Morning Report

Westpac Institutional Bank

Tuesday 31 January 2012

Foreign Exchange Market

	Previous Range Asia	Previous Range Overnight	Today's Open 8.00am	NZD cross	Expected Range Today
NZD	0.8196-.8240	0.8155-.8211	↓ 0.8192		0.8150-0.8240
AUD	1.0574-1.0653	1.0526-1.0600	↓ 1.0577	↑ 0.7745	1.0520-1.0620
JPY	76.65-76.78	76.21-76.75	↓ 76.27	↓ 62.48	76.00-76.80
EUR	1.3173-1.3233	1.3077-1.3186	↓ 1.3117	↑ 0.6245	1.3070-1.3160
GBP	1.5708-1.5737	1.5654-1.5716	↓ 1.5684	↑ 0.5223	1.5640-1.5720

NZ Emissions Trading Scheme (previous day's closing rates)

Spot New Zealand Units (NZUs)	Bid	7.65
	Offer	7.85
Spot Certified Emission Reductions units (CERs) in EUR	Settle price	€3.88
Spot Certified Emission Reductions units (CERs) in NZD	Settle price	$6.21

NZ Domestic Market (Previous day's closing rates)

Cash Curve		Govt Stock		Swap Rates (Qtrly)	
Cash	2.50%	Jan-12	2.50%	1 Year	2.73%
30 Days	2.68%	Apr-13	2.50%	2 Years	2.81%
60 Days	2.70%	Apr-15	2.83%	3 Years	2.99%
90 Days	2.75%	Dec-17	3.42%	4 Years	3.20%
180 Days	2.72%	Dec-19	3.67%	5 Years	3.42%
1 Year	2.65%	May-21	3.92%	7 Years	3.64%
				10 Years	3.83%

World Bourses and Indices

AUD			USD		
Cash	4.25%	0.00	Fed Funds	0.00% - 0.25%	
90 Days	4.38%	0.00	3 Mth Libor	0.55%	-0.00
3 Year Bond	3.18%	-0.05	10 Year Notes	1.81%	+0.03
10 Year Bond	3.81%	-0.08	30 Year Bonds	2.96%	+0.08
NZX 50	3307.2	+1.6	CRB	314.7	-3.1
S&P/ASX200	4288.4	0.0	Gold	1729.7	+32.5
Nikkei	8793.1	-48.2	Copper Fut.	382.20	+9.05
FT100	5671.1	-62.4	Oil (WTI)	99.05	+1.06
S&P500	1306.8	-9.5	NZ TWI	72.14	+0.44

Upcoming Events

Date	Country	Release	Last	Forecast
Tue 31	NZ	Dec building consents	-6.4%	0.0%
		Oct National Employment Indicator	-0.1%	–
	Aus	Dec private sector credit	0.3%	0.3%
		Dec RP Data-Rismark home px index	0.1%	–
		Dec NAB business survey	1	–
	Eur	Dec unemployment rate %	10.3%	10.3%
	Ger	Jan unemployment change	–22k	–
	UK	Jan GfK consumer confidence	–33	–
		Dec net consumer credit £bn	0.4	–
		Dec net mortgage lending £bn	0.6	–
		Dec M4 money supply %yr	–2.6%	–
	US	Q4 employment cost index	0.3%	0.6%
		Nov house prices %yr	–3.4%	–
		Jan Chicago PMI	62.5	60.0
		Jan Milwaukee NAPM	57.8	60.0
		Jan consumer confidence	64.5	67.5
	Can	Dec industrial product prices	0.2%	–
		Nov GDP	0.0%	–

Market wrap

The bears had the upper hand last night. The S&P500 is currently down 0.8% but was 1.4% lower early in the NY session and has broken technical channel support dating from 21 December. The main driver appeared to be Greece's rejection of a proposal to appoint an independent fiscal overseer, the FM firmly opposed to effectively ceding its sovereignty. Markets were also frustrated by no visible progress on the Greek-bondholder negotiations and noted Spain's Q4 GDP print of -0.3%. Portugal's 10yr government bond yield surged 217bp to 17.39% - a fresh record – on expectations of a Greek-style default and writedown. Markets partially recovered during the NY afternoon when the EU summit produced agreement on a July start date for the ESM permanent bailout mechanism. US 10yr treasury yields were heavy throughout, extending Asia's decline by 7bp to 1.81%.

The US dollar index is around 0.5% higher. Under-performer **EUR** extended losses after Sydney closed from 1.3180 to 1.3077 but rebounded to 1.3140 on the ESM news. Safe-haven yen buying helped it outperform and pushed USD/JPY from 76.76 to 76.22. **AUD** fell from around 1.0600 to 1.0527 in London but rebounded completely in NY. **NZD** fell from 0.82110.8156 but rebounded to 0.8207. **AUD/NZD** bounced from 1.2880 to 1.2930.

Economic wrap

Euro-area economic confidence rose to 93.4 in Jan from 92.8 in Dec (revised from 93.3). This 11-month high is indicating improvement in the Eurozone but it is still fragile. Both consumer and services confidence contributed to the rise while industrial confidence was unchanged.

US personal income rose 0.5% in Dec compared to an increase of only 0.1% in Nov. Led by a rise in wages and salaries of 0.4%, this is the highest increase since March last year. **US consumer spending was unchanged in Dec**, indicating consumers used their increased personal income to build up savings to a 4% saving rate. **US PCE core price index was 0.2% in Dec**, PCE core prices are rising for the third consecutive month after a 10-year low of 0% in Sep.

Market outlook

AUD/USD and NZD/USD outlook next 24 hours: Australian private sector credit, business confidence and house prices are second-tier for markets. AUD's reversal from an overbought state may be an early sign of lower to come although there's no technical confirmation of that yet. Support today is at 1.0525. NZD's upward channel remains intact despite a reversal from an overbought state, support today at 0.8150. NZ building permits today is minor.

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With contributions from Westpac Economics