil + 1.6%, copper+1.2%) and risk currencies, although the US dollar's reaction was mixed. US Treasury yields rose, the 2yr +4bp, the 10yr +8bp. Notably, US 3mth Libor maintained its crossover with JPY Libor, after sitting lower since August, and raises the profile of the yen as a funding currency. A late data release showed US consumer credit is stabilising. In weekend news, White house adviser (and former Fed hawk) Paul Volcker spoke against exiting monetary and fiscal stimulus while unemployment remained high. The meeting between the German Chancellor and the Greek PM produced nothing for markets.

The US dollar initially spiked on the payrolls news from 80.60 to 80.90 but then slipped back to 80.40 for a modest loss on the day. **EUR** dipped to 1.3530 on payrolls, but closed a cent stronger. German factory orders were strong, and Greece worries are fading. Futures speculators reduced net shorts by around 10%. **USD/JPY** rose from 89.40 to 90.60, speculation rife the BoJ will consider further QE at the 16 March meeting.

AUD was already creeping higher pre-payrolls to 0.9030, surging later to 0.9100 and resting slightly lower. NZD also surged with payrolls to 0.6980, holding the gains.

NZD's outperformance during the "risk on" session saw AUD/NZD fall from 1.3110 to 1.3020.

US payrolls fall –36k in Feb, not as steeply as the market consensus for a –68k fall, but weaker than our forecast for a 20k gain. But there are plenty of grounds to view this as a solid report once special factors are taken into account. Those special factors are the hiring of 15k temporary Census workers, and an unknown drag on measured employment from the mid month snowstorms. Also, there were back revisions which added 35k to the recent payrolls profile. The weather impact is tricky to measure. According to the household survey, just over 1 million people said the snowstorms prevented then from getting to work in February, compared to an average of 290k snowed-in workers in February over the past 30 years. But you can't simply add the 700k+ difference to the payrolls number which is surveyed differently to get an ex weather number. But the blizzard impact was clearly significant.

Briefly, other detail in the payrolls report included a steady jobless rate at 9.7%, against expectations of a rise – another sign of stabilising conditions – though earnings growth was subdued and hours worked, both weekly and aggregate, fell (probably a function of the weather). The industry breakdown did not throw up any real surprises, and the sectors mostly likely to be weather hit were not dramatically weaker than in prior months (construction fell less than in Jan, retail was flat after a strong Jan gain, and leisure actually grew). Bottom line – a hard report to draw firm conclusions about, but we suspect there's some improvement in the underlying picture compared to recent months. The extent of any revisions and/or March payrolls bounce will help clarify the situation somewhat.

German factory orders jumped 4.3% in January, the fastest rise in more than two years, and a decent start to 2010 after a sluggish orders (and growth) picture in Q4.

UK producer prices rose 0.1% at the input stage in February, but output prices rose 0.3%, both headline and core, pulling the annual pace of gain to 4.0% yr and 2.8% yr respectively. Energy prices and the weaker pound are the main factors at play.

Outlook

AUD/USD and NZD/USD outlook next 24 hours: AUD's resistance area has shifted 10 pips higher to 0.9080-0.9090. NZD's 0.6980 resistance looks vulnerable today.

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With contributions from Westpac Economics