



ECONOMICS & MARKETS RESEARCH ANZ MORNING NOTE

05 MAY 2010

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** rallied across the curve on flight-quality demand as concerns about Greece's deficit crisis bolstered the safe-haven appeal of the US treasuries. The yield on 2-year notes decreased 5bps to 0.944%, whilst the 10-year yield lost 9bps to 3.596%.
- **Australian bond** futures traded in line with US Treasuries to reflect global risk aversion. The implied yield on 3-year bond futures fell 8bps to 5.310% (price up 8bps to 94.690) and the implied yield on the 10-year bond futures was also down 8bps to 5.665% (price up 8bps to 94.335).
- **US equities** fell on concerns that Greece's debt crisis would spread to other countries in the region. The fall in metal prices and crude oil also weighed on the markets. The DJIA was down 2.0% to 10927, the S&P 500 lost 2.4% to 1174 and the Nasdaq was 3.0% lower at 2424.
- **European equities** also declined on concerns over the deficit crisis in Greece. The DJ Euro Stoxx 50 lost 3.8% to 2708, the German DAX fell 2.6% to 6007 and the UK FTSE was 2.6% lower at 5411.
- **The Australian SPI 200 May 10 futures** contract was down 102 points or 2.2% to 4642.
- The **USD** strengthened against most major currencies pairs overnight. **EUR/USD** opens weaker at 1.2980, the lowest since April 2009, on concerns that the €110bn bailout plan for Greece may not be sufficient. **GBP/USD** opens the morning weaker at around 1.5135. **USD/JPY** opens at 94.60 after declining steadily overnight.
- The **AUD** weakened against major crosses on comments by the RBA that rates are at about average level after raising rates by 25 basis points. **AUD/USD** fell from an overnight high of 0.9213 to open the morning weaker at 0.9080. **AUD/EUR** traded sideways and opens lower at 0.6995. **AUD/JPY** opens weaker at 85.95 after falling sharply overnight. **AUD/NZD** opens lower at 1.2605.
- **Crude oil** declined on a stronger USD and increased risk aversion. WTI futures contract for June 10 decreased 4.7% to US\$82.13 a barrel.
- **Spot gold** fell in a general commodity sell off on Greece fears. Spot gold declined 0.9% to US\$1,117.60 an ounce.
- **LME copper** dropped 5.4% to US\$7,025 on European debt concerns and responding to China's recent cooling initiative. Other base metals traded negative with **zinc**, **aluminum**, **nickel** and **lead** decreasing 6.2%, 4.2%, 6.3% and 7.9%, respectively.
- **US wheat** and **soybeans** rose 2.0% and 0.1% on forecasts that cold weather may reduce US output. **Corn** decreased 0.8% on concerns that China demand may not be as large as expected. **Sugar** declined 0.3% on concerns that India might become a net exporter of the commodity after reports showed that sugar production in India might exceed domestic demand. **Palm oil** futures were 1.5% 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 Factory Orders m/m** (Mar) unexpectedly climbed 1.3% (0.0%, 1.3%) as companies increased output to meet the rising domestic and global demand. Excluding transportation, orders increased 3.1%, the highest since August 2005, while non-durable goods rose 2.9%.
- **US Pending Home Sales m/m** (Mar) increased 5.3% (5.0%, 8.3%), as the approaching end of the federal tax credit prompted homebuyers to buy existing homes. Three of the four regions in the US reported an increase, while pending home sales dropped 3.3% in the Northeast.
- **US Pending Home Sales y/y** (Mar): 23.5% (19.5%, 17.4%)
- **UK Net Consumer Credit** (Mar): £0.3bn (£0.4bn, £0.6bn)
- **UK Net Lending Secured On Dwellings** (Mar): £0.3bn (£1.5bn, £1.8bn)
- **UK Mortgage Approvals** (Mar) increased to 48.9K (49.0K, 46.9K), the first increase since November, supported by lower borrowing costs and after the UK government scrapped a tax on house purchases for first-time buyers.
- **UK M4 Money Supply m/m** (Mar F): 0.2% (0.1%)
- **UK M4 Money Supply y/y** (Mar F): 3.6% (3.5%)
- **UK PMI Manufacturing Survey** (Apr) expanded to 58.0 (57.5, 57.3), the highest since September 1994, as a weak pound supported a rise in UK's exports.
- **GE Retail Sales m/m** (Mar): 2.4% (0.0%, 1.1%)
- **GE Retail Sales y/y** (Mar) rose 2.7% (-0.5%, -0.4%) with food, drink and tobacco sales increasing 3.5% while catalogue shopping sales dropped 6.5%.
- **EU Euro-zone PPI m/m** (Mar): 0.6% (0.7%, 0.1%)
- **EU Euro-zone PPI y/y** (Mar) increased 0.9% (0.9%, -0.4%), the first increase since December 2008, as rising crude oil prices added pressure on companies to increase costs. Energy prices rose 2.8%, intermediate goods increased 0.8% and durable consumer goods climbed 0.3%.
- **Dairy prices plateau.** This morning's Fonterra Online Auction results shows the average price across all contracts and contract periods for Whole Milk Powder was \$3,932 per tonne, 1.2 %lower than the April event. However, USD prices are more than 80%up on 12-months earlier (more than 50 percent up in NZD terms).
- **US Treasury Secretary Timothy F. Geithner on a proposed bank tax:** *"We designed the fee so that it would fall most heavily on firms that fund riskier activities with less stable forms of funding."*

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- AU: AIG Performance of Service Index: Market: 48.4 - 23:30 GMT (09.30 AEST)
- AU: Building Approvals m/m – (Mar): ANZ: 1.2% Market: 0.8% Last: -3.3% - 01:30 GMT (11.30 AEST)
- AU: Building Approvals y/y – (Mar): ANZ: 25.9% Market: 25.6% Last: 34.2% - 01:30 GMT (11.30 AEST)
- AU: AOFM auctions \$500 mn of July 2022 Bonds
- JP: Markets Closed
- EU: PMI Services – (Apr F): Market: 55.5 Last: 55.5 - 08:00 GMT (18.00 AEST)
- EU: PMI Composite – (Apr F): Last: 57.3 - 08:00 GMT (18.00 AEST)
- EU: Euro-Zone Retail Sales m/m – (Mar): Market: 0.1% Last: -0.6% - 09:00 GMT (19.00 AEST)
- EU: Euro-Zone Retail Sales y/y – (Mar): Last: -1.1% - 09:00 GMT (19.00 AEST)
- GE: PMI Services – (Apr F): Market: 55.0 Last: 55.0 - 07:55 GMT (17.55 AEST)
- UK: BRC Shop Price Index – (Apr) - 23:01 GMT (09.01 AEST)
- UK: Nationwide Consumer Confidence – (Apr): Last: 72 - 23:01 GMT (09.01 AEST)
- UK: PMI Construction – (Apr): Market: 53.2 Last: 53.1 - 08:30 GMT (18.30 AEST)
- US: MBA Mortgage Applications – (w/e 30 Apr): Last: -2.9% - 11:00 GMT (21.00 AEST)
- US: Challenger Job Cuts y/y – (Apr): Last: -55.0% - 11:30 GMT (21.30 AEST)
- US: ADP Employment Change – (Apr): Market: 28K Last: -23K - 12:15 GMT (22.15 AEST)
- US: ISM Non-Manf. Composite – (Apr): Market: 56.0 Last: 55.4 - 14:00 GMT (00.00 AEST)
- US: Fed's Rosengren Speaks in Boston - 12:30 GMT (22.30 AEST)
- US: Fed's Lacker to Speak in Richmond - 14:10 GMT (00.10 AEST)
- US: Fed's Rosengren Speaks in New York - 23:00 GMT (09.00 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME *

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	0.944	-4.8	US 2y swap	1.24	1.0
US 5y note	2.380	-7.7	US 5y swap	2.61	-4.2
US 10y note	3.594	-8.6	US 10y swap	3.61	-8.1
US 30y bond	4.417	-11.0	AUS 3y swap	5.52	-4.0
US 2y swap spread	28.69	3.0	AUS 5y swap	5.87	-4.0
US 5y swap spread	23.38	2.8	AUS 10y swap	6.09	-5.5
US 10y swap spread	1.00	0.0	NZ 3y swap	4.85	-1.0
AUS 3y	94.680	7.0	NZ 10y swap	5.83	-0.5
AUS 10y	94.330	8.0	AUS 3m bills	4.68	-5.0
US 3m Libor	0.353	0.7	NZ 3m bills	2.77	-1.0

Source: ANZ and Bloomberg. Change in basis points

TABLE 2: FOREIGN EXCHANGE#

	LAST	CHANGE	OVERNIGHT RANGE	CURRENT VS AUD
AUD	0.9089	-0.0172	0.9083 - 0.9214	-
TWI*	72.0000	-	-	-
NZD	0.7197	-0.0110	0.7189 - 0.7299	1.2620
EUR	1.2987	-0.0208	1.2982 - 1.3182	0.6998
JPY	94.50	-0.0400	94.33 - 94.9	85.88
GBP	1.5146	-0.0102	1.5091 - 1.5239	0.6001
CAD	1.0256	0.0148	1.0118 - 1.0257	0.9322
CHF	1.1030	0.0172	1.0867 - 1.1034	1.0025
DXY	83.3410	0.9830	-	-

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	10927	-2.0	Gold (\$US/ounce)	1171.5	-0.9
S&P	1174	-2.4	Copper (\$US/tonne)	7025.5	-5.4
Nasdaq	2424	-3.0	Nickel (\$US/tonne)	24650.0	-6.3
FTSE 100	5411	-2.6	CRB Index	271.6	-2.3
DAX	6007	-2.6	Oil (\$US/barrel)	82.43	-4.4

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 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

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

NEW ZEALAND BY:

ANZ National Bank Limited
 Level 7, 1-9 Victoria Street, Wellington, New Zealand
 Telephone +64 4 802 2000

This document ("document") is distributed to you in Australia and the United Kingdom by Australia and New Zealand Banking Group Limited ABN 11 005 357 522 ("ANZ") and in New Zealand by ANZ National Bank Limited ("ANZ NZ"). ANZ holds an Australian Financial Services licence no. 234527 and is authorised in the UK and regulated by the Financial Services Authority ("FSA").

This document is being distributed in the United States by ANZ Securities, Inc. ("ANZ S") (an affiliated company of ANZ), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any securities referred to herein should contact ANZ S, not its affiliates.

This document is being distributed in the United Kingdom by ANZ solely for the information of its eligible counterparties and professional clients (as defined by the FSA). It is not intended for and must not be distributed to any person who would come within the FSA definition of "retail clients". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the FSA.

This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZ, ANZ NZ, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZ, ANZ NZ, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will directly or indirectly relate to specific recommendations or views expressed about any securities or issuers in this document. ANZ, ANZ NZ, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Where the recipient of this publication conducts a business, the provisions of the Consumer Guarantees Act 1993 (NZ) shall not apply.