



ECONOMICS & MARKETS RESEARCH ANZ MORNING NOTE

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ANZ AUSTRALIAN
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FX & COMMODITIES
RESEARCH

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OVERNIGHT MARKETS UPDATE

- **US bonds** declined as risk appetite among investors increased after EU officials announced a bailout plan for Greece. Positive US economic data, indicating US economic recovery is gaining momentum, also weighed on Treasuries. The yield on 2-year notes increased 3bps to 0.992%, whilst the 10-year yield gained 3bps to 3.688%.
- **Australian bond** futures were weaker at the front end ahead of the RBA announcement today. The implied yield on 3-year bond futures increased 2bps to 5.460% (price down 2bps to 94.540) while the implied yield on the 10-year bond future lost 1bps to 5.780% (price up 1bps to 94.220) to flatten the curve.
- **US equities** gained after reports showed manufacturing in the US expanded, and personal income and consumption expenditure increased. Merger talks between UAL Corp and Continental Airlines, and Warren Buffet's comments on Goldman Sachs also supported the markets. The DJIA was up 1.3% to 11152, the S&P 500 gained 1.3% to 1202 and the Nasdaq was 1.5% higher at 2499.
- **European equities** traded mixed as concerns on the €110bn bailout package for Greece were offset by better-than-estimated economic data. The DJ Euro Stoxx 50 ended flat at 2817 and the German DAX rose 0.5% to 6167. UK markets were closed.
- **The Australian SPI 200 May 10 futures** contract was up 20 points or 0.4% to 4815.
- The **USD** strengthened against most major currency pairs. **EUR/USD** opens weaker at around 1.3190 on concerns that the bailout plan for Greece may not be supported by some of the Euro region's governments. **GBP/USD** is little changed at 1.5240 after a choppy session. **USD/JPY** opens stronger at 94.50 after gaining steadily overnight.
- It was a mixed night for the **AUD**. **AUD/USD** fluctuated through the night to open the morning little changed at 0.9265. **AUD/EUR** touched a new high overnight and opens stronger at 0.7020. **AUD/JPY** opens stronger at around 87.60, and **AUD/NZD** fell late in the night to open weaker at 1.2670.
- **Crude oil** climbed to a 18-month high after reports showed that manufacturing in the US expanded more than estimated, however pared gains later in the night ending lower. WTI futures contract for June 10 decreased 0.2% to US\$86.02 a barrel.
- **Spot gold** advanced as concerns of sovereign debt in the Euro-zone increased the appeal of the precious metal as an alternative investment. Spot gold rose 0.3% to US\$1,182.30 an ounce.
- **London Metal Exchange was closed.**
- **US soybeans, wheat and corn** fell 1.4%, 0.4% and 1.0%, respectively on concerns that the strengthening USD might reduce US export demand. **Sugar** decreased 0.3% on forecasts that global production would increase, while **palm oil** futures were 0.2% lower.

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

ECONOMIC DATA & EVENTS

OVERNIGHT DATA AND EVENTS (MARKET EXPECTATIONS, LAST OBSERVATION)

- **US Personal Spending m/m** (Mar) increased in line with forecasts by 0.6% (0.6%, 0.5%). This was the strongest rise in five months and was supported by growing demand at retailers. Purchases of durable goods climbed 3.4% and non-durable goods rose 0.4%.
- **US PCE Deflator y/y** (Mar): 2.0% (2.0%, 1.8%)
- **US PCE Core m/m** (Mar): 0.1% (0.1%, 0.0%)
- **US PCE Core y/y** (Mar): 1.3% (1.3%, 1.3%)
- **US Personal Income m/m** (Mar): 0.3% (0.3%, 0.1%)
- **US ISM Manufacturing** (Apr) increased to 60.4 (60.0, 59.6), the highest level since June 2004, as companies invest in new equipment and increase output to meet the rising domestic and global demand.
- **US ISM Manufacturing Prices Index** (Apr): 78.0 (73.0, 75.0)
- **US Construction Spending m/m** (Mar) unexpectedly increased 0.2% (-0.5%, -2.1%), supported by a 2.3% gain in government projects. However, homebuilding fell 1.1% and non-residential projects declined 0.7%.
- **GE PMI Manufacturing Survey** (Apr F): 61.5 (61.3, 61.3)
- **EU PMI Manufacturing Survey** (Apr F) expanded to 57.6 (57.5, 57.5), the highest since June 2006, as companies increased output to meet the rising export demand from the US and emerging markets in Asia.
- **German Chancellor Angela Merkel on Greece's rescue package:** *"The ECB didn't take the decision lightly and won't do this forever...We have to see that Greece gets help from governments as long as it doesn't have the markets' confidence."*
- **EU President Herman Van Rompuy said:** *"Following the agreement reached yesterday by ministers of finance of the eurogroup on the adjustment program and activation of financial support to Greece, we will take stock of parliamentary procedures that must be carried through in the next few days at national level, with a view to concluding the whole process...In the light of this crisis, I would also like us to have an exchange of views on the lessons to be learned for the euro area."*
- **EU ECB Council Member Mario Draghi said:** *"Options for further monetary and fiscal easing are limited -- perhaps non-existent...The resilience of the financial system is thus critical to the sustainability of the recovery."*

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- NZ: Private Wages Inc Overtime q/q – (Q1): ANZ: 0.7% Market: 0.4% Last: 0.3% - 22:45 GMT (08.45 AEST)
- NZ: Private Wages Exc Overtime q/q – (Q1) ANZ: 0.7% Market: 0.4% Last: 0.3% - 22:45 GMT (08.45 AEST)
- NZ: Average Hourly Earnings q/q – (Q1): ANZ: 0.9% Market: 0.4% Last: -0.4% - 22:45 GMT (08.45 AEST)
- AU: RBA CASH TARGET: ANZ: 4.50% Market: 4.50% Last: 4.25% - 04:30 GMT (14.30 AEST)
- JP: Markets Closed
- CH: HSBC Manufacturing PMI: Last: 57.0 - 02:30 GMT (12.30 AEST)
- EU: Euro-Zone PPI m/m – (Mar): Market: 0.7% Last: 0.1% - 08:00 GMT (18.00 AEST)
- EU: Euro-Zone PPI y/y – (Mar): Market: 0.9% Last: -0.5% - 09:00 GMT (19.00 AEST)
- EU: European Commission Releases Spring Economic Forecasts
- 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: Net Consumer Credit – (Mar): Market: 0.4B Last: 0.5B - 08:30 GMT (18.30 AEST)
- UK: Net Lending Sec. on Dwellings – (Mar): Market: 1.5B Last: 1.6B - 08:30 GMT (18.30 AEST)
- UK: Mortgage Approvals – (Mar): Market: 49.0K Last: 47.1K - 08:30 GMT (18.30 AEST)
- UK: M4 Money Supply m/m – (Mar F): Last: 0.1% - 08:30 GMT (18.30 AEST)
- UK: M4 Money Supply y/y – (Mar F): Last: 3.5% - 08:30 GMT (18.30 AEST)
- UK: PMI Manufacturing – (Apr): Market: 57.5 Last: 57.2 - 08:30 GMT (18.30 AEST)
- US: Factory Orders – (Mar): Market: -0.1% Last: 0.6% - 14:00 GMT (00.00 AEST)
- US: Pending Home Sales m/m – (Mar): Market: 4.5% Last: 8.2% - 14:00 GMT (00.00 AEST)
- US: Pending Home Sales y/y – (Mar): Last: 17.3% - 14:00 GMT (00.00 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME *

| | LEVEL | CHANGE | | LEVEL | CHANGE |
|--------------------|--------|--------|--------------|-------|--------|
| US 2y note | 0.992 | 3.2 | US 2y swap | 1.25 | 4.7 |
| US 5y note | 2.463 | 4.7 | US 5y swap | 2.67 | 2.6 |
| US 10y note | 3.688 | 3.5 | US 10y swap | 3.70 | -0.1 |
| US 30y bond | 4.530 | 1.2 | AUS 3y swap | 5.64 | 1.0 |
| US 2y swap spread | 25.38 | 1.9 | AUS 5y swap | 5.99 | 1.0 |
| US 5y swap spread | 20.63 | 1.6 | AUS 10y swap | 6.20 | -0.5 |
| US 10y swap spread | 1.00 | 0.8 | NZ 3y swap | 4.89 | 0.5 |
| AUS 3y | 94.540 | -2.0 | NZ 10y swap | 5.86 | 0.5 |
| AUS 10y | 94.220 | 1.0 | AUS 3m bills | 4.63 | 0.8 |
| US 3m Libor | 0.347 | 0.2 | NZ 3m bills | 2.77 | 0.0 |

Source: ANZ and Bloomberg. Change in basis points

TABLE 2: FOREIGN EXCHANGE#

| | LAST | CHANGE | OVERNIGHT RANGE | CURRENT VS AUD |
|------|---------|---------|-----------------|----------------|
| AUD | 0.9260 | 0.0017 | 0.9228 - 0.9275 | - |
| TWI* | 72.2000 | - | - | - |
| NZD | 0.7306 | 0.0036 | 0.7279 - 0.7325 | 1.2671 |
| EUR | 1.3190 | -0.0104 | 1.3155 - 1.3248 | 0.7020 |
| JPY | 94.55 | 0.7000 | 93.92 - 94.79 | 87.53 |
| GBP | 1.5244 | -0.0030 | 1.5211 - 1.5283 | 0.6074 |
| CAD | 1.0108 | -0.0071 | 1.0101 - 1.0187 | 0.9359 |
| CHF | 1.0861 | 0.0085 | 1.0815 - 1.089 | 1.0057 |
| DXY | 82.3630 | 0.4970 | - | - |

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 | 11152 | 1.3 | Gold (\$US/ounce) | 1182.3 | 0.3 |
| S&P | 1202 | 1.3 | Copper (\$US/tonne) | 7430.0 | 1.0 |
| Nasdaq | 2499 | 1.5 | Nickel (\$US/tonne) | 26300.0 | 3.5 |
| FTSE 100 | 5553 | -1.1 | CRB Index | 278.1 | 0.1 |
| DAX | 6167 | 0.5 | Oil (\$US/barrel) | 86.05 | -0.1 |

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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