

17 February 2012

NZD

The NZD/USD drifted lower for most of yesterday, exacerbated by NZD/AUD selling after the strong AU employment data. Early this morning global risk appetite picked up, resulting in the risk sensitive NZD/USD climbing back to 0.8330.

The release of the NZ PMI yesterday (50.5) attracted little response from the currency. The data showed manufacturing remained in expansion in January. It was not strong by any stretch of the imagination, but it is still positive and indicative of some forward momentum.

The greater excitement came across the Tasman with the release of better-than-expected employment data (see Majors). This saw the NZD sold on the cross. The NZD/AUD plummeted from 0.7790 to 0.7740, a level it has clung tightly to since then.

Relative to its European peers the NZD declined yesterday, but held relatively steady overnight, despite the EUR being buoyed by rumours of progress in Greek negotiations (see Majors). The NZD/EUR currently trades around 0.6350 and the NZD/GBP at 0.5270, still not far off last August highs of around 0.5390.

After finding support at 0.8250 overnight, the NZD/USD now trades at 0.8330. Since the start of the month, the NZD/USD has essentially been consolidating its gains in a range around 0.8300. In the day ahead global risk sentiment, likely impacted by Greek news, will dominate markets. Any positive outcomes could see the NZD/USD attempting to retest resistance at 0.8420. However, further upside will be heavy going, given that the NZD/USD continues to trade somewhat above our short-term valuation model's 'fair value' range.

Majors

The USD made steady headway early in the night until better-than-expected US data releases, followed by positive Greek rumours, saw its "safe-haven" appeal fade. The USD then fell heavily with the EUR, GBP and AUD key beneficiaries.

Markets were bumbling sideways until the early hours of this morning. US data releases then surprised to the upside. Weekly jobless claims fell, and housing starts for January rose 1.5%/m (-3.4% expected). Later, Q4 mortgage delinquencies fell and the Philadelphia Fed survey of businesses rose to 10.2 (9.0 expected). The data saw equity markets head higher (the S&P500 is now up 1.0%), and demand for the "safe-haven" USD faded. The USD index that had crept as high as 80.10 was knocked down to 79.40. It currently trades around 79.50.

The downshift in the USD was also exacerbated by talk early this morning the ECB was poised to exchange Greek bonds for new securities. This buoyed market sentiment, with talk of a Monday deadline. The EUR/USD that had slipped as low as 1.2980, jumped to 1.3120 on the combined effects of the US data and Greek headlines.

The GBP/USD was also dragged along for the ride, in the absence of any UK data releases. It surged from 1.5680 to close to 1.5800.

The AUD/USD gapped higher on strong AU employment data yesterday. Data showed AU added 46.3K jobs in January (10K expected). These were concentrated in part-time employment. Still, the unemployment rate fell to 5.1% from 5.2% (5.3% expected). For RBA policy, the key is the unemployment rate. At 5.1% unemployment, the labour market could be described as 'tight'. Confirmation that unemployment remains at historical lows, and the apparent gradual tightening in labour market conditions, suggest that there is little chance of a rate cut from the RBA in March, barring a financial melt-down in Europe. The market still prices 60bps of RBA cuts in the year ahead, which we believe is too aggressive.

The AUD popped from 1.0680 to 1.0740 on the data, though failed initially to hold onto the gains. It then drifted off, until early this morning when global risk sentiment picked up. This saw demand for the "risk sensitive" AUD pick up, and the AUD/USD rise from 1.0660 to 1.0760 currently. Resistance for the AUD/USD is now eyed at 1.0820.

It is relatively quiet on the global data front today. Expect the market to take its cue from headlines in the ongoing Greek/troika negotiations.

Fixed Interest

NZ swap and bond yields closed down 2-6bps yesterday. Overnight, positive US data surprises saw US yields rise.

NZ swap yields declined across the board yesterday, with a flatter curve. 2-year swap yields closed at familiar levels just below 2.90%. The market continues to price around a 50% chance of a 25bps rate hike from the RBNZ in the year ahead. 10-year yields closed down 6bps at 4.30%.

The NZ bond auction attracted decent, though not overwhelming, demand. It had an average 2x bid-to-cover ratio. The 100m of NZGB 19s went at 3.72% and the 50m of 23s at 4.15%, close to levels they later closed at.

Across the Tasman, the strong employment data (unemployment 5.1% vs. 5.3% expected) saw AU short-end yields surge higher. However, they gave up much of the rise later in the day. NZ-AU 3-year swap spreads

declined from -116bps to -121bps.

Overnight, markets continued to be jostled by the usual array of headlines regarding the progress, or lack thereof, in the Greece/troika negotiations. However, "safe-haven" US and German yields sold off in the early hours of this morning after better-than-expected US data. This saw US 10-year yields surge from 1.91% to 1.98%. In the day

ahead there are no NZ data releases. Expect NZ long yields to follow their offshore counterparts higher, particularly if there is any confirmation on progress in Greek aid negotiations.

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Currencies			US Interest rates				Commodities										
	Low	High		Open	High	Low	Last		Open	High	Low	Last		Open	High	Low	Last
NZD	0.8245	0.8340	1 Yr	0.16	0.16	0.15	0.16	Crude	101.90	102.69	100.84	102.1	Wheat	634.0	639.5	628.8	633.8
AUD	1.0646	1.0770	2Yr	0.26	0.29	0.26	0.29	Ali	2223	2247	2195	2200	Sugar	23.64	23.91	23.33	23.7
EUR	1.2975	1.3121	5 Yr	0.78	0.87	0.78	0.86	Copper	8420	8518	8337	8370	Cotton	93.00	93.96	92.65	93.7
GBP	1.5656	1.5800	10 Yr	1.92	2.01	1.91	1.99	Nickel	20200	20452	20000	20075	CRB	313.6	317.0	313.4	315.9
JPY	78.64	78.94	30 Yr	3.08	3.17	3.06	3.14	Gold	1728	1729	1705	1727	GSCI				
Sycom Futures				FX				Asian FX				Equities					
	Open	High	Low	Last		Open	Last		Open	High	Low	Last		Open	Now	chge	
Australia					AUD=	1.0697	1.0761	SGD=	1.2638	1.2714	1.2617	1.26283	Dow	12780	12899	117.8	
3 mth	95.64	95.65	95.6	95.60	NZD=	0.8329	0.8330	IDR=	9020.63	9101.88	8977.5	9093	S&P 500	1342.6	1356.9	13.7	
3 Yr	96.48	96.5	96.4	96.41	CAD=	1.0000	0.9963	THB=	30.8	30.9	30.8	30.8	Nasdaq	2915.7	2955.7	39.9	
10 Yr	96.02	96.03	95.94	95.95	JPY=	78.43	78.86	KRW=	1126	1132	1126	1132	FTSE	5892.2	5885.4	-6.8	
NZ					EUR=	1.3066	1.3107	TWD=	29.5	29.6	29.5	29.6	DAX	6665.2	6752	-6.0	
3 mth	97.26	97.28	97.26	97.28	GBP=	1.5693	1.5791	PHP=	42.7	42.9	42.7	42.9	SPI (Sycom)				
NZD Crosses				AUD Crosses				NZ Government Bonds				NZ swap yields					
	Last	Previous		Last	Previous		Last	Previous		Last	Previous		Last	Price			
NZD/EUR	0.6356	0.6379	AUD/EUR	0.8211	0.8186	NZGB 6 1/2 04/15/13	2.563	1 Yr	2.773								
NZD/JPY	65.70	65.33	AUD/JPY	84.89	83.90	NZGB 5 03/15/19	3.703	2Yr	2.898								
NZD/GBP	0.5276	0.5308	AUD/GBP	0.6816	0.6816	NZGB 6 05/15/21	3.963	5 Yr	3.555								
NZD/AUD	0.7740	0.7791	AUD/NZD	1.2919	1.2838			10 Yr	4.295								

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

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