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** rallied strongly as concerns that Europe's debt crisis is worsening offset positive US economic data and bolstered the safe-haven appeal of US treasuries as stock markets fell sharply. The yield on 2-year notes decreased 7bps to 0.785%, whilst the 10-year yield lost 14bps to 3.396%.
- **Australian bond** futures also rallied strongly in flight-to-quality. The implied yield on 3-year bond futures decreased 20bps to 4.980% (price up 20bps to 95.020) and the implied yield on the 10-year bond futures lost 13bps to 5.400% (price up 13bps to 94.595).
- **US equities** plummeted on concerns that the debt crisis in Europe is getting worse outweighing US Fed Chairman Bernanke's optimistic comments on credit markets, and positive US economic data. There was also evidence of erroneous trades during the plunge. The DJIA closed 3.2% lower to 10520, the S&P 500 lost 3.2% to 1128 and the Nasdaq was 3.4% lower at 2320.
- **European equities** declined further on continuing concerns that the deficit crisis in Greece would spread to other countries in the region. The DJ Euro Stoxx 50 lost 2.5% to 2611, the German DAX fell 0.8% to 5908 and the UK FTSE was 1.5% lower at 5261.
- **The Australian SPI 200 May 10 futures** contract was down 173 points or 3.8% to 4400.
- The **USD** strengthened against most major currency pairs following the overnight panic on markets. **EUR/USD** is weaker at 1.2625 on concerns that the Greece crisis would not be contained. **GBP/USD** declined on uncertainty over the outcome of the UK elections and is currently trading at 1.4750. **USD/JPY** fell sharply late in the night to be now 90.85.
- The **AUD** weakened against most major crosses overnight. **AUD/USD** initially fluctuated but fell later in the night to be now trading at 0.8860. **AUD/EUR** fell overnight and currently trades around 0.7015. **AUD/JPY** is weaker at around 80.40 after falling 5% overnight. **AUD/NZD** is stronger at 1.2450
- **Crude oil** declined on concerns that the crisis in Greece would spread in the Euro region and dampen the economic recovery. WTI futures contract for June 10 decreased 3.8% to US$76.96 a barrel.
- **Spot gold** extended its rally as the debt crisis in Europe increased the appeal of the precious metal as a safe-haven asset. Spot gold rose 2.8% to US$1,208.50 an ounce.
- **LME copper** fell 0.2% to US$6,948 on concerns that the fiscal crisis in Greece would hamper global economic recovery. Other base metals traded mixed with **zinc** and **aluminum** decreasing 0.5% and 0.8%, while **lead** and **nickel** rose 3.1% and 0.6%, respectively.
- **US corn, wheat** and **soybeans** decreased 0.2%, 0.7% and 2.3% on concerns that the financial crisis in Europe and fall in real estate in China would reduce demand for food, animal feed and biofuel. **Sugar** fell 0.3% on concerns that increased supply from Brazil and India would increase global output. **Palm oil** futures were 0.3% 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 Initial Jobless Claims** (w/e 1 May) fell to 444K (440K, 451K), the third straight decline, as companies started adding payrolls to meet the rising demand. The four-week moving average dropped to 458,500 from 463,250. **US Continuing Jobless Claims** (w/e 24 Apr) declined to 4594K (4610K, 4653K).
- **US Nonfarm Productivity q/q** (1Q P) rose more than expected by 3.6% (2.6%, 6.3%), indicating businesses would take time to increase payrolls. Hours worked last quarter climbed 0.8% and output rose 4.4%.
- **US Unit Labor Costs q/q** (1Q P): -1.6% (-0.7%, -5.6%)
- **US ICSC Chain Store Sales y/y** (Apr): 0.8% (9.0%)
- **UK PMI Services** (Apr) unexpectedly slowed to 55.3 (57.0, 56.5) as the volcanic ash cloud that disrupted airlines and the UK general elections weighed on services.
- **UK Official Reserves** (Apr): $561M ($80M)
- **GE Factory Orders m/m** (Mar) increased more than forecasts by 5.0% (1.4%, 0.0%) bolstered by reviving global demand. Domestic orders gained 5.4%, while export demand increased 4.7% supported by a weaker Euro.
- **GE Factory Orders y/y** (Mar): 26.1% (21.0%, 24.5%)
- **EU ECB Main Refinancing Rate** (May 6) was held at 1.00% (1.00%, 1.00%) amid concerns that the deficit crisis in Greece might spread to other indebted countries in the Euro region.
- **CA Building Permits m/m** (Mar): 12.2% (0.7%, -0.7%)
- **CA Ivey Purchasing Managers Index** (Apr): 58.7 (55.5, 57.8)
- **Italian Government trims 2010 and 2011 GDP forecasts.** GDP projections were trimmed by 0.1 percent for 2010 (to 1 percent) and 0.5 percent for 2011 (to 1.5 percent). These projections remain more optimistic than those by Standard & Poor's and IMF. It the latter are closer to the mark, it is likely to translate into a worsening fiscal debt trajectory than the 119 percent of GDP projected for 2011.
- **US Federal Reserve Chairman Ben S. Bernanke said:** "*Although bank credit remains tight, I see some reasons for optimism…we hoped also to hasten the return to a better lending environment.*"
- **US Treasury Secretary Timothy F. Geithner said:** "*To create stability, some argue, we should just separate banks from 'risk'…But, in important ways, that is exactly what caused this crisis…We cannot make the economy safe by taking functions central to the business of banking, functions necessary to help raise capital for businesses and help businesses hedge risk, and move them outside banks, and outside the reach of strong regulation.*"
- **US Federal Reserve Bank of St. Louis President James Bullard said:** "*One way to get started with balance sheet normalization is to very gradually start selling MBS securities…We can do that before we feel we are ready to raise the federal funds rate.*"
- **EU ECB President Jean- Claude Trichet said:** "*We call for decisive actions by governments to achieving a lasting and credible consolidation of public finances…The longer you wait, the more you need to do to change the situation. If you wait another month, there will be more countries in difficulty, you will need bigger numbers to shock the markets.*"

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- AU: AIG Performance of Construction Index – (Apr): Last: 48.7 - 23:30 GMT (09.30 AEST)
- AU: RBA Statement on Monetary Policy – (May) - 01:30 GMT (11.30 AEST)
- AU: AOFM auctions $700 mn of Nov 2012 Bonds
- JP: Monetary Base y/y – (Apr): Last: 2.1% - 23:50 GMT (09.50 AEST)
- EU: ECB's Trichet Speaks in Lisbon - 09:30 GMT (19.30 AEST)
- GE: Industrial Production m/m – (Mar): Market: 1.5% Last: 0.0% - 10:00 GMT (20.00 AEST)
- GE: Industrial Production y/y – (Mar): Market: 6.4% Last: 5.8% - 10:00 GMT (20.00 AEST)
- UK: New Car Registrations y/y – (Apr): Last: 26.6%
- UK: PPI Input m/m – (Apr): Market: 1.0% Last: 3.6% - 08:30 GMT (18.30 AEST)
- UK: PPI Input y/y – (Apr): Market: 13.1% Last: 10.1% - 08:30 GMT (18.30 AEST)
- UK: PPI Output m/m – (Apr): Market: 0.5% Last: 0.9% - 08:30 GMT (18.30 AEST)
- UK: PPI Output y/y – (Apr): Market: 4.8% Last: 5.0% - 08:30 GMT (18.30 AEST)
- UK: PPI Output Core m/m – (Apr): Market: 0.3% Last: 0.7% - 08:30 GMT (18.30 AEST)
- UK: PPI Output Core y/y – (Apr): Market: 3.5% Last: 3.6% - 08:30 GMT (18.30 AEST)
- UK: Halifax House Prices sa m/m – (Apr): Market 0.5% Last: 1.1% 8:00 GMT (18:00 AEST)
- UK: Halifax House Price 3Mths/Year – (Apr): Market: 7.0% Last: 5.2% 8:00 GMT (18:00 AEST)
- US: Unemployment Rate – (Apr): Market: 9.7% Last: 9.7% - 12:30 GMT (22.30 AEST)
- US: Change in Nonfarm Payrolls – (Apr): Market: 190K Last: 162K - 12:30 GMT (22.30 AEST)
- US: Change in Private Payrolls – (Apr): Last: 123K - 12:30 GMT (22.30 AEST)
- US: Change in Manufact. Payrolls – (Apr): Market: 20K Last: 17K - 12:30 GMT (22.30 AEST)
- US: Avg Hourly Earning m/m – (Apr): Market: 0.1% Last: -0.1% - 12:30 GMT (22.30 AEST)
- US: Avg Hourly Earning y/y – (Apr): Market: 1.8% Last: 1.8% - 12:30 GMT (22.30 AEST)
- US: Avg Weekly Hours All Employees – (Apr): Market: 34.1 Last: 34.0 - 12:30 GMT (22.30 AEST)
- US: Consumer Credit – (Mar): Market: -3.7B Last: -$11.5B - 19:00 GMT (05.00 AEST)
- US: Fed's Plosser Speaks in Delaware - 16:30 GMT (02.30 AEST)
- US: Former Fed Chair Greenspan in Chicago - 17:15 GMT (03.15 AEST)
- CA: Net Change in Employment – (Apr): Market: 25.0K Last: 17.9K - 11:00 GMT (21.00 AEST)
- CA: Unemployment Rate – (Apr): Market: 8.2% Last: 8.2% - 11:00 GMT (21.00 AEST)

ECONOMIC DATA & EVENTS

MARKET TABLES

TABLE 1: FIXED INCOME*

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	0.785	-7.2	US 2y swap	1.17	-3.2
US 5y note	2.161	-12.9	US 5y swap	2.46	-11.1
US 10y note	3.403	-13.6	US 10y swap	3.47	-18.5
US 30y bond	4.205	-18.0	AUS 3y swap	5.48	-22.0
US 2y swap spread	37.98	6.3	AUS 5y swap	5.81	-22.0
US 5y swap spread	30.13	5.8	AUS 10y swap	6.08	-15.5
US 10y swap spread	5.81	4.6	NZ 3y swap	4.93	-5.5
AUS 3y	94.960	14.0	NZ 10y swap	5.85	-4.5
AUS 10y	94.550	9.0	AUS 3m bills	4.82	-14.3
US 3m Libor	0.374	1.3	NZ 3m bills	2.87	1.0

Source: ANZ and Bloomberg. Change in basis points

TABLE 2: FOREIGN EXCHANGE#

	LAST	CHANGE	OVERNIGHT RANGE	CURRENT VS AUD
AUD	0.8855	-0.0207	0.8715 - 0.9075	-
TWI*	71.2000	-	-	-
NZD	0.7117	-0.0054	0.7011 - 0.7273	1.2437
EUR	1.2627	-0.0187	1.2529 - 1.2826	0.7012
JPY	90.26	-3.5500	88.26 - 93.97	79.92
GBP	1.4828	-0.0274	1.4718 - 1.5107	0.5972
CAD	1.0532	0.0225	1.0306 - 1.0734	0.9324
CHF	1.1134	-0.0047	1.1017 - 1.1245	0.9858
DXY	84.9140	0.7450	-	-

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	10520	-3.2	Gold ($US/ounce)	1208.4	2.8
S&P	1128	-3.2	Copper ($US/tonne)	6958.5	-1.0
Nasdaq	2320	-3.4	Nickel ($US/tonne)	21925.0	-11.1
FTSE 100	5261	-1.5	CRB Index	262.8	-1.9
DAX	5908	-0.8	Oil ($US/barrel)	76.96	-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.

IMPORTANT NOTICE

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