

HD ANZ NZ Morning Brief

CR ANZ

WC 842 words

PD 28 August 2014

ET 05:39

SN Fuseworks Media

SC FUSMED

LA English

CY Copyright 2014. Fuseworks Limited.

LP

OUTLOOK

CURRENCY: USD will be driven by the second release of US Q2 GDP, and there is the potential for revisions. In Europe, German and Spanish CPI will be watched for signals as to the potential for ECB action next week.

TD

RATES: Kiwi rates are likely to open lower following global moves.

REVIEW

CURRENCY: NZD/USD bounced in a relief rally yesterday as markets took a breather. USD was broadly under pressure, with EUR increasing after headlines downplayed risks of further ECB action next week.

GLOBAL MARKETS: Our London colleagues reported another relatively subdued trading session overnight, with no data prints of note across the core European and North America economies. This left markets to focus on speculation and headlines from 'ECB sources' of new policy action at next week's meeting. This focused on possible quantitative easing from the ECB and combined with weak French confidence data saw a across the **board** rally in sovereign **bonds** in both Europe and the US. The euro also enjoyed a late spike higher on the speculation of further policy support. However, the outcome strongly depends on Eurozone August inflation data, with the first read released Friday night (NZT). The market forecast is for a further easing in the headline CPI to 0.3% y/y

(0.4% y/y in July), but core CPI is forecast to remain steady at 0.8%

y/y. Elsewhere, FX market moves were relatively muted, but the USD was broadly softer. **Equity** markets and commodity markets were largely unchanged.

KEY THEMES AND VIEWS

A TALE OF TWO. Today we get an update on Q2 CAPEX expenditure intentions in Australia. The key focus is on how quickly non-**mining business** investment is picking up the slack from the decline in **mining** investment. **Mining** investment peaked in 2013 and is expected to decline sharply over the next few years as construction on LNG projects **wind** down. So our Australian counterparts are looking for what's next. Our Australian team are expecting a modest improvement in non-**mining business** investment intentions of around 8% y/y in 2014/15. This supports a gradual transition to non-**mining** growth, but it also means the RBA will keep interest rates on hold for an extended period to entrench the recovery in these sectors. In contrast to the Australian **mining** sector, investment in New Zealand's **dairy** sector continues to grow and looks like it is far from peaking. Yesterday Fonterra confirmed the details of another step-up in capital expenditure to add more stainless steel with plans to investment an additional \$555 **million**.

This was at upper end of earlier expenditure plans that were flagged in their half year results. Combined with the other independent companies adding additional capacity it means investment in NZ's largest export earner is far from a spent force yet. Probably more interesting and important was the announced JV with Beingmate to speed up market penetration of Fonterra's infant formula **brand** Anmun into **China**. It wasn't that long ago the **company** had to divest itself from the Sanlu tragedy. But with new management, a strategy focused on adding more value to **milk** and all the other major competitors upping their stakes in **China** it appears Fonterra couldn't afford to miss out. Let's hope the lessons from Sanlu have been taken

on-board as the new JV is substantially larger. Taken with a range of other initiatives announced in the last 12 months, Fonterra are clearly taking a step forward in implementing their strategy. The proof will be in the pudding with volume growth in their value-add products, such as Anmum and Anlene the test of success.

NZD/USD: Relief rally...

NZD/USD bounced yesterday after Fonterra affirmed the NZD6/kg MS milk price forecast, but we expect it to remain capped by the 0.8420-30 resistance, and continue to follow US factors lower. The second read of Q2 US GDP is expected tonight. Significant revisions are possible and markets will watch closely.

Expected range: 0.8330- 0.8420

NZD/AUD: Consolidating...

After testing below the final support NZD/AUD has consolidated. Q2 construction work in Australia was weaker than expected with negative revisions and has caused caution over following technical breaks.

Expected range: 0.8920 - 0.8990

NZD/EUR: Pessimism spreads...

Confidence surveys in Germany, France, Italy, and Finland continued to decline, but headlines citing ECB sources said action from the ECB next week was 'unlikely' and caused EUR to rally, offsetting some of the NZD strength. Tonight focus will be on German and Spanish CPI ahead of tomorrow's European CPI, which is a major input into the ECB decision making process.

Expected range: 0.6320 - 0.6370

NZD/JPY: Side-lined...

Nothing new from Japan and this cross has increased in-line with NZD/USD.

Expected range: 86.50 - 87.50

NZD/GBP: GBP bounce

Sterling bounced off support overnight as the 1.65 level held in GBP/USD.

Expected range: 0.5030 - 0.5080

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

IPD news

PUB Fuseworks Limited

AN Document FUSMED0020140827ea8r003xq