

NEW ZEALAND ECONOMICS ANZ MORNING BRIEF

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**MARKET SNAPSHOT
(07:15 NZ TIME)**

	Level		Change
NZD/USD	0.7950	↓	-0.0006
NZD/AUD	0.7651	↑	0.0027
AUD/USD	1.0386	↓	-0.0047
EUR/USD	1.3890	↓	-0.0022
USD/JPY	76.06	↑	0.10
GBP/USD	1.5950	↓	-0.0053
CRB Futures	317.2	↓	-2.8
Oil Futures	91.21	↓	-1.96
Gold	1719.34	↑	18.69
DJIA	11835	↑	129
S&P 500	1237	↑	8
NASDAQ	2642	↑	3
S&P VIX	30.8	↓	-1.4
US 2 year	0.29	↑	0.03
US 10 year	2.19	↑	0.06

KEY DATA RELEASES

	Releases	Act.	Exp.	Last
US	Durable Goods Ord – m/m – Sep	-0.8%	-1.0%	-0.1%
US	Durables Ex-Trans. – m/m – Sep	+1.7%	+0.4%	-0.4%
US	Non-Def Ex Air Cap Goods Orders – m/m – Sep	+2.4%	+0.5%	+0.5%
US	New Home Sales – m/m – Sep	+5.7%	+1.7%	-0.3%
US	New Home Sales – ann. pace – Sep	313K	300K	296K
UK	CBI Trends Total Orders – Oct	-18	-7	-9

WHAT'S AHEAD TODAY

	Releases	Time	Exp.	Last
NZ	RBNZ Official Cash Rate – Oct	9:00	2.50%	2.50%
NZ	Exports – NZ\$ - Sep	10:45	3.51B	3.44B
NZ	Imports – NZ\$ - Sep	10:45	3.90B	4.08B
NZ	Trade Balance – NZ\$ - Sep	10:45	-440M	-614M
NZ	Trade Balance - 12mth YTD – NZ\$ - Sep	10:45	+1065M	+1084M
CH	Industrial Profits – YTD y/y – Sep	15:00	--	+28.2%

OUTLOOK

CURRENCY: Today's RBNZ OCR should ensure the NZD remains limited on the upside with a cap in place under 0.80USD. Offshore markets continue to cling to hope that EU talks deliver some kind of solution to current troubles.

RATES: Local rates will open unchanged and tread water ahead of 9am.

REVIEW

CURRENCY: A weaker underlying Australian inflation release was enough to temper gains in the NZD. Overnight attempts to push above 0.80USD were easily thwarted leaving the NZD nowhere to go but lower.

GLOBAL MARKETS: Markets have been reasonably skittish, with sentiment improving early, only to come off as headlines about progress (or lack thereof) on the European master plan emerged. US bond yields are lower, but interestingly, Italian and Spanish yields fell on incoming ECB President Draghi's assurances that he would continue to support these markets. European equities were mixed, but US equities were up slightly ay 7am.

KEY THEMES AND VIEWS

RBNZ MPS AT 9AM TODAY. Will the Governor take a leaf out of the Bank of Canada's book? Yesterday the BOC completely dropped earlier references to raising rates (having already watered them down at the prior meeting), and simply concluded that policy remained stimulatory. By dropping the references to the "insurance cut" in March, one could argue that the RBNZ have already taken one step in that direction. They certainly have time to watch, worry and wait given soft CPI data earlier this week.

"TWO OUT OF THREE AIN'T BAD". Well, it ain't if you can get it, but Europe seems to be scoring perhaps 1 out of 3. Most analysts believe that there are 3 key issues (excluding treaty change) that EU leaders need to resolve as they work towards a "master plan" to solve the debt crisis (bearing in mind that in Europe, buying time and having a plan tend to be synonymous). They are: (1) agreement on bank capital ratios, and plans to provide cash if necessary. As it stands, the first part has been agreed – with 9% tier one capital by mid 2012. How much cash this might take remains in dispute. Many analysts think the figure is around €200bn, whereas officials see it as closer to half that. So this issue is half resolved. Part (2) is agreement on how big the EFSF should be. This remains unresolved as at today. There are 2 options to lever up the EFSF, but Germany will not allow ECB funds to be wasted on it. This issue also looks to be half resolved. Issue (3) is the Greek haircut, which remains at impasse, although 50-65% is the figure being bandied about. The voluntary nature of the haircut is also something of an issue. Authorities have been keen to make haircuts voluntary in order to avoid triggering a credit event – thus rendering CDS contracts held by the affected parties useless. This has long been on the table, but as a decision draws near, quite how this is managed is set to become a sticking point. For instance, on what terms might a CDS contract be voided – when one party has received premium but will go on to avoid paying out. Similarly, can we expect bank CEOs to "take one for the team" if voluntarily accepting a haircut threatens the solvency of the institution? Such an act would probably be illegal in some countries –directors have a duty of care to act in the best interest of shareholders. The bottom line is, as we get down to the nitty-gritty, it is clear that resolution won't be easy. Expect headlines all morning – the leaders "working dinner" started at 6.15am NZT and we will start to get word on what has been agreed anytime from now.

CURRENCY OUTLOOK AND MARKET TABLES

NZDUSD: RBNZ on hold...

Further confirmation of the Bank's last statement on the global outlook should keep the NZD subdued with little by way of concerns on the inflation front. Expect tests of support for the NZD with an extension into the 0.78USD zone a tough ask requiring a much poorer outlook from the RBNZ.
Expected range: 0.7905 – 0.7995

NZDAUD: Green for go...

Having delivered a lower underlying inflation result than expected the RBA is now likely to cut the cash rate next week. This cross however may see only limited benefit from such a result with moves towards the 0.75AUD still possible. Expect however a day in the 0.76AUD zone today.
Expected range: 0.7613 – 0.7683

NZDEUR: Reality cheque...

The sticking point around current EU discussions may well be voluntary haircut levels. If these do not change to compulsory then the discussions may drag on further. The longer the issue is open the weaker the EUR is likely to remain. It will however not assist this cross to push higher with NZD suffering from headwinds of it's own.
Expected range: 0.5702 – 0.5752

NZDJPY: Action expected...

With a BoJ meeting today some action is likely. Whether this delivers any sustainable move in the USDJPY remains debatable. At this point the cross remains supported around 60.00JPY.
Expected range: 59.90 – 60.80

NZDGBP: In neutral...

Topside resistance in place at 0.5013 and support at 0.4952 should contain moves of this cross today with a bias towards support despite weaker UK economic data overnight.
Expected range: 0.4952 – 0.4998

CURRENCY

	Range	USD	NZD
EUR	1.3800-1.3975	1.3890	0.5719
JPY	75.72-76.10	76.06	60.46
GBP	1.5893-1.6042	1.5950	0.4983
CHF	0.8730-0.8859	0.8814	0.7006
CAD	1.0074-1.0175	1.0052	0.7990
AUD	1.0323-1.0423	1.0386	0.7651
NZD	0.7916-0.8000	0.7950	---
TWI	68.98-69.38	---	---

EQUITIES

	Level	Change
DJIA	11835	129
S&P 500	1237	8
NASDAQ	2642	3
FTSE	5553	28
Nikkei	8748	-14
Shanghai A	2543	19
MSCI World	1196	-16
NZX 50	3297	1

NZ INTEREST RATES

	Level	Change
OCR	2.50	0.00
90 day bill	2.73	0.01
15/04/2015	3.25	-0.10
15/05/2021	4.41	-0.16
1 yr (S)	2.87	-0.05
2 yrs (S)	3.07	-0.08
3 yrs (S)	3.34	-0.08
4 yrs (S)	3.62	-0.09
5 yrs (S)	3.88	-0.10
7 yrs (S)	4.28	-0.11
10 yrs (S)	4.62	-0.12

COMMODITIES AND CREDIT

	Level	Change
Oil futures (US\$/bbl)	91.21	-1.96
Oil - Brent (US\$/bbl)	111.45	-1.30
Gold (US\$/oz)	1719.34	18.69
CRB Futures Index	317.21	-2.77
Baltic Dry Index	2145.0	-16.0
iTraxx Europe (bps)	170.2	-2.5
iTraxx US (bps)	129.2	-0.5
iTraxx Australia (bps)	183.3	0.3

AU INTEREST RATES

	Level	Change
Cash rate	4.75	0.00
90 days	4.73	-0.10
3 yr bond	3.82	-0.11
10 yr bond	4.43	-0.06

US INTEREST RATES

	Level	Change
Fed Funds	0.25	0.00
3 mth libor	0.42	0.00
2 yr bond	0.29	0.03
10 yr bond	2.19	0.06

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