

16 February 2012

NZD

The NZD/USD continued to consolidate its recent gains overnight. It traded up to 5 month highs of 0.8420 before returning to trade around 0.8360 currently.

Yesterday's NZ retail sales data initially gave the NZD a bit of a boost. Q4 retail volumes surged 2.2%q/q (1.2% expected) to be up 6.8%/y. These headline results, and their component detail, such as accommodation and hospitality, were consistent with stimulus from the Rugby World Cup. However, there seemed more to it than that. There was sufficient strength in the detail of the Q4 surprise result for us to nudge up our Q4 GDP forecast from 0.6% to 0.7%.

The NZD/USD then drifted up over the course of the evening, finding resistance at the familiar 0.8420 level before subsiding to 0.8360 this morning.

The early morning Fonterra auction showed global dairy prices fell 3.0% on average. This was the biggest move since July last year, but it was no surprise to see a drop given declines in other commodities since the previous auction. Despite the reasonable downward move, prices are still within a very tight 5% range over the past six months.

The NZD made steady gains relative to a broadly weaker EUR (see Majors). The NZD/EUR traded up from 0.6360 to 0.6400 currently, an all time (post-Euro) high.

The NZD surged higher relative to the AUD after the NZ retail sales release. The NZD/AUD subsequently traded water in a tight range around 0.7800.

In the day ahead, we get the Business NZ PMI along with the ANZ Consumer Confidence Index. For the cross the release of AU employment data at 1.30pm (NZ time) will be important.

Majors

It has been a period of relative consolidation in currency markets over the past 24-hours. The USD strengthened relative to the EUR.

Markets were jostled by news headlines overnight, with no clear direction. After solid gains in Asian equity markets, the Euro Stoxx 50 closed up a modest 0.20%. The S&P500 that was attempting to retest highs is now down 0.20%. Global commodity prices were fairly range-bound. Our risk appetite indicator (scale 0-100%) has subsided from 57% at the start of the week, to 52% now.

Much of the overnight news continued to focus on Europe. The ECB signalled it may distribute profits from its Greek bond holdings to help bolster the aid program.

Italian PM Monti suggested demands on Greece are probably 'excessive' and also called on Germany to reviews its stance on Eurobonds. Further delays in the Greek/troika negotiations have been announced. In hard data, Q4 Eurozone GDP was shown to contract 0.3% (-0.4% expected). This is not yet an official recession, but half way there. The EUR/USD fell off from overnight highs above 1.3180 to 1.3070 currently.

Overnight, the USD generally saw upward momentum, benefiting from EUR weakness. US data was mixed. US industrial production was flat in January (0.7% expected). However, the Empire Manufacturing release for February came in at 19.53 (15.00 expected), its highest level since mid 2010. The USD index rose from lows last evening around 79.10 to 79.60 currently.

The GBP/USD traded in a range around 1.5700 for most of the night, the level it holds currently. UK data showed that unemployment in the 3 months to December remained at 8.4%. The Bank of England released its inflation report, with Governor King stating the UK had been able to absorb a 25% depreciation in the GBP without triggering wage inflation. In the near-term it appears there is little to convincingly turn the down-trend in the GBP around.

Today, across the Tasman we get the release of employment data. Tonight, US housing data and the Philadelphia Fed survey will be released.

Fixed Interest

NZ swap and bond yields closed 4-5bps across the curve yesterday. The LGFA inaugural bond auction attracted strong demand.

NZ swap yields started a little lower yesterday morning, after the moves lower in "safe haven" yields seen offshore. This was curtailed by the very strong Q4 NZ retail sales number of 2.2q/q% (1.2% expected). Yields gained momentum into the close, on general improvement in sentiment globally, and solid performance from Asian equities. The 2-year yields closed at 5bps at 2.93%. The market has revised up its expectations for RBNZ rate hikes in the year ahead to 14bps. We expect 75bps.

The LGFA's initiating bond auction attracted solid interest. The auctions attracted more than a 4x bid-to-cover ratio. The Apr 15's average successful yield was 3.67%, with a successful range from 3.65%- 3.69%. The 250m of Dec 17s attracted a successful average yield of 4.61% or around 114bps over similar dated NZGBs. Given it was a new issue, the range of successful bids was quite wide, from 4.33%-4.66%.

Today, the DMO will hold its auction, for 100m of 19s and 50m of 23s. Yesterday, NZ bond yields closed up 4-5bps in light trading. The yield on NZGB21s now sits at 3.99%. This takes the NZ-US spread to 206bps, the very top of its range since November. The spread widened overnight as US 10-year yields drifted off from 1.96% to 1.92%, as uncertainty around Greek aid negotiations continues to linger. Unless NZ-US 10-year bond spreads are able to break into a new range above 230bps, it is unlikely NZ long yields will be able to rise much further, without US

yields pushing back up toward/above 2.00%.

Today we get the NZ Business PMI. The DMO bond auction will also be closely watched. Also note the Government's annual Budget Policy Statement, is due today, which will update New Zealand's fiscal prognosis. This has implications for the bond issuance program going forward.

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| Currencies | | | | US Interest rates | | | | Commodities | | | | | | | | | |
|---------------|--------|----------|---------|-------------------|----------|---------------------|--------|---------------------|---------|---------|----------|----------------|-------------|--------|--------|-------|-------|
| | Low | High | | Open | High | Low | Last | Open | High | Low | Last | Open | High | Low | Last | | |
| NZD | 0.8353 | 0.8420 | 1 Yr | 0.17 | 0.17 | 0.15 | 0.15 | Crude | 100.90 | 102.54 | 100.61 | 101.6 | Wheat | 639.3 | 643.5 | 631.0 | 632.3 |
| AUD | 1.0710 | 1.0777 | 2Yr | 0.28 | 0.29 | 0.27 | 0.27 | Ali | 2219 | 2229 | 2191 | 2215 | Sugar | 23.41 | 23.63 | 23.17 | 23.6 |
| EUR | 1.3058 | 1.3184 | 5 Yr | 0.82 | 0.83 | 0.78 | 0.78 | Copper | 8442 | 8480 | 8320 | 8415 | Cotton | 92.90 | 94.57 | 92.62 | 94.1 |
| GBP | 1.5671 | 1.5730 | 10 Yr | 1.94 | 1.96 | 1.90 | 1.90 | Nickel | 20660 | 20780 | 20056 | 20155 | CRB | 315.5 | 315.6 | 314.3 | 314.7 |
| JPY | 78.19 | 78.61 | 30 Yr | 3.09 | 3.11 | 3.06 | 3.06 | Gold | 1720 | 1738 | 1719 | 1729 | GSCI | | | | |
| Sycom Futures | | | | FX | | | | Asian FX | | | | Equities | | | | | |
| | Open | High | Low | Last | Open | Last | Open | High | Low | Last | Open | Now | chg | | | | |
| Australia | | | | | AUD= | 1.0691 | 1.0724 | SGD= | 1.2636 | 1.2668 | 1.2572 | 1.2607 | Dow | 12865 | 12814 | -64.5 | |
| 3 mth | 95.67 | 95.69 | 95.67 | 95.68 | NZD= | 0.8337 | 0.8366 | IDR= | 9031.88 | 9071.63 | 8957.5 | 8958 | S&P 500 | 1350.5 | 1349.5 | -1.1 | |
| 3 Yr | 96.42 | 96.47 | 96.42 | 96.46 | CAD= | 0.9991 | 0.9979 | THB= | 30.8 | 30.9 | 30.7 | 30.8 | Nasdaq | 2943.4 | 2936.9 | 5.1 | |
| 10 Yr | 95.93 | 95.985 | 95.92 | 95.96 | JPY= | 78.44 | 78.22 | KRW= | 1126 | 1126 | 1121 | 1121 | FTSE | 5899.9 | 5892.2 | -7.7 | |
| NZ | | | | | EUR= | 1.3134 | 1.3084 | TWD= | 29.6 | 29.6 | 29.5 | 29.5 | DAX | 6807.6 | 6757.9 | 29.8 | |
| 3 mth | 97.26 | 97.26 | 97.26 | 97.26 | GBP= | 1.5692 | 1.5709 | PHP= | 42.7 | 42.9 | 42.6 | 42.7 | SPI (Sycom) | | | | |
| NZD Crosses | | | | AUD Crosses | | | | NZ Government Bonds | | | | NZ swap yields | | | | | |
| | Last | Previous | | Last | Previous | | Last | Previous | | Last | Previous | Last Price | | | | | |
| NZD/EUR | 0.6393 | 0.6348 | AUD/EUR | 0.8195 | 0.8141 | NZGB 6 1/2 04/15/13 | 2.555 | 1 Yr | 2.785 | | | 2.785 | | | | | |
| NZD/JPY | 65.43 | 65.40 | AUD/JPY | 83.86 | 83.86 | NZGB 5 03/15/19 | 3.722 | 2Yr | 2.928 | | | 2.928 | | | | | |
| NZD/GBP | 0.5324 | 0.5313 | AUD/GBP | 0.6825 | 0.6813 | NZGB 6 05/15/21 | 3.979 | 5 Yr | 3.588 | | | 3.588 | | | | | |
| NZD/AUD | 0.7802 | 0.7799 | AUD/NZD | 1.2812 | 1.2823 | | | 10 Yr | 4.363 | | | 4.363 | | | | | |

Please note the high / low rates are indicative only. They are specific to the trading hours of each asset, which may differ. Please refer to your Dealer for confirmation.
Source: Bloomberg

As at: 8:13

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