

# Morning Report

## Foreign Exchange Market

	Previous Range		Today's Open		Expected
	Asia	Overnight	8.00am NZD cross	Range Today	
NZD	0.7149-0.7185	0.7120-0.7196	↓0.7135		0.7080-0.7160
AUD	0.8799-0.8848	0.8763-0.8860	↓0.8780	↑0.8126	0.8740-0.8820
JPY	87.07-87.58	86.86-87.35	↓87.04	↓62.10	86.50-87.50
EUR	1.2875-1.2908	1.2732-1.2914	↓1.2768	↑0.5588	1.2700-1.2800
GBP	1.5259-1.5297	1.5125-1.5335	↓1.5168	↑0.4704	1.5100-1.5200

## NZ Domestic Market (Previous day's closing rates)

Cash Curve		Govt Stock		Swap Rates (Qtrly)	
Cash	2.75%	Nov-11	3.80%	1 Year	3.81%
30 Days	2.99%	Apr-13	4.28%	2 Years	4.25%
60 Days	3.08%	Apr-15	4.73%	3 Years	4.50%
90 Days	3.25%	Dec-17	5.14%	4 Years	4.69%
180 Days	3.44%	May-21	5.39%	5 Years	4.84%
1 Year	3.78%			7 Years	5.11%
				10 Years	5.38%

## World Bourses and Indices

AUD		USD	
Cash	4.50%	0.00	Fed Funds 0.00-0.25%
90 Day	4.84%	0.00	3 Mth Libor 0.51%
3 Year Bond	4.71%	-0.02	10 Year Notes 2.87%
10 Year Bond	5.19%	-0.04	30 Year Bonds 3.88%
NZX 50	3003.4	+8.0	CRB 261.5
S&P/ASX200	4412.7	+9.1	Gold 1184.7
Nikkei	9278.8	-21.7	Copper Fut. 306.35
FT100	5214.6	+75.1	Oil (WTI) 76.19
S&P500	1069.1	-14.4	NZ TWI 67.32

## Upcoming Events

Date	Country	Release	Last	Forecast
22 Jul	US	Initial Jobless Claims w/ 17/7	429k	445k
		Jun Existing Home Sales	-2.2%	-15.0%
		Jun Leading Indicators	0.4%	-0.3%
	Jpn	May All-Industry Activity Index	1.8%	-0.4%
	Eur	Jul PMI Manufacturing Adv	55.6	56.0
		Jul PMI Services Adv	55.5	55.0
		May Industrial New Orders	0.6%	-0.3%
Jul Consumer Confidence Adv		-17	-18	
UK	Jun Retail Sales W/Auto Fuel	0.6%	0.5%	
Can	May Retail Sales	-2.0%	0.5%	
		BoC Monetary Policy Report		
23 Jul	Aus	Q2 Export Price Index %qtr	3.8%	15.0%
		Q2 Import Price Index %qtr	0.3%	2.4%
	Eur	Committee of Euro Banking Supervisors		
	Ger	Jul IFO – Business Climate	101.8	101.0
	UK	Q2 GDP Adv	0.3%	0.6%
		Jun BBA Loans for Hse Purchase no	36.7k	37.0k
	Can	Jun CPI %yr	1.4%	0.9%
		Jun BoC Core %yr	1.8%	1.9%

## News and views

**Bernanke spooks markets.** Fed Chairman Bernanke's Monetary Policy Report was largely as expected (and similar to last week's minutes) forecasting a moderate recovery, but the cautionary elements were seized upon by the markets, in particular the "unusually uncertain" economic outlook and labour market weakness. Markets may also have expected pointers to further stimulus measures – there was a brief mention during the Q&A but no urgency suggested. Earlier, US equities tracked sideways near yesterday's high, supported by decent earnings reports from Wells Fargo and Morgan Stanley, but Bernanke's testimony saw the S&P500 down 1.6%. Commodities were mixed, oil down 1.4% but copper bouncing 2.3%. US treasury yields fell on the testimony, the 2yr -2bp to a fresh record low of 0.55%, the 10yr -10bp to 2.86% – an April 2009 low.

Safe haven currencies outperformed. The US dollar index rose around 0.7%, much of it after the testimony. **EUR** fell from 1.2900 to 1.2800 in Europe, and again to 1.2733 late NY, validating the previous day's bearish key reversal signal. The **yen** outperformed, USD/JPY consolidating above 87.00.

**AUD** peaked at 0.8860 during early Europe, and fell around 70 pips on the testimony to 0.8764.

**NZD** fell from 0.7196 to 0.71220. AUD/NZD was directionless, remaining around 1.2300.

**US MBA mortgage applications rose 7.6%** in the week ending 16 July. Purchases were up 3.4% while refinancing rose 8.6%, the highest since May 2009, reflecting a fall in 30-year fixed mortgage rates to the lowest since the series began in 1990 of just 4.59%.

**Bank of England's Monetary Policy Committee** voted 7-1 to maintain Bank Rate at 0.50% and unanimously agreed to make no changes to the asset purchase scheme. Despite Andrew Sentance's second consecutive dissent for a rate hike, the overall tone of the minutes highlighted a slightly more dovish tone than previously. The Committee noted that the government's budget measures were likely to have "pushed down a little on the most likely path for output" while the outlook for growth "might have weakened too". Apart from Sentance's call for a rate hike based on upside inflation risks, the minutes noted that members actively discussed the possibility of further monetary easing should demand prospects continue to deteriorate, suggesting that imminent rate hikes are clearly not on the agenda.

**Canadian wholesale sales contracted 0.1% in May** following a contraction of 0.2% in April. The breakdown was slightly more positive, however, with six of the seven subsectors posting increases. A substantial fall of 29.5% in agriculture supplies, however, offset the rises to drive the headline into negative territory.

## Outlook

**AUD/USD and NZD/USD outlook next 24 hours:** There's little to buoy currencies during today's domestic sessions. AUD resistance overhead at 0.8860 is formidable, and 0.8700 looks more likely today. NZD resistance has shifted slightly higher to 0.7200 but it should not be troubled today, 0.7100 more likely.

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With contributions from Westpac Economics