

23 February 2012

NZD

The NZD stumbled lower over the past 24-hours, as risk appetite waned, following the underwhelming outcome in the Greek negotiations, and weaker-than-expected European PMI data. The NZD/USD trades at 0.8300.

Our risk appetite indicator (scale 1-100%) has pulled back slightly from 60.3% to 59.2%, and equity market posted modest negative returns. The rally in "risky" assets, including the NZD, appears to have run out of steam, for now. The market realises not a lot has changed in Europe, despite the announcement of a deal in the Greek negotiations, and economic data in the region is also lacklustre (*see Majors*).

The NZD/USD subsided from overnight highs of almost 0.8360, to trade around 0.8300 currently. It is still comfortably within its range of consolidation since the start of the month. Solid near-term resistance continues to be seen at 0.8380. Support is eyed at 0.8260.

The NZD/GBP experienced volatile trading overnight after the release of Bank of England minutes (*see Majors*). On the release, the NZD/GBP surged higher, above 0.5300, before returning to trade around 0.5290 currently.

Overnight, the NZD eased lower relative to both the EUR and AUD. The NZD/AUD currently trades around 0.7800. There are no key data releases on either side of the Tasman today, so expect both currencies to take their cues from developments in global risk sentiment.

Majors

The USD was mildly stronger as demand for "risky" assets has run out of steam. The GBP was weaker after the release of Bank of England minutes.

Overnight, focus moved from Greece to economic data showing that economic activity in Europe was slightly weaker than expected. While German manufacturing and services PMI managed to cling on above 50 (a sign of expansion), they had slipped from their previous reading. The composite PMI for the Eurozone, as a whole, slipped to 49.7 from 50.4 previously. Both manufacturing and services are now contracting.

The EUR/USD fell on the data from above 1.3260 to 1.3220. However, it later clawed its way back to trade around 1.3250 currently. Conversely, the USD index bounced off last night lows around 79.00, to trade around

79.20 currently.

The USD/JPY continued its steady rise over the past 24-hours, moving up from 79.70 to 80.30 currently. Its rapid ascent since the start of the month, exacerbated by further quantitative easing, has seen the JPY weaken versus the USD to levels seen in July last year. This was before the BoJ's first in a series of interventions, in August.

The GBP/USD gapped lower after the release of the Bank of England minutes. These showed that at the last BoE meeting, two policy makers argued for £75b of further asset purchases as opposed to the £50b that was finally agreed. This leaves the door open for more quantitative easing. The GBP/USD dropped from 1.5780 to 1.5700, drifting lower overnight to trade at 1.5670 currently.

Tonight we get the German IFO survey, for indications of the state of the business sector in the "power house" of Europe. US house price data will also be released.

Fixed Interest

It was a very quiet day, with bond yields unchanged. NZ swap yields inched a little lower. Overnight, offshore "safe haven" yields declined after disappointing PMI data.

NZ swap yields closed down around 4bps with the 2-year at 3.0%. Yields appear to be consolidating after their recent run higher, as the rise in global risk appetite has petered out. The market has inched down its expectations for RBNZ activity in the year ahead, to 18bps from 25bps a week ago. We believe the general path of swap yields is still upward and do not expect them to revisit lows. However, further consolidation around these levels is likely. The 2s-10s curve remains fairly steady at just under 145bps.

The DMO announced its tender for today of 100m 19s and 50m 23s. Given the modest size of the tender, and that bond yields are now around 30bps off their lows, demand should be decent.

Overnight, demand for US and German "safe haven" rose after weaker-than-expected European PMI data raised questions about the resilience of the real economy to financial stresses in the region. German and US 10-year yields declined to 1.90% and 2.00% respectively.

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| Currencies | | | | | US Interest rates | | | | Commodities | | | | | | | | | |
|------------------|--------|----------|---------|--------|-------------------|---------------------|--------|-------|---------------------|--------|---------|---------|-------------|----------------|--------|-------|-------|-------|
| | Low | High | | | Open | High | Low | Last | Open | High | Low | Last | Open | High | Low | Last | | |
| NZD | 0.8266 | 0.8358 | 1 Yr | 0.15 | 0.16 | 0.15 | 0.15 | 0.15 | Crude | 106.01 | 106.47 | 105.61 | 105.8 | Wheat | 636.8 | 641.0 | 633.3 | 639.5 |
| AUD | 1.0605 | 1.0686 | 2Yr | 0.30 | 0.30 | 0.29 | 0.29 | 0.29 | Alti | 2190 | 2257 | 2188 | 2255 | Sugar | 24.47 | 24.75 | 24.29 | 24.7 |
| EUR | 1.3212 | 1.3267 | 5 Yr | 0.91 | 0.92 | 0.87 | 0.87 | 0.87 | Copper | 8258 | 8470 | 8251 | 8449 | Cotton | 93.00 | 93.45 | 90.56 | 90.6 |
| GBP | 1.5649 | 1.5807 | 10 Yr | 2.06 | 2.08 | 2.01 | 2.01 | 2.01 | Nickel | 19920 | 20475 | 19800 | 20230 | CRB | 321.8 | 322.2 | 320.9 | 321.9 |
| JPY | 80.02 | 80.40 | 30 Yr | 3.21 | 3.22 | 3.14 | 3.15 | 3.15 | Gold | 1759 | 1772 | 1749 | 1771 | GSCI | | | | |
| Sycom Futures | | | | | FX | | | | Asian FX | | | | | Equities | | | | |
| | Open | High | Low | Last | Open | Last | | Open | High | Low | Last | Open | Now | chge | | | | |
| Australia | | | | | AUD= | 1.0663 | 1.0643 | SGD= | 1.2573 | 1.2613 | 1.2557 | 1.25819 | Dow | 12966 | 12951 | -14.8 | | |
| 3 mth | 95.63 | 95.64 | 95.62 | 95.64 | NZD= | 0.8340 | 0.8295 | IDR= | 9058 | 9071.5 | 9047.25 | 9052 | S&P 500 | 1362.1 | 1359.3 | -2.9 | | |
| 3 Yr | 96.31 | 96.35 | 96.28 | 96.34 | CAD= | 0.9969 | 0.9998 | THB= | 30.7 | 30.8 | 30.5 | 30.6 | Nasdaq | 2942.8 | 2938.1 | -10.5 | | |
| 10 Yr | 95.85 | 95.895 | 95.825 | 95.88 | JPY= | 79.74 | 80.32 | KRW= | 1125 | 1128 | 1125 | 1126 | FTSE | 5928.2 | 5916.6 | -11.7 | | |
| NZ | | | | | EUR= | 1.3234 | 1.3250 | TWD= | 29.5 | 29.6 | 29.5 | 29.6 | DAX | 6914.7 | 6843.9 | -64.3 | | |
| 3 mth | 97.24 | 97.24 | 97.24 | 97.24 | GBP= | 1.5778 | 1.5678 | 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 Price | | | | | |
| NZD/EUR | 0.6262 | 0.6302 | AUD/EUR | 0.8034 | 0.8057 | NZGB 6 1/2 04/15/13 | 2.623 | 1 Yr | 2.800 | | | | | | | | | |
| NZD/JPY | 66.64 | 66.50 | AUD/JPY | 85.50 | 85.02 | NZGB 5 03/15/19 | 3.842 | 2Yr | 3.000 | | | | | | | | | |
| NZD/GBP | 0.5292 | 0.5285 | AUD/GBP | 0.6790 | 0.6758 | NZGB 6 05/15/21 | 4.095 | 5 Yr | 3.715 | | | | | | | | | |
| NZD/AUD | 0.7795 | 0.7821 | AUD/NZD | 1.2827 | 1.2783 | | | 10 Yr | 4.433 | | | | | | | | | |

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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