

RT

THE WEEK AHEAD

19 December 2011

Hope and fear continue to do battle. Hope that global growth, led by the largest economy in the world, the US, is slowly recovering. Fear that Europe remains in crisis, with a series of credit downgrades looming. As a result, markets remain choppy, with headlines still dominating market direction, resulting in wild swings in ever thinning pre-xmas markets.

But the European crisis remains paramount, as leaders across Europe continue to bicker. The bond auctions last week actually went better than expected. Spain saw solid demand, paying more than 2 points less to borrow over 5-years than Italy, as budget cuts helped ease concerns it could be among the next to fall in the euro zone's debt crisis. Any positive thoughts remain transient however, as the rating agencies continue to cast gloom.

Fitch Ratings said that it thought a comprehensive solution to the euro zone's debt crisis was beyond reach, at the same time putting 6 euro zone economies including Italy on watch for potential near-term downgrades. Standard & Poor's has already warned 15 of the 17 Eurozone members they were close to a downgrade. **So fear remains palpable, as markets await the actual downgrades, which could happen anytime.**

On the data front, the closely watched German ZEW survey of 287 analysts and investors on economic sentiment rose to -53.8 from -55.2 in November. "Apparently, the financial market experts expect economic activity to slow down, but not to plunge during the next six months" said President Wolfgang Franz. Markit's Eurozone Composite Purchasing Managers' Index, which measures the activity of thousands of euro zone companies, rose for a second month in December to 47.9 from 47.0, confounding expectations for a fall to 46.5. **So still contracting, but not as bad as expectations.**

In the US, better news all round. In separate reports, two regional Fed business surveys showed stronger than expected growth in December. The New York Federal Reserve Bank Empire State general business conditions index rose to 9.53 - the highest since May - from 0.61 in December. The index was boosted by a strong rebound in new orders and an improvement in hiring. The Philadelphia Fed said its index of business conditions rose to 10.3 from 3.6 the previous month on a surge in new orders.

The number of Americans filing new claims for jobless benefits dropped to a 3-1/2-year low at 366,000, suggesting a weak US economy that is gradually improving. US consumer prices were unchanged, with expectations at +0.1%. Finally, the Federal Reserve FOMC made no changes and

issued a fairly predictable statement ending in "The Committee will continue to assess the economic outlook in light of incoming information and is prepared to employ its tools to promote a stronger economic recovery in a context of price stability." **Well, with benign inflation they have the room to stimulate if needed.**

In Asia, China's HSBC flash manufacturing PMI, the earliest indicator of China's industrial activity, stood at 49 in December, a modest rise from November's 47.7 but pointing to a monthly contraction in activity nonetheless. A PMI reading of 50 demarcates expansion from contraction. The slight improvement in December's PMI is in line with trends in China's economy. Factory output typically weakens in November as manufacturer's process the last of their Christmas orders, paving the way for a rebound in production in December.

In Australia, the Westpac Bank/Melbourne Institute survey of consumer confidence fell sharply in December as gloomy news from Europe fuelled concerns about the economic outlook even as interest rates were cut for a 2nd straight month. Deputy RBA Governor Battellino said that whilst an escalation in Europe's debt crisis was possible, he remained confident Australia could deal with such problems, but conceded that Europe had become the main threat facing the global economy.

In New Zealand, good news as well. The BNZ - BusinessNZ PSI Index recovered from a previous lacklustre result to record its highest level of expansion for 20 months. BNZ said the PSI rise in November was stunning. "While NZ's economic data has been volatile through 2011 and we should not over interpret the strength of one month, it would be equally wrong to discount it altogether. Especially because the strength was throughout the PSI survey and it fits with improvement in a few other service sector indicators."

Gold under pressure again.



MAJORS			
	Spot rate	Last week	Change
NZD/USD	0.7572	0.7724	-0.0152
AUD/USD	0.9902	1.0182	-0.0280
EUR/USD	1.2999	1.3351	-0.0352
USD/JPY	78.12	77.60	0.52
GBP/USD	1.5480	1.5641	-0.0161
USD/CAD	1.0407	1.0197	0.0210
USD/SEK	6.9434	6.7416	0.2018
RBNZ TWI	68.16	68.49	-0.33

CROSS RATES			
	Spot rate	Last week	Change
NZD/AUD	0.7643	0.7580	0.0063
NZD/EUR	0.5823	0.5784	0.0039
NZD/JPY	59.15	59.94	-0.79
NZD/GBP	0.4890	0.4937	-0.0047
NZD/CAD	0.7880	0.7876	0.0004
NZD/SEK	5.2575	5.2072	0.0503
AUD/EUR	0.7618	0.7626	-0.0009
AUD/JPY	77.35	79.01	-1.66

SPOT RATES - EXOTICS			
	Spot rate	Last week	Change
USD/HKD	7.7846	7.7797	0.0049
USD/MYR	3.1750	3.1495	0.0255
USD/NOK	5.9777	5.7536	0.2241
USD/SGD	1.3066	1.2944	0.0122
NZD/HKD	5.8945	6.0090	-0.1145
NZD/MYR	2.4041	2.4327	-0.0286
NZD/NOK	4.5263	4.4441	0.0822
NZD/SGD	0.9894	0.9998	-0.0104

Source REUTERS



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So 2011 draws toward a close and the European crisis remains the dominant influence in financial markets. Probably that means that the next crisis is about to begin elsewhere! But even though Europe is still the major focus of attention, the USA is far from being in its veriest fiscal shape. NZ and Australia remain over impacted by Europe, but given the extent of the storm, remain surprisingly buoyant. Overall, gloom dominates, but at least the data is consistently better than expected, and that is cause for longer term optimism.

United States

Tuesday - Nov housing starts
- Nov housing permits
Wednesday - Nov existing home sales
Thursday - Initial jobless claims

Australia

The AUD remains on the back foot, falling 256 points and back below 1.0000 as Europe and lower interest rates weighs. The lack of confidence in global markets and softer Chinese data is hurting the AUD/USD. However, we do not expect this to be permanent and we expect to see the AUD recover in 2012. Remember, most of the world is growing at various speeds, with the exception of Southern Europe. The NZD/AUD has gained 64 points over the week, as the NZD out performs for once. The wide 0.7500-0.7800 range is still intact and exporters/importers would continue to look to trade toward the extremes of this range.

Tuesday - RBA minutes of Dec Board Meeting

New Zealand

The NZD is down 145 points over the week, having had a nadir of minus 250 at one stage intra week. Once again the kiwi has shown strong resilience to downward pressure from European events and this augers well for a look at higher levels in 2012. Local data is generally better, with both milk sales and the Fonterra payout lifting. Exporters would continue to add to cover on moves below 0.7600, as we do not believe longer term weakness is justified. Importers would hold back and look for levels closer to 0.7800 - 0.8000 before again being active.

Wednesday - Q3 current account balance
- November external migration

Thursday - Q3 GDP

Asia

The US/JPY remains in a catatonic state having once again hardly moved over the week, - 20 points. There is little reason to expect this scenario to change. The NZD/JPY has had a relatively wild ride over the week having been down to 57.75 at one stage before bouncing back by 155 to 59.30. This again demonstrates the fact that exporters should continue to be on the alert to grasp the opportunities that arise when these short term falls occur. We remain of the view that exporters should utilise opportunities below the 60 spot price as we see more upside for the NZD/JPY in coming months.

No data of note.

Europe & UK

The EUR remains a serial underperformer as Europe remains the global whipping boy. This focus on Europe and disregard of problems in other economic zones continues to dominate news headlines. The only concern is that everyone is negative and the markets as a result are extremely short of euros. Thus the euro looks set to languish in a 1.2900 - 1.3500 range until a new set of factors emerges to capture traders attention, usually from left field. The NZD/EUR is up by 67 points and remains in a relatively tight 0.5700-0.5900 trading range.

Tuesday - GER - Jan GfK consumer confidence

Wednesday - UK - Nov PSNCR

	Trend	Support 2	Support 1	Resistance 1	Resistance 2
NZD/USD	Down	0.7370	0.7520	0.8000	0.8240
NZD/AUD	Down	0.7300	0.7500	0.7800	0.8000
NZD/JPY	Down	55.00	57.29	62.00	64.50
NZD/EUR	Down	0.5300	0.5500	0.5850	0.6050
AUD/USD	Down	0.9380	0.9680	1.0400	1.0600
AUD/JPY	Down	72.00	76.00	81.00	84.00
USD/JPY	Down	75.00	76.00	80.00	83.00
EUR/USD	Down	1.2600	1.2900	1.3500	1.3900

FORWARDS	1 Mth	3 Mths	6 Mths
NZD/USD	-0.0018	-0.0047	-0.0089
AUD/USD	-0.0037	-0.0099	-0.0176
EUR/USD	0.0006	0.0010	0.0022
USD/JPY	-0.07	-0.17	-0.36
GBP/USD	-0.0004	-0.0013	-0.0026
USD/CHF	-0.0008	-0.0022	-0.0047
NZD/AUD	0.0011	0.0029	0.0046
NZD/EUR	-0.0017	-0.0041	-0.0079
NZD/JPY	-0.19	-0.49	-0.96
NZD/GBP	-0.0010	-0.0026	-0.0050
NZD/CHF	-0.0023	-0.0060	-0.0118

COUNTRY	OFFICIAL OVERNIGHT RATE
NEW ZEALAND	2.50%
AUSTRALIA	4.25%
EUROPE	1.00%
JAPAN	0.10%
UNITED KINGDOM	0.50%
SWITZERLAND	0.00% - 0.75%
UNITED STATES	0.00% - 0.25%
GOLD	1587.09
SILVER	29.12
BRENT OIL	104.94

90 DAY BILLS	Change from last week	3 YEAR SWAPS	Change from last week
2.80	0.05	2.79	-0.12
4.70	0.25	3.72	-0.15
1.31	-0.02	1.41	-0.09
0.10	-0.20	0.38	0.00
0.96	0.00	1.33	-0.01
-0.05	-0.08	0.15	0.02
0.48	-0.05	0.77	0.04

Source REUTERS