ECONOMICS & MARKETS RESEARCH
ANZ MORNING NOTE

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ANZ AUSTRALIAN MACROECONOMICS, FX & COMMODITIES RESEARCH

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OVERNIGHT MARKETS UPDATE

- **US bond futures** fell after a US Labor Department report showed US employers added jobs for the third time in four months and safe haven demand for bonds started to wane after strong recent gains as speculation turned to possible steps being taken in the EU to contain the debt crisis. The yield on 2-year notes increased 2bps to 0.808%, whilst the 10-year yield gained 3bps to 3.426%.
- **Australian bond** futures outperformed with US Treasuries. The implied yield on 3-year bond futures increased 1bps to 5.040% (price down 1bps to 94.960) and the implied yield on the 10-year bond futures gained 2bps to 5.500% (price down 2bps to 94.500).
- **US equities** fell for the second consecutive day after Thursday's crash undermined investor confidence in the US trading systems. However, the losses were limited by expectations that the European Central Bank will take steps to stem the Euro zone's debt crisis. The DJIA was down 1.3% to 10380, the S&P 500 lost 1.5% to 1111 and the Nasdaq was 2.3% lower at 2266.
- **European equities** declined the most in 14 months on concern over Europe's debt crisis and the integrity of American trading systems. Poor results at Royal Bank of Scotland Group and Credit Agricole's exposure to Greece also weighed on the markets. The DJ Euro Stoxx 50 lost 4.3% to 2500, the German DAX fell 3.3% to 5715 and the UK FTSE was 2.6% lower at 5123.
- **The Australian SPI 200 May 10 futures** contract was down 49 points or 1.1% to 4425.
- The **USD** weakened against major crosses on Friday. **EUR/USD** dipped to a low of 1.2608 on Friday but later rebounded to close higher; the pair opens Monday's session higher at 1.2895. **GBP/USD** opens stronger at 1.4870 after rallying late in the night on Friday. **USD/JPY** is little changed at around 92.40.
- It was a mixed night for the **AUD** on Friday. **AUD/USD** is around 0.9000 after a flat session on Friday. **AUD/EUR** opens lower at 0.6880. **AUD/JPY** dipped to a low of 80.02 on Friday but later rebounded to open today's session stronger at 83.00 and the **AUD/NZD** pair opens the morning higher at around 1.2500 after declining steadily on Friday.
- **Crude oil** fell on concern that Europe's debt crisis would dampen the demand for the commodity and derail the global economic recovery. WTI futures contract for June 10 decreased 2.6% to US$75.11 a barrel.
- **Spot gold** traded higher initially as Europe's fiscal crisis spurred demand for the metal as a haven but later pared gains. Spot gold ended flat at US$1,208.40.
- **LME copper** closed flat at US$6,945, paring earlier losses in the day, on expectations that the ECB will take measures to bolster the debt crisis. Other base metals traded mixed with **zinc** and **aluminum** decreasing 1.1% and 1.5%, while **lead** and **nickel** rose 2.4% and 2.3%, respectively.
- **US corn, soybeans** and **wheat** rose 0.2%, 0.6% and 0.6% on speculation that cold weather will harm crops in the US. **Sugar** declined 0.3%, while **palm oil** futures lost 0.2%.

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

ECONOMIC DATA & EVENTS

OVERNIGHT DATA AND EVENTS (MARKET EXPECTATIONS, LAST OBSERVATION)

- **US Employees on Nonfarm Payrolls m/m** (Apr) surged by 290K (190K, 230K) in April the most in four years, driven by gains in private employment.
- **US Unemployment Rate** (Apr): rose to 9.9% (9.7%, 9.7%) despite the larger than expected gain in nonfarm payrolls as thousands of jobseekers entered the labor market.
- **US Consumer Credit** (Mar) unexpectedly rose by $2.0B (-$3.7B, -$6.2B) , suggesting that Americans were becoming more optimistic about the recovery.
- **US Employees on Nonfarm Payrolls (Private) m/m** (Apr): 231K (100K, 174K)
- **US Average Hourly Earnings m/m** (Apr): 0.0% (0.1%, -0.1%)
- **US Average Hourly Earnings y/y** (Apr): 1.6% (1.8%, 1.7%)
- **UK HBOS House Prices m/m** (Apr): -0.1% (0.5%, 1.0%)
- **UK HBOS House Prices y/y** (Apr): 6.6% (7.0%, 5.2%)
- **UK PPI Input Prices m/m** (Apr): 0.6% (1.0%, 3.8%)
- **UK PPI Input Prices y/y** (Apr): 13.1% (13.1%, 10.3%)
- **UK PPI Manufactured Products m/m** (Apr) rose more than forecast by 1.4% (0.5%, 0.9%) by April as the cost of oil increased.
- **UK PPI Output Prices Products y/y** (Apr): 5.7% (4.8%, 5.0%)
- **UK PPI Output Prices (Core) m/m** (Apr): 1.1% (0.3%, 0.8%)
- **UK PPI Output Prices (Core) y/y** (Apr): 4.4% (3.5%, 3.7%)
- **GE Industrial Production m/m** (Mar) rose more than forecast by 4.0% (1.5%, -0.2%) in March as construction activity surged 26.7% and the global economy gathered strength. Investment goods production rose 4.4% and basic goods gained 3.5%. Energy output fell 5.8%.
- **GE Industrial Production y/y** (Mar): 8.6% (6.4%, 5.5%)
- **Emergency meeting as EU plans to defend the Euro.** European finance ministers held emergency talks over the weekend to work on a plan to set up a stabilisation fund to defend the euro, and to stop the spread of contagion in debt markets. Swedish finance minister Borg said “we cannot afford a disappointment”, adding that markets are exhibiting “wolfpack behaviour”. European Commission President Jose Barroso told reporters “we will defend the euro, whatever it takes”. Press reports suggest that the intention was to have the plan readied before Asian markets open, so as to stop the rot from deepening, but at the time of writing there were few details, and we have not yet seen any official communiqué. However, it is understood that the plan will see the European Commission borrowing money guaranteed by member nations. Thus far, newswires have reported that the draft package will include EUR440bn in Euro zone loan guarantees.
- **The US Senate rejected two significant changes to its financial-overhaul bill**, voting down restrictions on a proposed consumer protection bureau and a plan that would have forced the largest banks to shrink in size.
- **US President Barack Obama said**: *“We have a market-based mechanism for determining the value of currencies…I think that if we have a strong U.S. economy we’re going to have a strong dollar…My basic principle is to focus on the fundamentals of the economy.”*

ECONOMIC DATA & EVENTS

- **US Federal Reserve Chairman Ben S. Bernanke on unemployment**: *"Being unemployed is stressful, not just because of loss of income but also because of feelings of loss of control and diminished self-worth."*
- **UK Election Cliffhanger Remains**. Coalition negotiations are ongoing in the UK, and at this stage there is no concrete result. And just like the EU finance ministers, Cameron and Clegg are keen to show that progress is being made before markets open, and the sterling gets another

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- AU: ANZ Job Advertisements m/m – (Apr): Last: 1.8% - 01:30 GMT (11.30 AEST)
- AU: NAB Business Conditions - (Apr): Last: 13 - 01:30 GMT (11.30 AEST)
- AU: NAB Business Confidence - (Apr): Last: 16 - 01:30 GMT (11.30 AEST)
- JP: BoJ Monetary Policy Meeting Minutes – (Apr) - 23:50 GMT (09.50 AEST)
- CH: China NDRC Housing Prices – (Apr): Market: 11.6 Last: 11.7
- CH: Money Supply - M0 y/y – (Apr): Last: 15.8%
- CH: Money Supply - M1 y/y – (Apr): Market: 28.7% Last: 29.9%
- CH: Money Supply - M2 y/y – (Apr): Market: 22.0% Last: 22.5%
- CH: New Yuan Loans – (Apr): Market: 585.0B Last: 510.7B
- CH: Trade Balance (USD) – (Apr): ANZ: $5.90B Market: -$0.55B Last: -$7.24B - 04:00 GMT (14.00 AEST)
- CH: Exports y/y – (Apr): ANZ: 35.0% Market: 28.9% Last: 24.3% - 04:00 GMT (14.00 AEST)
- CH: Imports y/y – (Apr): ANZ: 51.5% Market: 51.5% Last: 66.0% - 04:00 GMT (14.00 AEST)
- EU: Sentix Investor Confidence – (May): Last: 2.5 - 08:30 GMT (18.30 AEST)
- GE: Trade Balance – (Mar): Market: 14.5B Last: 12.6B - 06:00 GMT (16.00 AEST)
- GE: Imports sa m/m – (Mar): Last: 0.2% - 06:00 GMT (16.00 AEST)
- GE: Current Account – (Mar): Market: €14.0B Last: €9.1B - 06:00 GMT (16.00 AEST)
- GE: Exports SA m/m: Market: 2.5% Last: 5.1% - 06:00 GMT (16.00 AEST)
- UK: BOE ANNOUNCES RATES: ANZ: 0.50% Market: 0.50% Last: 0.50% - 11:00 GMT (21.00 AEST)
- UK: BOE Asset Purchase Target – (May): Market: 200B Last: 200B - 11:00 GMT (21.00 AEST)
- US: Fed's Kocherlakota Speaks in Minneapolis - 17:30 GMT (03:30 AEST)
- CA: Housing Starts – (Apr): Market: 200.0K Last: 200.9K - 12:15 GMT (22.15 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME*

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	0.808	2.3	US 2y swap	1.17	-1.1
US 5y note	2.164	0.9	US 5y swap	2.45	-5.8
US 10y note	3.426	3.2	US 10y swap	3.48	-8.0
US 30y bond	4.275	7.5	AUS 3y swap	5.37	-6.0
US 2y swap spread	35.63	-2.1	AUS 5y swap	5.72	-6.0
US 5y swap spread	28.56	-1.5	AUS 10y swap	6.04	-1.0
US 10y swap spread	4.75	-1.5	NZ 3y swap	4.95	-0.7
AUS 3y	94.960	14.0	NZ 10y swap	5.87	-0.5
AUS 10y	94.500	4.0	AUS 3m bills	4.89	-16.5
US 3m Libor	0.428	5.5	NZ 3m bills	2.93	-1.5

Source: ANZ and Bloomberg. Change in basis points

TABLE 2: FOREIGN EXCHANGE#

	LAST	CHANGE	OVERNIGHT RANGE	CURRENT VS AUD
AUD	0.8979	0.0099	0.8803 - 0.8938	-
TWI*	70.1000	-	-	-
NZD	0.7204	0.0060	0.707 - 0.7168	1.2462
EUR	1.2892	0.0137	1.261 - 1.2798	0.6965
JPY	91.59	0.0000	90.85 - 93.22	82.65
GBP	1.4871	0.0067	1.4476 - 1.4826	0.6038
CAD	1.0357	-0.0082	1.0339 - 1.0558	0.9302
CHF	1.1020	-0.0060	1.1051 - 1.1156	0.9893
DXY	84.4500	-0.4440	-	-

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	10380	-1.3	Gold ($US/ounce)	1208.4	0.0
S&P	1111	-1.5	Copper ($US/tonne)	6945.0	0.0
Nasdaq	2266	-2.3	Nickel ($US/tonne)	22550.0	2.3
FTSE 100	5123	-2.6	CRB Index	261.3	-0.5
DAX	5715	-3.3	Oil ($US/barrel)	75.11	-2.6

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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