



ECONOMICS & MARKETS RESEARCH ANZ MORNING NOTE

11 MAY 2010

ANZ AUSTRALIAN
MACROECONOMICS,
FX & COMMODITIES
RESEARCH

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OVERNIGHT MARKETS UPDATE

- **US bonds** tumbled overnight after European governments announced a loan package worth almost US\$1tn and the European Central Bank said it will buy bonds to halt the region's debt crisis. The yield on 2-year notes increased 6bps to 0.864%, whilst the 10-year yield gained 11bps to 3.541%.
- **Australian bond** futures outperformed US Treasuries. The implied yield on 3-year bond futures decreased 1bps to 5.180% (price up 1bps to 94.820) and the implied yield on the 10-year bond futures was flat at 5.565bps (price at 94.435).
- **US equities** rallied after European policymakers announced a loan package of almost US\$1tn to contain the sovereign-debt crisis, which bolstered optimism among investors. A rally in shares of General Electric, Caterpillar and Bank of America also supported the markets. The DJIA was up 3.9% to 10785, the S&P 500 gained 4.4% to 1160 and the Nasdaq was 4.8% higher at 2375.
- **European equities** soared after European policy makers unveiled the debt crisis rescue package. The DJ Euro Stoxx 50 rose 10.3% to 2759, the German DAX gained 5.3% to 6018 and the UK FTSE was 5.2% higher at 5387 after the BoE maintained its economic stimulus and left key rates unchanged.
- **The Australian SPI 200 May 10 futures** contract was up 55 points or 1.2% to 4665.
- It was a positive night for the **USD** against major currency pairs. **EUR/USD** opens weaker at 1.2780 after declining steadily overnight. **GBP/USD** opens lower at 1.4850 after falling from its overnight high of 1.5054. **USD/JPY** opens at around 93.20 after a flat session overnight.
- The **AUD** strengthened against major crosses overnight. **AUD/USD** opens stronger at around 0.9020. **AUD/EUR** opens stronger at 0.7060 after rallying higher overnight. **AUD/JPY** opens higher at 84.10 after a choppy session and the **AUD/NZD** pair opens the morning higher at 1.2480.
- **Crude oil** rebounded from its 12-week low after the European loan package and a program of bonds purchases eased investors' concerns that Europe's sovereign debt crisis may spread and derail a global economic recovery. WTI futures contract for June 10 increased 2.9% to US\$77.27 a barrel.
- **Spot gold** declined overnight after the European policy makers' loan package eroded the appeal of the precious metal as an alternative to the euro. WTI futures contract for June 10 decreased 0.5% to US\$1203.00 a barrel.
- **LME copper** rose 2.5% to US\$7,120 after European policy makers unveiled a loan package of almost \$1tn to end a sovereign-debt crisis. Other base metals traded positive with **zinc**, **aluminum**, **lead** and **nickel** increasing 2.3%, 3.5%, 2.8% and 2.0%, respectively.
- **US soybeans** rose 0.2% after a package of rescue loans in Europe eroded the value of the US dollar. **Wheat** fell 3.5 on forecasts that global supplies would increase. **Sugar** fell 0.3%, **corn** declined 0.5% while **palm oil** gained 0.4%.

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

ECONOMIC DATA & EVENTS

OVERNIGHT DATA AND EVENTS (MARKET EXPECTATIONS, LAST OBSERVATION)

- **EC Sentix Index** (May) plunged by the most in almost two years to -6.4 (-1.0, 2.5) in May as the Greek budget crisis shook markets. The index of current business conditions rose to -4.75 from -7, while a measure of expectations dropped to a 13-month low of -8 from -12.5.
- **UK BoE Asset Purchase Program Target Amount** (May): £200B (£200B, £200B) The Bank also clarified it may accept bonds rated below its published AA-/Aa3 minimum rating, clarifying earlier confusion. Additional haircuts would apply, and the clarification is clearly designed to allow "junk" rates sovereign bonds as collateral.
- **UK BoE Official Bank Rate** (May 10): 0.50% (0.50%, 0.50%)
- **GE Trade Balance** (Mar): €17.2B (€14.0B, €12.7B)
- **GE Current Account** (Mar): €18.0B (€13.5B, €9.3B)
- **GE Imports m/m** (Mar): 11.0% (0.5%, 0.3%)
- **GE Exports m/m** (Mar) surged more than forecast by 10.7% (3.0%, 5.1%) in March as the global economic recovery gathered pace. German companies are stepping up output to meet rising export orders, bolstering a recovery from stagnation in the fourth quarter. Business confidence rose to a two-year high in April and manufacturing growth accelerated.
- **US Federal Reserve Policy Maker Narayana Kocherlakota said:** *"Bailouts are inevitable...Policy makers inevitably resort to bailouts even when they have explicitly resolved, in the strongest possible terms, to let firms fail."*
- **European Central Bank President Jean- Claude Trichet on banks being pressured by politicians into buying government bonds:** *"This decision is a decision of the Governing Council and not a result of any kind of pressure of any sort. The measures were necessary because a number of markets were dysfunctioning and we could see that the normal transmission of our monetary policy was hampered...We will withdraw the liquidity that we inject. The monetary policy stance is maintained exactly the same as before."*
- **Several European Central Banks** including the Bundesbank and the Bank De France and the Bank of Italy have **confirmed that they have been in the market buying government bonds**. A Bundesbank spokesperson said "we confirm we are buying today".

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- NZ: NZ Card Spending m/m - (Apr): 2.1
- AU: Australia's 2010-11 Federal Budget delivered in Canberra - 09:30 GMT (20.30 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: Producer Price Index y/y - (Apr): ANZ: 6.5% Market: 6.5% Last: 5.9% - 02:00 GMT (13.00 AEST)
- CH: Purchasing Price Index y/y - (Apr): Market: 12.1% Last: 11.5% - 02:00 GMT (13.00 AEST)
- CH: Consumer Price Index y/y - (Apr): ANZ: 2.9% Market: 2.7% Last: 2.4% - 02:00 GMT (13.00 AEST)
- CH: Retail Sales y/y - (Apr): ANZ: 18.2% Market: 18.2% Last: 18.0% - 02:00 GMT (13.00 AEST)
- CH: Retail Sales YTD y/y - (Apr): Market: 18.0% Last: 17.9% - 02:00 GMT (13.00 AEST)
- CH: Industrial Production y/y - (Apr): ANZ: 18.5% Market: 18.5% Last: 18.1% - 02:00 GMT (13.00 AEST)
- CH: Industrial Production YTD y/y - (Apr): Market: 19.3% Last: 19.6% - 02:00 GMT (13.00 AEST)
- CH: Fixed Assets Inv Urban YTD y/y - (Apr): ANZ: 26.0% Market: 26.0% Last: 26.4% - 02:00 GMT (13.00 AEST)
- EU: ECB's Ordóñez & IMF's Blanchard Speaks in Madrid - 07:15 GMT (18.15 AEST)
- GE: Consumer Price Index m/m - (Apr F): Market: -0.1% Last: -0.1% - 06:00 GMT (17.00 AEST)
- GE: Consumer Price Index y/y - (Apr F): Market: 1.0% Last: 1.0% - 06:00 GMT (17.00 AEST)
- GE: CPI - EU Harmonised m/m - (Apr F): Last: -0.1% - 06:00 GMT (17.00 AEST)
- GE: CPI - EU Harmonised y/y - (Apr F): Last: 1.0% - 06:00 GMT (17.00 AEST)
- UK: BRC April Retail Sales Monitor – (Apr) - 23:01 GMT (10.01 AEST)
- UK: RICS House Price Balance – (Mar): Last: 9% - 23:01 GMT (10.01 AEST)
- UK: Industrial Production m/m – (Mar): Market: 0.3% Last: 1.0% - 08:30 GMT (21.30 AEST)
- UK: Industrial Production y/y – (Mar): Market: 0.4% Last: -0.1% - 08:30 GMT (21.30 AEST)
- UK: Manufacturing Production m/m – (Mar): Market: 0.3% Last: 1.3% - 08:30 GMT (21.30 AEST)
- UK: Manufacturing Production y/y – (Mar): Market: 1.5% Last: 1.4% - 08:30 GMT (21.30 AEST)
- US: NFIB Small Business Optimism – (Apr): Market: 87.1 Last: 86.8 - 11:30 GMT (22.30 AEST)
- US: Wholesale Inventories – (Mar): Market: 0.5% Last: 0.6% - 14:00 GMT (00:00 AEST)
- US: IBD/TIPP Economic Optimism – (May): Last: 48.4 - 14:00 GMT (01.00 AEST)

ECONOMIC DATA & EVENTS

- US: ABC Consumer Confidence – (May 9): Last: -47 - 21:00 GMT (07.00 AEST)
- US: Fed's Lacker Speaks at University of North Carolina Greensboro - 12:30 GMT (22.30 AEST)
- US: Fed's Lockhart Speaks at Atlanta Financial Markets Conference - 17:15 GMT (03.15 AEST)
- US: Fed's Plosser Speaks at Atlanta Financial Markets Conference - 17:30 GMT (03.30 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME *

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	0.864	5.6	US 2y swap	1.15	-4.7
US 5y note	2.263	9.9	US 5y swap	2.51	-5.4
US 10y note	3.539	11.3	US 10y swap	3.57	-3.5
US 30y bond	4.410	13.6	AUS 3y swap	5.46	-2.0
US 2y swap spread	28.13	-7.5	AUS 5y swap	5.80	-2.1
US 5y swap spread	24.56	-4.0	AUS 10y swap	6.04	-1.4
US 10y swap spread	2.94	-1.8	NZ 3y swap	4.98	-0.9
AUS 3y	94.820	1.0	NZ 10y swap	5.92	-1.3
AUS 10y	94.435	0.0	AUS 3m bills	4.85	-2.7
US 3m Libor	0.421	-0.7	NZ 3m bills	2.92	-0.5

Source: ANZ and Bloomberg. Change in basis points

TABLE 2: FOREIGN EXCHANGE#

	LAST	CHANGE	OVERNIGHT RANGE	CURRENT VS AUD
AUD	0.9029	0.0149	0.8984 - 0.9079	-
TWI*	70.8000	-	-	-
NZD	0.7225	0.0081	0.7192 - 0.7297	1.2495
EUR	1.2784	0.0029	1.2759 - 1.3094	0.7063
JPY	93.28	1.6900	92.86 - 93.54	84.22
GBP	1.4864	0.0060	1.4833 - 1.5054	0.6074
CAD	1.0234	-0.0205	1.021 - 1.0297	0.9240
CHF	1.1101	0.0021	1.0924 - 1.1117	1.0023
DXY	84.2450	-0.2050	-	-

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	10785	3.9	Gold (\$US/ounce)	1202.8	-0.5
S&P	1160	4.4	Copper (\$US/tonne)	7120.0	2.5
Nasdaq	2375	4.8	Nickel (\$US/tonne)	23005.0	2.0
FTSE 100	5387	5.2	CRB Index	265.4	1.6
DAX	6018	5.3	Oil (\$US/barrel)	77.29	2.9

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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