ECONOMICS & MARKETS RESEARCH
ANZ MORNING NOTE

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ANZ AUSTRALIAN MACROECONOMICS, FX & COMMODITIES RESEARCH

CONTACTS

Warren Hogan
Chief Economist, Australia
+61 2 9227 1562
Warren.Hogan@anz.com

Amy Auster
Head of FX Research
+61 3 9273 5417
Amy.Auster@anz.com

Mark Pervan
Head of Commodity Research
+61 3 9273 3716
Mark.Pervan@anz.com

Tony Morriss
Senior Rates Strategist,
Tony.Morriss@anz.com

Shane Lee
Senior Economist,
+61 2 92264632
Shane.Lee@anz.com

Amber Rabinov
Senior Economist
+61 3 9273 4853
Amber.Rabinov@anz.com

Andrew Dowman
Research Analyst
+61 3 92736881
Andrew.Dowman@anz.com

Natalie Robertson
Commodity Research Analyst
+61 3 9273 3415
Natalie.Robertson@anz.com

OVERNIGHT MARKETS UPDATE

- **US bonds** increased, as concerns over Greece's crisis bolstered the safe-haven appeal of US Treasuries, offsetting positive US economic data. The yield on 2-year notes decreased 4bps to 0.960%, whilst the 10-year yield lost 7bps to 3.653%.
- **Australian bond** futures underperformed US Treasuries. The implied yield on 3-year bond futures decreased 1bps to 5.350% (price up 1bps to 94.650) and the implied yield on the 10-year bond futures lost 1bps to 5.710% (price up 1bps to 94.290).
- **US equities** fell led by financial shares as prosecutors scrutinised Goldman Sachs and Barclays reporting earnings that missed estimates. The DJIA was down 1.4% to 11009, the S&P 500 lost 1.7% to 1187 and the Nasdaq was 2.0% lower at 2461.
- **European equities** followed US equities lower. The DJ Euro Stoxx 50 lost 0.4% to 2817, the German DAX fell 0.1% to 6136 and the UK FTSE was 1.1% lower at 5553.
- **The Australian SPI 200 May 10 futures** contract was down 62 points or 1.3% to 4757.
- It was a mixed night for the **USD** on Friday. **EUR/USD** recovered from an overnight low of 1.3256 on Friday to open higher at 1.3340. **GBP/USD** opens weaker at 1.5310 on concerns that the UK economy would grow at a slow pace compared to the US and Euro region**. USD/JPY** fell late on Friday night and opens the morning lower at 93.90.
- The **AUD** weakened against most major currency pairs on Friday. **AUD/USD** fell in late trade to open weaker at 0.9230. **AUD/EUR** opens lower at around 0.6920. **AUD/JPY** declined steadily and opens weaker at 86.60. **AUD/NZD** opens lower at 1.2680.
- **Crude oil** increased after reports showed the US GDP grew in the first quarter. WTI futures contract for June 10 increased 1.2% to US$86.15 a barrel.
- **Spot gold** rose as investors sought alternative safe-haven assets on signals that sovereign-debt risk may erode the value of currencies. Spot gold rose 1.1% to US$1,179.20 an ounce.
- **LME copper** climbed 1.0% to US$7,430 on a weaker USD and better than expected US state manufacturing data. Other base metals traded positive with **zinc, aluminum** and **nickel** increasing 0.8%, 2.5% and 3.5%, respectively while **lead** ended 0.1% lower.
- **US corn** rose 1.6% as demand for the grain from ethanol refiners increased. **Wheat** rose 1.5% as investors reduced their short positions. **Soybeans** advanced 0.4% after China increased its import from the US. **Sugar** declined 0.3% on concerns that increased output from Brazil would increase global supply, while **palm oil** futures were 1.1% higher.

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

ECONOMIC DATA & EVENTS

OVERNIGHT DATA AND EVENTS (MARKET EXPECTATIONS, LAST OBSERVATION)

- **US GDP q/q** (1Q A) rose 3.2% (3.3%, 5.6%) led by a rise in consumer expenditure and business investment. However, inventory investment and net exports slowed in the first quarter.
- **US GDP Price Index q/q** (1Q A): 0.9% (0.9%, 0.5%)
- **US Personal Consumption** (1Q A) climbed 3.6% (3.3%, 1.6%), the most since the first quarter of 2007, led by growing sales at retailers.
- **US Personal Consumption Core q/q** (1Q A): 0.6% (0.5%, 1.8%)
- **US Employment Cost Index q/q** (1Q) increased 0.6% (0.5%, 0.4%), the most since September 2008, led by a 1.1% rise in benefit costs, while wages and salaries increased 0.4%. The rise in benefit costs were due to healthcare and pension plans.
- **US Chicago Purchasing Managers Index** (Apr) expanded more than estimated to 63.8 (60.0, 58.8), the highest level since April 2005, supported by an increase in business investments. The index of backlogs climbed to 61.4 from 54.3, while the employment index advanced to 57.2 from 53.1.
- **US Uni. of Michigan Consumer Confidence** (Apr F) fell to 72.2 (71.0, 69.5) from 73.6 in March but was less than market expectations. The gauge of current conditions declined to 66.5 from 67.9 in the previous month and the index of consumer expectations dropped to 66.5 from 67.9.
- **US Total Milwaukee Index** (Apr): 66.0 (62.0)
- **US Bloomberg Financial Conditions Index Monthly** (Apr): 0.4 (0.5)
- **EU Euro-zone CPI Estimate y/y** (Apr) increased 1.5% (1.5%, 1.4%), the fastest rate since December 2008, due to rising energy costs and despite companies cutting costs and reducing payrolls.
- **EU Euro-zone Unemployment rate** (Mar) was held at 10.0% (10.0%, 10.0%), with Spain reporting the highest unemployment rate in the euro region at 19.1%. Other countries with a double-digit unemployment rate were Ireland at 13.2% and Portugal at 10.5%.
- **CA Industrial Product Price m/m** (Mar): -0.4% (-0.1%, 0.1%)
- **CA GDP m/m** (Feb): 0.3% (0.3%, 0.6%)
- **CA Raw Materials Price m/m** (Mar): 0.8% (1.0%, 0.4%)
- **PBOC raise reserve requirement** to 17% for the biggest banks. The 50 basis point rise is effective May 10 and this is the third increase this year. With the Chinese economy still showing signs of overheating, analysts believe the policy tightening will be insufficient to prevent further cooling initiatives.
- **Australian Tax changes announced.** Key changes, to be phased in progressively from 2012/13, include corporate tax cuts (to 28% by July 2014), more generous treatment for superannuation, and additional funding for infrastructure. These changes are funded via raising the taxation of 'super-normal' profits from the Resource Sector to 40%.
- **UK election nears.** With the Conservative Party making gains in recent polls, leader David Cameron noted "*tough and difficult decisions*" to get the UK public finances under control. However, he pledged to act responsibly and to "*do everything we can to have a good and strong government in the natural interest*".

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- NZ: ANZ Commodity Price – (Apr): Last: 1.8% - 03:00 GMT (13.00 AEST)
- AU: AIG Performance of Manufacturing Index – (Apr): Last: 50.2 - 23:30 GMT (09.30 AEST)
- AU: TD Securities Inflation m/m – (Apr): Last: 0.5% - 00:30 GMT (10.30 AEST)
- AU: TD Securities Inflation y/y – (Apr): Last: 2.5% - 00:30 GMT (10.30 AEST)
- AU: House Price Index q/q – (Q1): ANZ: 3.9% Market: 3.0% Last: 5.2% - 01:30 GMT (11.30 AEST)
- AU: House Price Index y/y – (Q1): ANZ: 19.0% Market: 18.0% Last: 13.6% - 01:30 GMT (11.30 AEST)
- AU: RBA Commodity Index SDR y/y – (Apr): Last: 1.4% - 06:30 GMT (16.30 AEST)
- JP: Markets Closed
- CH: Markets Closed
- CH: PMI Manufacturing – (Apr): Market: 55.9 Last: 55.1 - 01:00 GMT (11.00 AEST)
- EU: PMI Manufacturing – (Apr F): market: 57.5 Last: 57.5 - 08:00 GMT (18.00 AEST)
- GE: PMI Manufacturing – (Apr F): Market: 61.3 Last: 61.3 - 07:55 GMT (17.55 AEST)
- GE: Retail Sales m/m – (Mar): Market: 0.0% Last: 1.1%
- GE: Retail Sales y/y – (Mar): Market: -0.5% Last: -0.9%
- UK: Markets Closed
- US: Personal Income – (Mar): Market: 0.3% Last: 0.0% - 12:30 GMT (22.30 AEST)
- US: Personal Spending – (Mar): Market: 0.6% Last: 0.3% - 12:30 GMT (22.30 AEST)
- US: PCE Deflator y/y – (Mar): Market: 2.0% Last: 1.8% - 12:30 GMT (22.30 AEST)
- US: PCE Core m/m – (Mar): Market: 0.0% Last: 0.0% - 12:30 GMT (22.30 AEST)
- US: PCE Core y/y – (Mar): Market: 1.3% Last: 1.3% - 12:30 GMT (22.30 AEST)
- US: ISM Manufacturing – (Apr): Market: 60.0 Last: 59.6 - 14:00 GMT (00.00 AEST)
- US: ISM Prices Paid – (Apr): Market: 75.0 Last: 75.0 - 14:00 GMT (00.00 AEST)
- US: Construction Spending m/m – (Apr): Market: -0.3% Last: -1.3% - 14:00 GMT (00.00 AEST)
- US: Domestic Vehicle Sales – (Apr): Market: 8.80M Last: 9.05M - 21:00 GMT (07.00 AEST)
- US: Total Vehicle Sales – (Apr): Market: 11.40M Last: 11.77M - 21:00 GMT (07.00 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME*

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	0.960	-4.0	US 2y swap	1.20	-2.2
US 5y note	2.416	-6.0	US 5y swap	2.61	-4.6
US 10y note	3.653	-7.1	US 10y swap	3.66	-5.2
US 30y bond	4.517	-7.2	AUS 3y swap	5.55	-2.5
US 2y swap spread	23.52	5.1	AUS 5y swap	5.90	-2.5
US 5y swap spread	19.00	2.2	AUS 10y swap	6.12	-3.0
US 10y swap spread	0.19	1.9	NZ 3y swap	4.83	0.6
AUS 3y	94.650	1.0	NZ 10y swap	5.82	0.0
AUS 10y	94.290	1.0	AUS 3m bills	4.63	-3.8
US 3m Libor	0.347	0.2	NZ 3m bills	2.73	1.5

Source: ANZ and Bloomberg. Change in basis points

TABLE 2: FOREIGN EXCHANGE#

	LAST	CHANGE	OVERNIGHT RANGE	CURRENT VS AUD
AUD	0.9228	-0.0015	0.9236 - 0.9325	-
TWI*	72.5000	-	-	-
NZD	0.7260	-0.0010	0.726 - 0.7326	1.2713
EUR	1.3344	0.0050	1.3256 - 1.3342	0.6916
JPY	93.82	-0.0300	93.84 - 94.58	86.56
GBP	1.5311	0.0037	1.5254 - 1.5388	0.6027
CAD	1.0177	-0.0002	1.0016 - 1.018	0.9391
CHF	1.0749	-0.0027	1.0748 - 1.0813	0.9920
DXY	81.8660	-0.1330	-	-

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	11009	-1.4	Gold ($US/ounce)	1179.2	1.1
S&P	1187	-1.7	Copper ($US/tonne)	7430.0	1.0
Nasdaq	2461	-2.0	Nickel ($US/tonne)	26300.0	3.5
FTSE 100	5553	-1.1	CRB Index	277.7	0.9
DAX	6136	-0.1	Oil ($US/barrel)	86.15	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.

IMPORTANT NOTICE

Australia and New Zealand Group Limited is represented in:

AUSTRALIA

Australia and New Zealand Banking Group Limited

ABN 11 005 357 522

ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands Victoria 3008, Australia

Telephone +61 2 9226 4647 Fax +61 3 9273 5711

UNITED STATES OF AMERICA

ANZ Securities, Inc. is a member of FINRA (www.finra.org) and registered with the SEC.

277 Park Avenue, 31st Floor,

New York, NY 10172, United States of America

Tel: +1 212 801 9160 Fax: +1 212 801 9163

UNITED KINGDOM BY:

Australia and New Zealand Banking Group Limited

ABN 11 005 357 522

40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom

Telephone +44 20 3229 2121 Fax +44 20 7378 2378

NEW ZEALAND BY:

ANZ National Bank Limited

Level 7, 1-9 Victoria Street, Wellington, New Zealand

Telephone +64 4 802 2000