



ECONOMICS & MARKETS RESEARCH ANZ MORNING NOTE

29 APRIL 2010

ANZ AUSTRALIAN
MACROECONOMICS,
FX & COMMODITIES
RESEARCH

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OVERNIGHT MARKETS UPDATE

- **US bonds** declined as risk aversion faded and following the sale of \$42bn of 5-year notes that drew a yield of 2.54%, with a bid-to-cover ratio of 2.75 compared with 2.55 over the last 10 auctions. The yield on 2-year notes increased 7bps to 1.023%, whilst the 10-year yield gained 8bps to 3.765%.
- **Australian bond** futures outperformed US Treasuries. The implied yield on 3-year bond futures increased 6bps to 5.390% (price down 6bps to 94.610) and the implied yield on the 10-year bond futures gained 5bps to 7.775% (price down 5bps to 94.230).
- **US equities** advanced as better-than-expected earnings at Dow Chemicals and Owens Corning offset a downgrade of Spain's credit rating to AA from AA+ by S&P. The DJIA was up 0.5% to 11045, the S&P 500 gained 0.6% to 1191 and the Nasdaq was flat at 2472.
- **European equities** dropped following a downgrade of Spain's credit rating by S&P, raising concerns that the debt crisis might spread across the European region. The DJ Euro Stoxx 50 lost 1.8% to 2789, the German DAX fell 1.2% to 6084 and the UK FTSE was 0.3% lower at 5587.
- **The Australian SPI 200 May 10 futures** contract was up 7 points or 0.1% to 4833.
- The **USD** traded mixed overnight. **EUR/USD** plummeted below 1.3120 on the Spain downgrade but has recovered to around 1.3220. **GBP/USD** fell to an overnight low of 1.5126 but trimmed some loses to open the morning weaker at around 1.5200. **JPY** weakened to be trading back above **USD/JPY** 94.00 this morning.
- The **AUD** strengthened against most major currency pairs overnight. **AUD/USD** recovered from an overnight low of 0.9157 to open stronger at 0.9250. **AUD/EUR** opens the morning higher at around 0.7000. **AUD/JPY** gained steadily overnight to open stronger at 87.00 and the **AUD/NZD** pair is trading stronger around 1.2890 after the RBNZ left rates on hold and released a more dovish than expected statement.
- **Crude oil** increased despite the larger than expected rise in US oil inventories. WTI futures contract for June 10 increased 1.1% to US\$83.34 a barrel.
- **Spot gold** extended its gain overnight on increased demand for an alternative to holding currencies, however ended flat. Spot gold was flat at US\$1,165.40 an ounce.
- **LME copper** declined 1.2% to US\$7,400 on concerns that economic recovery in Europe might stall due to the debt crisis in Greece and other countries in Europe, reducing the demand for metals. Other base metals traded negative with **zinc**, **nickel** and **lead** decreasing 1.3%, 1.1% and 2.8%, respectively while **aluminium** ended 1.8% higher.
- **US corn** rose 2.7% after China imported more than 100,000 metric tons of the grain from the US. **Sugar** dropped 3.2% on expectations that output from Brazil would increase. **Wheat** declined 0.4% on forecasts that favourable weather would increase US output. **Soybeans** ended flat, while **palm oil** futures fell 0.1%.

Please note that the prices/rates have been updated at 0700 AEST.

ECONOMIC DATA & EVENTS

OVERNIGHT DATA AND EVENTS (MARKET EXPECTATIONS, LAST OBSERVATION)

- **US MBA Mortgage Market Index** (w/e 23 Apr) fell -2.9% (13.6%) as an increase in lending rates caused a decline of 8.8% in refinancing. However, purchase applications jumped 7.4%, as the approaching end of the federal tax credit brought homebuyers back into the market.
- **US FOMC Rate Decision** (Apr 28): 0.25% (0.25%, 0.25%). The Fed decided to leave rates unchanged and reiterated their commitment to leaving it there "for an extended period". But there is no doubting that the Fed's assessment is more upbeat, citing an improving labour market (as opposed to stabilising) and a pick up in household spending (as opposed to expanding at a moderate rate). Should we start to see the US unemployment rate turn down, the extended period phrase may not stay for long.
- **GE CPI - EU Harmonised y/y** (Apr P) unexpectedly declined to 1.0% (1.3%, 1.2%) as high energy costs were offset by a fall in prices for vacation homes and holiday packages due to the early Easter weekend.
- **GE CPI - EU Harmonised m/m** (Apr P): -0.1% (0.2%, 0.6%)
- **GE CPI y/y** (Apr P): 1.0% (1.2%, 1.1%)
- **GE CPI m/m** (Apr P): -0.1% (0.2%, 0.5%)
- **CA House Price Index** (Feb): 9.9% (7.5%)
- **The NZ Government increased the tobacco excise tax by 10% overnight.** The tax on loose tobacco went up by 25.4% to bring it into line with cigarettes. This would result in an 8% rise in the retail price for cigarettes, adding around 0.2 percentage points to Q2 CPI. The excise tax will rise a further 10% in January 2011 and January 2012.
- **NZ's RBNZ left the overnight cash rate on hold at 2.50%** this morning. Reserve Bank Governor Alan Bollard said that the Bank "expect to begin removing policy stimulus over the coming months, provided the economy continued to evolve as projected" and that the recovery will be "in line with or slightly faster than our March projection."
- **S&P cut Spain's credit rating** by a notch to AA with a negative outlook, saying "Spain is likely to have an extended period of subdued growth, which weakens its budgetary position".
- **US FOMC said:** "Economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period."
- **EU ECB President Jean-Claude Trichet on Greece's budget-cutting programs:** "I have no particular comment on what could happen in the future, it all depends on the quality of the program which is being negotiated...I'm confident, but it has to be a program which is courageous and convincing and expect it will be taken into account by all observers including credit rating agencies."
- **EU ECB Governing Council member Yves Mersch said:** "A financial crisis is one that is always more difficult and has longer ripple effects...We're in a situation where we see that in one day there can be large repercussions on international markets, which could again have negative effects on the financial sector."
- **EU ECB Executive Board member Juergen Stark said:** "The onus is now on governments to ensure that the crisis that initially affected the financial sector, and subsequently the real economy, does not lead to a full-blown sovereign debt crisis."

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- NZ: AON 1-Year Inflation Expect – (Apr): Last: 7.2%
- NZ: RBNZ Official Cash Rate: ANZ: 2.50% Market: 2.50% Last: 2.50% - 21:00 GMT (07.00 AEST)
- NZ: Trade Balance – (Mar): ANZ: 360m Last: 321M - 22:45 GMT (08.45 AEST)
- NZ: Imports – (Mar): ANZ: 3400m Last: 3.00B - 22:45 GMT (08.45 AEST)
- NZ: Exports – (Mar): ANZ: 3760m Last: 3.32B - 22:45 GMT (08.45 AEST)
- NZ: Trade Balance 12 Mth YTD – (Mar): ANZ: -425m Last: -347.0 - 22:45 GMT (08.45 AEST)
- NZ: Money Supply M3 y/y – (Mar): Last: -5.1% - 03:00 GMT (13.00 AEST)
- AU: Quarterly Wage Agreements– (Apr)
- AU: Conference Board Leading Index – (Feb): Last: -0.2% - 00:00 GMT (10.00 AEST)
- JP: Markets Closed
- EU: Euro-Zone M3 y/y – (Mar): Market: -0.1% Last: -0.4% - 08:00 GMT (18.00 AEST)
- EU: Euro-Zone M3 sa 3 mth avg – (Mar): Market: -0.2% Last: -0.2% - 08:00 GMT (18.00 AEST)
- EU: Business Climate Indicator – (Apr): Market: -0.12 Last: -0.32 - 09:00 GMT (19.00 AEST)
- EU: Euro-Zone Industrial Confidence – (Apr): Market: -8 Last: -10 - 09:00 GMT (19.00 AEST)
- EU: Euro-Zone Consumer Confidence – (Apr F): Last: -15 - 09:00 GMT (19.00 AEST)
- EU: Euro-Zone Economic Confidence – (Apr): Market: 99.4 Last: 97.7 - 09:00 GMT (19.00 AEST)
- EU: Euro-zone Services Confidence – (Apr): Market: 3 Last: 1 - 09:00 GMT (19.00 AEST)
- EU: ECB's Trichet Speaks in Munich
- GE: Unemployment Change – (Apr): Market: -10K Last: -31K - 07:55 GMT (17.55 AEST)
- GE: Unemployment Rate – (Apr): Market: 8.0% Last: 8.0% - 07:55 GMT (17.55 AEST)
- UK: Nat'wide House prices m/m – (Apr): Market: 0.4% Last: 0.7%
- UK: Nat'wide House prices y/y – (Apr): Market: 9.7% Last: 9.0%
- US: Chicago Fed National Activity Index – (Mar): Last: -0.64 - 12:30 GMT (22.30 AEST)
- US: Initial Jobless Claims – (w/e 24 Apr): Market: 445K Last: 456K - 12:30 GMT (22.30 AEST)
- US: Continuing Claims – (w/e 17 Apr); Market: 4618K Last: 4646K - 12:30 GMT (22.30 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME *

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	1.024	7.3	US 2y swap	1.22	0.4
US 5y note	2.500	7.8	US 5y swap	2.69	3.5
US 10y note	3.763	7.7	US 10y swap	3.76	3.7
US 30y bond	4.627	5.0	AUS 3y swap	5.59	8.0
US 2y swap spread	16.50	-0.1	AUS 5y swap	5.95	8.0
US 5y swap spread	19.25	0.4	AUS 10y swap	6.19	6.0
US 10y swap spread	-0.75	0.0	NZ 3y swap	4.78	2.3
AUS 3y	94.610	-6.0	NZ 10y swap	5.86	3.7
AUS 10y	94.230	-4.5	AUS 3m bills	4.59	-6.0
US 3m Libor	0.338	1.0	NZ 3m bills	2.73	0.0

Source: ANZ and Bloomberg. Change in basis points

TABLE 2: FOREIGN EXCHANGE#

	LAST	CHANGE	OVERNIGHT RANGE	CURRENT VS AUD
AUD	0.9249	-0.0003	0.9157 - 0.9267	-
TWI*	71.9000	-	-	-
NZD	0.7209	0.0000	0.7113 - 0.7218	1.2827
EUR	1.3219	-0.0002	1.3114 - 1.3266	0.6998
JPY	94.04	0.0100	93.09 - 94.33	86.94
GBP	1.5206	-0.0003	1.5126 - 1.5282	0.6083
CAD	1.0098	0.0001	1.0072 - 1.0197	0.9338
CHF	1.0845	0.0000	1.0815 - 1.0925	1.0031
DXY	82.2130	-0.1830	-	-

Source: ANZ and Bloomberg. * As at 4pm AEST yesterday. Change in pips.

#NB. Overnight ranges for European and New York trading sessions (0700-21:00 GMT)

TABLE 3: EQUITY MARKETS AND COMMODITIES*

	LAST	CHANGE		LAST	CHANGE
Dow Jones	11045	0.5	Gold (\$US/ounce)	1166.3	0.0
S&P	1191	0.6	Copper (\$US/tonne)	7400.0	-1.2
Nasdaq	2472	0.0	Nickel (\$US/tonne)	25650.0	-1.1
FTSE 100	5587	-0.3	CRB Index	274.5	0.5
DAX	6084	-1.2	Oil (\$US/barrel)	83.43	1.2

Source: ANZ and Bloomberg. Change in %.

*NB. Indicative levels only. Some base metal prices may not be in real time. Please speak to your ANZ representative if you require the latest market pricing.

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