



ECONOMICS & MARKETS RESEARCH ANZ MORNING NOTE

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ANZ AUSTRALIAN
MACROECONOMICS,
FX & COMMODITIES
RESEARCH

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OVERNIGHT MARKETS UPDATE

- **US bonds** have found further support as risk appetite among investors has been hit on concerns that Greece's debt crisis would spread to other European countries and Portugal's credit ratings may be cut by Moody's. The yield on 2-year notes decreased 7bps to 0.867%, whilst the 10-year yield lost 5bps to 3.549%.
- **Australian bond** futures traded in line with US Treasuries. The implied yield on 3-year bond futures fell 5bps to 5.240% (price up 6bps to 94.760) and the implied yield on the 10-year bond futures lost 6bps to 5.605% (price up 6bps to 94.395).
- **US equities** dropped as positive US economic data was offset by concerns that European debt might curb global economic recovery. The DJIA was down 0.5% to 10867, the S&P 500 lost 0.7% to 1166 and the Nasdaq was 0.9% lower at 2402.
- **European equities** declined further on increasing concerns that European debt would stall economic recovery. The DJ Euro Stoxx 50 lost 1.1% to 2679, the German DAX fell 0.8% to 5958 and the UK FTSE was 1.3% lower at 5342.
- **The Australian SPI 200 May 10 futures** contract was down 52 points or 1.1% to 4639.
- The **USD** strengthened against most major crosses. **EUR/USD** fell below 1.2800 on concerns that Europe's debt crisis is worsening and after Moody's warned that Portugal's credit ratings may be cut. **GBP/USD** opens lower at 1.5095 ahead of the general election today. **USD/JPY** fell late in the night to open the morning lower at 93.80.
- It was a mixed night for the **AUD**. **AUD/USD** fell from an overnight high of 0.9117 to open the morning lower at around 0.9050. **AUD/EUR** gained steadily overnight to open stronger at 0.7070. **AUD/JPY** opens lower at 84.95 after falling sharply late in the night. **AUD/NZD** opens stronger at 1.2610.
- **Crude oil** fell on increased risk aversion and after US government report showed rising crude stockpiles last week. WTI futures contract for June 10 decreased 3.8% to US\$79.62 a barrel.
- **Spot gold** gained as the financial crisis in Europe increased the appeal of the precious metal as a safe-haven asset. WTI futures contract for June 10 increased 0.5% to US\$1,175.10 a barrel.
- **LME copper** declined 1.0% to US\$6,958 on a firmer USD. **Nickel** dropped 11.1% on expectations that supply would outstrip demand. Other base metals traded negative with **zinc**, **aluminum**, and **lead** decreasing 1.0%, 2.0% and 5.9%, respectively.
- **US soybeans** fell 0.9% on a stronger USD and European sovereign debt concerns. **Sugar** decreased 0.3% on forecasts that India might reduce imports. **Corn** and **wheat** increased 1.3% and 0.3%, respectively on forecasts that cold weather would damage US plantations. **Palm oil** futures were 0.6% 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 MBA Mortgage Market Index** (w/e 30 Apr) climbed 4.0% (-2.9%) as homebuyers rushed to take advantage of the federal tax credit which expired on April 30. Purchase applications increased 13%, while refinancing dropped 2.1%.
- **US Challenger US Job Cuts y/y** (Apr) declined 71.1% (-55.0%) to 38,326 from 132,590 in the previous year, the lowest level since July 2006, as companies cut fewer payrolls.
- **US ADP Employment Change** (Apr): 32K (30K, 19K) There was an upward revision from -23K to 19K in March.
- **US ISM Non-Manufacturing** (Apr) was held at 55.4 (56.0, 55.4). The index of prices paid increased to 64.7 from 62.9, while employment, new orders and exports declined.
- **UK PMI Construction** (Apr) jumped to 58.2 (53.2, 53.1), the most since September 2007, led by an increase in homebuilding and commercial construction as demand for property in the UK increased.
- **GE PMI Services** (Apr F): 55.2 (55.0, 55.0)
- **EU PMI Services** (Apr F): 55.6 (55.5, 55.5)
- **EU PMI Composite** (Apr F) expanded to 57.3 (57.3, 57.3), the highest since August 2007, as a weaker euro supported exports from the Euro region.
- **EU Retail Sales y/y** (Mar): -0.1% (-0.5%, -0.2%)
- **EU Retail Sales m/m** (Mar) was unchanged at 0.0% (0.1%, -0.2%) as consumer expenditure was held back by rising unemployment.
- **IMF Managing Director Dominique Strauss-Kahn said:** *"We very much welcome the European Central Bank's announcement, in the context of Greece's strong adjustment program, that it has decided to suspend the application of the minimum credit rating threshold in the collateral eligibility requirements for the purposes of the euro system's credit operations in the case of marketable debt instruments issued or guaranteed by the Greek government."*
- **EU Luxembourg Finance Minister Jean-Claude Juncker said:** *"A failure of the euro zone would be its destruction and its gradual disintegration...It's a risk I don't see."*
- **EU ECB Council Member Axel Weber on Greek Contagion:** *"There is a threat of grave contagion effects for other member states in the monetary union and increasing negative feedback loop effects on capital markets."*
- **EU Economic and Monetary Affairs Commissioner Olli Rehn said:** *"Gradually Greece should be able to return to financial markets, but still beyond 2012-13 we will partly cover the financing needs of Greece if needed."*
- **UK election nears.** Recent polls are showing David Cameron's Conservative Party may come close to winning the May 6 election. However, the most likely outcome for now is a hung parliament.

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- NZ: Unemployment Rate – (Q1): ANZ: 7.1% Market: 7.3% Last: 7.3% - 22:45 GMT (08.45 AEST)
- NZ: Participation Rate q/q – (Q1): ANZ: 68.0% Market: 68.0% Last: 68.1% - 22:45 GMT (08.45 AEST)
- NZ: Employment Change q/q – (Q1): ANZ: 0.2% Market: 0.2% Last: -0.1% - 22:45 GMT (08.45 AEST)
- NZ: Employment Change y/y – (Q1): ANZ: -1.1% Market: -1.2% Last: -2.4% - 22:45 GMT (08.45 AEST)
- AU: Trade Balance – (Mar): ANZ: -\$A1.95bn Market: -\$A2.13bn Last: -1924M - 01:30 GMT (11.30 AEST)
- AU: Retail Sales m/m – (Mar): ANZ: 1.3% Market: 0.7% Last: -1.4% - 01:30 GMT (11.30 AEST)
- AU: Retail Sales Ex Inflation q/q – (Q1): ANZ: 0.5% Market: 0.3% Last: 1.1% - 01:30 GMT (11.30 AEST)
- JP: Vehicle Sales y/y – (Apr): Last: 37.2% - 05:00 GMT (15.00 AEST)
- EU: ECB Announces Interest Rates: ANZ: 1.00% Market: 1.00% Last: 1.00% - 11:45 GMT (21.45 AEST)
- EU: Trichet Speaks at ECB News Conference - 12:30 GMT (22.30 AEST)
- GE: Factory Orders m/m – (Mar): Market: 1.4% Last: 0.0% - 10:00 GMT (20.00 AEST)
- GE: Factory Orders y/y – (Mar): Last: 24.5% - 10:00 GMT (20.00 AEST)
- UK: General Election
- UK: PMI Services – (Apr): Market: 57.0 Last: 56.5 - 08:30 GMT (18.30 AEST)
- UK: Official Reserves (Changes) – (Apr): Last: \$80M - 08:30 GMT (18.30 AEST)
- US: Nonfarm Productivity – (Q1 P): Market: 2.6% Last: 6.9% - 12:30 GMT (22.30 AEST)
- US: Unit Labor Costs – (Q1 P): Market: -0.7% Last: -5.9% - 12:30 GMT (22.30 AEST)
- US: Initial Jobless Claims – (w/e 1 May): Market: 440K Last: 448K - 12:30 GMT (22.30 AEST)
- US: Continuing Claims – (w/e 24 Apr): Last: 4645K - 12:30 GMT (22.30 AEST)
- US: ICSC Chain Store Sales y/y – (Apr): Last: 9.0% - 14:30 GMT (00.30 AEST)
- US: Fed's Evans Gives Welcoming Remarks at Banking Conference in Chicago - 13:20 GMT (23.20 AEST)
- US: Bernanke Speaks in Chicago - 13:30 GMT (23.30 AEST)
- US: Fed's Parkinson Speaks in Chicago - 14:50 GMT (00.50 AEST)
- CA: Building Permits m/m – (Mar): Last: -0.5% - 12:30 GMT (22.30 AEST)
- CA: Ivey Purchasing Managers Index – (Apr): Last: 57.8 - 14:00 GMT (00.00 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME *

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	0.865	-7.2	US 2y swap	1.19	-4.1
US 5y note	2.297	-8.0	US 5y swap	2.54	-6.4
US 10y note	3.543	-4.6	US 10y swap	3.56	-6.4
US 30y bond	4.391	-2.1	AUS 3y swap	5.48	-4.0
US 2y swap spread	31.81	3.1	AUS 5y swap	5.83	-4.4
US 5y swap spread	24.38	1.0	AUS 10y swap	6.07	-3.0
US 10y swap spread	1.19	0.2	NZ 3y swap	4.84	-1.5
AUS 3y	94.750	5.0	NZ 10y swap	5.83	-1.0
AUS 10y	94.390	6.0	AUS 3m bills	4.73	-9.5
US 3m Libor	0.360	0.7	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	0.9057	-0.0031	0.9021 - 0.9116	-
TWI*	71.5000	-	-	-
NZD	0.7172	-0.0030	0.7143 - 0.7219	1.2628
EUR	1.2826	-0.0161	1.2804 - 1.2995	0.7061
JPY	93.83	-0.7100	93.54 - 94.93	84.99
GBP	1.5109	-0.0034	1.5068 - 1.5173	0.5994
CAD	1.0303	0.0058	1.0237 - 1.0355	0.9332
CHF	1.1171	0.0142	1.1024 - 1.1188	1.0118
DXY	84.0830	0.7840	-	-

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	10867	-0.5	Gold (\$US/ounce)	1176.6	0.5
S&P	1166	-0.7	Copper (\$US/tonne)	7025.5	-5.4
Nasdaq	2402	-0.9	Nickel (\$US/tonne)	24650.0	-6.3
FTSE 100	5342	-1.3	CRB Index	268.0	-1.3
DAX	5958	-0.8	Oil (\$US/barrel)	79.62	-3.8

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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