

# Morning Report

## Foreign Exchange Market

	Previous Range		Today's Open		Expected
	Asia	Overnight	8.00am NZD cross	Range Today	
NZD	0.6904-0.6953	0.6872-0.6947	↑0.6936		0.6900-0.6950
AUD	0.8880-0.8938	0.8857-0.8957	↑0.8936	↓0.7762	0.8900-0.8960
JPY	89.92-90.31	89.76-90.36	↑90.19	↑62.560	89.90-90.40
EUR	1.3496-1.3552	1.3514-1.3627	↑1.3548	↑0.5120	1.3510-1.3580
GBP	1.5405-1.5462	1.5403-1.5476	↓1.5410	↑0.4501	1.5390-1.5450

## NZ Domestic Market (Previous day's closing rates)

Cash Curve	Govt Stock	Swap Rates (Qtrly)
Cash 2.50%	Nov-11 3.73%	1 Year 3.39%
30 Days 2.64%	Apr-13 4.55%	2 Years 4.16%
60 Days 2.69%	Apr-15 5.07%	3 Years 4.64%
90 Days 2.69%	Dec-17 5.53%	4 Years 4.93%
180 Days 2.89%	May-21 5.81%	5 Years 5.15%
1 Year 3.33%		7 Years 5.50%
		10 Years 5.83%

## World Bourses and Indices

AUD		USD	
Cash	3.75%	0.00	Fed Funds 0.00-0.25%
90 Day	4.16%	0.00	3 Mth Libor 0.26%
5 Year Bond	5.19%	-0.07	10 Year Notes 3.70%
10 Year Bond	5.55%	-0.04	30 Year Bonds 4.65%
NZX 50	3130.9	+4.5	CRB 274.3
All Ords	4665.9	-65.1	Gold 1097.3
Nikkei	10198.8	-153.3	Copper Fut. 325.65
FT100	5342.9	+27.8	Oil (WTI) 79.56
DJI	10368.6	+85.0	NZ TWI 64.39

## Upcoming Events

Date	Country	Release	Last	Forecast	
25 Feb	NZ	Feb NBNZ Business Confidence	38.5%	-	
		Aus	Q4 Capex	-3.9%	2.5%
			2009/10 CAPEX Intent's, AUDbn	105	-
	US		Q4 Construction Work Done	2.2%	3.5%
			Jan Durable Goods Orders	1.0%	2.0%
			Initial Jobless Claims w/e 20/2	473k	445k
			Dec House Prices	0.7%	0.4%
	Eur		Fedspeak: Pinalto and Bullard		
			Feb Business Climate Index	-1.12	-1.05
			Feb Consumer Confidence (F)	-17a	-17
Ger		Feb Economic Confidence	95.7	96.4	
		Jan Money Supply M3 %yr	-0.2%	0.0%	
UK		Feb Unemployment chg	6k	16k	
		Q4 Business Investment	-0.6%	0.1%	
26 Feb	NZ	Feb CBI Distributive Trades Survey			
			Jan Merchandise Trade NZDm	2	-90
	Aus		Jan Building Consents s.a.	-2.4%	5.0%
			Jan Private Credit	0.3%	0.2%
	US		Q4 GDP First Rev % ann'lsd	5.7%	5.7%
			Jan Existing Home Sales	-16.7%	-2.0%
		Feb Chicago PMI	61.5	55.0	

## News and views

**US equity markets were relieved** Fed Chairman Bernanke's testimony maintained the "low rates for an extended period" line, the S&P500 currently up 0.8% despite weak house sales data. Commodities were modestly higher, the CRB index up 0.5% and oil +0.8%, copper 0.6%, but gold -0.8% citing dampened inflation expectations. US 2yr treasuries were weaker by 3bp and 10yrs are unchanged, flattening the curve to late-December levels. The 5yr auction was lacklustre at 1bp above forecasts and lower foreign participation. Updates from the Mediterranean included Standard & Poor's saying it may downgrade Greece one or two notches within a month (note they last cut it from A- to BBB+ in December), and Greece acknowledging for the first time it had used off-market currency swaps in 2001, contrary to local law.

The US dollar was slightly softer mirroring equities, but remains near recent highs. So too was the EUR (in reverse), briefly spiking 80 pips around the time of Bernanke's testimony, but settling around 1.3550. GBP remained depressed, knocking on 1.5400 support. USD/JPY was quiet around 90.20, with a brief foray to 89.80.

AUD found a recent bottom at 0.8858 in Europe and then bounced almost a cent in the US, currently resting at 0.8935. Several journalists opined a 25bp rate hike was likely next week.

NZD bottomed at 0.6872 and then bounced to 0.6946. AUD/NZD broke upwards to 1.2910, close to the post-2000 high of 1.2969.

**US Fed chair Bernanke presented his semi-annual monetary policy report to Congress.** He noted that "Although the federal funds rate is likely to remain exceptionally low for an extended period, as the expansion matures, the Federal Reserve will at some point need to begin to tighten monetary conditions to prevent the development of inflationary pressures." At the same time, the Fed continues to evaluate whether more stimulus is needed.

**US new home sales fell 11.2% in Jan**, their third consecutive monthly decline for a total fall of 23% since Oct. The northeast, south and west all saw declines in Jan, some of which may be due to snowstorms, while the midwest was broadly unchanged. Sales are now at a new record low – all of last year's recovery has been unwound, despite the extended tax credit for home-buyers. New house prices continued to fall, with the median down 2.4% yr.

**Japan merchandise trade balance:** ¥728bn actual (adjusted basis) vs f/c ¥545bn. The better than expected trade surplus reflected both exports surprising to the upside (40.9%yr vs f/c 39.5%yr) and imports surprising on the low side (8.6%yr vs f/c 12.1%yr). The pick-up in the global economy is supporting export performance – although the annual figures continue to be distorted by the extreme weakness of early 2009. In other news, **corporate service prices** were largely as expected (-1.0%yr vs f/c -1.1%yr).

**Euroland industrial orders rise 0.8% in Dec.** Some rare positive news from the factory sector in late Q4 – back to back rises in orders in Nov-Dec. The Dec gain was due to a sharp rise in capital goods orders. However by country, France stood out with a 17.1% rise, which may prove to be a one-off; in contrast, German orders fell 1.8%.

**German GDP growth unrevised at 0.0% in Q4.** The breakdown showed falling private consumption, investment, construction and government spending, such that domestic demand fell an alarming 2.1%. That was entirely offset by a 1.8% fall in imports and 3.0% gain in exports.

## Outlook

**AUD/USD and NZD/USD outlook next 24 hours:** We wouldn't expect AUD's bounce of the past few hours to continue beyond 0.8980 today. Similarly, any NZD rally today should be capped at 0.7000.

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With contributions from Westpac Economics