

22 February 2012

NZD

The NZD/USD has eased lower over the past 24-hours, interrupted by some volatility after the final announcement on the Greek/Troika negotiations. The NZD/USD currently trades at 0.8360.

Yesterday's release of the RBNZ 2-year-ahead inflation expectations showed some easing from 2.80% to 2.50% (*see Fixed Interest*). Following this, the NZD/USD eased a little lower, almost touching 0.8340 yesterday afternoon.

Then the announcement of a final deal in the protracted Greek negotiations (*see Majors*) saw the NZD benefit temporarily from a knee-jerk buying of "risky" assets. It rose above 0.8400 last night. However, the response proved short-lived, and the NZD/USD drifted off to trade around 0.8360 this morning, still comfortably within its range since the start of the month.

After the Greek announcement the EUR had a surge higher. This saw the NZD/EUR drop from above 0.6340 to below 0.6320. A general downward trend then continued overnight, seeing the NZD/EUR trade at 0.6300 currently. This has seen the NZD/EUR pull-back from its Euro-era highs last week. Still, with the "good news" now priced in the EUR we would not see significant further downside for the NZD/EUR in the near term.

The NZD was very range-bound on the cross, with the NZD/AUD tracking sideways around 0.7820 overnight.

Today, the release of NZ credit card data is unlikely to be market moving. Expect the NZD to take its cue from global developments. Attention will return to data today, with a slew of global PMI releases, kicking off with China's this afternoon. We see support on the NZD/USD at 0.8320 and resistance at 0.8410.

Majors

After the final announcement of a deal in the Greek bail-out talks the knee-jerk rise in the EUR/USD proved short-lived. The USD is fairly flat over the past 24-hours with the AUD and NZD amongst the weakest performers.

Yesterday evening, there was finally agreement between the Troika and Greece on the terms of their bail-out. Key specifics were; a total €130b package; a target of Greek debt/GDP of 120.5% by 2020; a PSI "haircut" of 53%; central banks will not participate in the PSI but pass back accrued interest on Greek bonds to Greece. The bailout also comes with stringent new terms, including having a permanent team of monitors in Greece to ensure implementation of harsh austerity measures.

Given how far risk appetite has already run since the start of the year, the market response was less than euphoric.

The Euro Stoxx 50 closed down 0.34% and the S&P500 is currently fighting to hold onto a modest 0.20% gain.

Immediately following the announcement, the EUR surged from around 1.3190 to around 1.3290. However, it proved short-lived, with the EUR drifting off to 1.3200 early this morning. It currently trades at 1.3240.

Conversely the USD index initially plunged from almost 79.30 to 78.80. Overnight, it then clawed its way back to trade above 79.00 currently.

The USD/JPY was relatively range-bound around the 79.70 level. The USD/JPY is consolidating its gains that were encouraged by the BoJ announcement of further quantitative easing, earlier this month. The USD/JPY now trades back at levels seen in July last year.

The AUD has drifted lower over the past 24-hours. The RBA minutes released yesterday did not rule out further easing if the economic outlook weakens "materially". For now, they are comfortable with the 50bps of cuts already undertaken. The AUD/USD trades at 1.0690 currently, at the lower edge of the range it has traded since the start of the month.

In the day ahead, AU leading indicators will be released along with the AU wage cost index. This afternoon the HSBC Flash Chinese Manufacturing PMI is released. Any further signs of easing (currently 48.8) could weigh on the AUD. Tonight we get European PMI along with the Bank of England minutes and US homes sales data.

Fixed Interest

NZ yields eased back a little from their previous day highs. Overnight, a deal was finally struck between Greece and the Troika with respect to a further bail out package.

The rise in NZ swap yields temporarily ran out of steam yesterday. 2-year yields closed down 2bps and 10-year down 4bps. 2-year yields sit at 3.04%, and the market continues to price just under 25bps of rate hikes from the RBNZ in the year ahead. We expect 75bps. Swap yields have moved rapidly (40-50bps) higher since the start of the month, so some consolidation would not be surprising ahead of the next leg up.

Yesterday's RBNZ 2-year-ahead inflation expectations showed an easing from 2.80% to 2.50%. This is a move in the right direction, leaving the RBNZ comfortable to sit and watch offshore developments for a while longer. However, it is worth remembering these still sit at the top end of the Bank's target bank (1-3%) for inflation.

Bond yields closed virtually unchanged yesterday. Today the DMO will announce its bond tender. The recent run up

in yields back to November levels should help demand at auction. At some point next month we also expect the LGFA to return to markets with another bond auction. By our estimates, NZLGFA 15s and 17s now trade around 73bps and 107bps respectively over equivalent NZGBs. Spreads have narrowed slightly since the inaugural tender last week.

The market's reaction to the much anticipated Greek announcement was relatively muted. However, non-core European bond yields fell with spreads to German "safe

haven" bonds narrowing. Italian 10-year bond yields (5.44%), and spreads to German bonds are now at the lowest level since September. US "safe haven" 10-year yields rose from 2.0% to 2.07%, when trading resumed after Monday's holiday. This is the top of their range since November. A break higher would be significant.

There are no key NZ data releases today. Expect some consolidation in NZ markets after their recent strong run.

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Currencies		US Interest rates				Commodities											
	Low	High	Open	High	Low	Last	Open	High	Low	Last	Open	High	Low	Last			
NZD	0.8335	0.8404	1 Yr	0.15	0.16	0.15	0.16	Crude	104.65	106.07	104.26	105.9	Wheat	651.8	652.3	628.0	634.8
AUD	1.0655	1.0750	2Yr	0.29	0.30	0.29	0.30	Ali	2191	2198	2165	2179	Sugar	23.84	24.48	23.81	24.4
EUR	1.3199	1.3291	5 Yr	0.86	0.93	0.86	0.92	Copper	8336	8397	8203	8236	Cotton	92.65	93.79	92.46	93.7
GBP	1.5773	1.5865	10 Yr	2.00	2.08	2.00	2.06	Nickel	19879	20050	19525	19755	CRB	319.0	322.6	318.7	322.4
JPY	79.63	79.85	30 Yr	3.15	3.22	3.15	3.21	Gold	1734	1758	1731	1756	GSCI				
Sycom Futures					FX		Asian FX				Equities						
	Open	High	Low	Last	Open	Last	Open	High	Low	Last		Open	Now	chg			
Australia					AUD=	1.0756	1.0688	SGD=	1.2529	1.2583	1.2511	1.25596	Dow	12949	12985	35.6	
3 mth	95.63	95.65	95.63	95.64	NZD=	0.8398	0.8356	IDR=	9025	9074.5	9024.38	9050	S&P 500	1361.2	1365.2	4.0	
3 Yr	96.31	96.35	96.28	96.30	CAD=	0.9935	0.9954	THB=	30.8	30.8	30.7	30.7	Nasdaq	2957.3	2952	0.3	
10 Yr	95.84	95.88	95.82	95.85	JPY=	79.63	79.74	KRW=	1122	1127	1122	1123	FTSE	5945.3	5928.2	-17.1	
NZ					EUR=	1.3244	1.3255	TWD=	29.5	29.6	29.5	29.5	DAX	6936.9	6908.2	-40.1	
3 mth	97.26	97.26	97.26	97.26	GBP=	1.5851	1.5795	PHP=	42.6	42.7	42.5	42.6	SPI (Sycom)				
NZD Crosses				AUD Crosses		NZ Government Bonds				NZ swap yields							
	Last	Previous		Last	Previous								Last Price				
NZD/EUR	0.6305	0.6342	AUD/EUR	0.8062	0.8122	NZGB 6 1/2 04/15/13		2.608	1 Yr				2.825				
NZD/JPY	66.64	66.87	AUD/JPY	85.21	85.65	NZGB 5 03/15/19		3.843	2Yr				3.040				
NZD/GBP	0.5290	0.5299	AUD/GBP	0.6765	0.6786	NZGB 6 05/15/21		4.095	5 Yr				3.755				
NZD/AUD	0.7820	0.7807	AUD/NZD	1.2786	1.2807				10 Yr				4.473				

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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