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** were little changed overnight after US auctioned $38bn in three-year debt, at a yield of 1.414% with a bid to cover ratio of 3.27 times, above the average of 2.96 times seen over the past 10 auctions . The yield on 2-year notes decreased 3bps to 0.832%, whilst the 10-year yield lost 1bps to 3.524%. The US Treasury is set to sell $24bn of 10-year notes later today.
- **Australian bond** futures lost ground overnight following a solid rally yesterday heading into the Budget. The implied yield on 3-year bond futures increased 4bps to 5.130% (price down 4bps to 94.870) and the implied yield on the 10-year bond futures gained 5bps to 5.540% (price down 5bps to 94.460).
- **US equities** declined on concerns that the euro zone loan package would not halt the region's debt crisis. A retreat in commodity stocks also weighed on the markets. The DJIA was down 0.3% to 10748, the S&P 500 declined 0.3% to 1156 and the Nasdaq was flat at 2375.
- **European equities** fell on concerns that the nearly $1tn lending package would not solve the region's debt crisis. The DJ Euro Stoxx 50 fell 1.0% to 2730, the German DAX gained 0.3% to 6038 and the UK FTSE was 1.0% lower at 5334.
- **The Australian SPI 200 May 10 futures** contract was up 20 points or 0.4% to 4577.
- It was a mixed night for the **USD** against major crosses overnight. **EUR/USD** opens lower at 1.2640 after a choppy session overnight. **GBP/USD** traded as high as 1.5005 but later pared some gains to open at around 1.4950. **USD/JPY** opens weaker at 92.70 after a session of range trading.
- The **AUD** traded mixed overnight. **AUD/USD** gained initially to a high of 0.9023 but later fell to open lower at 0.8940. **AUD/EUR** opens higher at around 0.7070 after gaining steadily. **AUD/JPY** opens marginally lower at 82.90 and the **AUD/NZD** pair opens higher at 1.2480 after rallying late in the night.
- **Crude oil** fell on uncertainty that Europe's $1tn bailout would end the region's sovereign debt crisis. WTI futures contract for June 10 decreased 1.0% to US$76.03 a barrel.
- **Spot gold** rose to a record high as the heightening debt crisis in the euro zone increased the appeal of the precious metal as an alternative investment. Spot gold increased 2.4% to US$1,230.60.
- **LME copper** declined 1.0% to US$7,050, for the first time in three sessions, on concerns over China's potential cooling response to strong inflation data. Other base metals traded negative with **zinc, aluminum, lead** and **nickel** decreasing 3.3%, 2.0%, 2.8% and 1.8%, respectively.
- **US corn** rose 1.9% after a US government report showed that inventories in the US would be smaller than expected because of improved demand for the grain. **Wheat** gained 0.3% as shorts covered after the price fell the most in three weeks. **Soybeans** rose 0.6% despite US government forecasts that world production would rise to a record. **Sugar** lost 0.3% and **palm oil** futures were 0.9% 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 NFIB Small Business Optimism Index** (Apr) rose to a 19-month high to 90.6 (87.1, 86.8) in April as projections for profits, sales and the economy improved. The index, however, remains below levels associated with past economic recoveries, indicating the rebound in growth will take time to develop.
- **US Merchant Wholesalers Inventories** (Mar) rose for the third consecutive month to 0.4% (0.5%, 0.6%) in March, a signal that companies will need to step up orders to try to meet demand. The amount of goods on hand compared to sales dropped to the lowest level on record, indicating factories will need to keep increasing production.
- **US IBD/TIPP Index of Economic Optimism** (May): 48.7 (48.4, 48.4)
- **UK RICS Housing Market Survey Price** (Apr) rose for the first time in five months to 17% (10%, 9%) in April as warmer weather helped lift new-buyer enquiries to the highest since December.
- **UK Industrial Production m/m** (Mar): 2.0% (0.3%, 0.9%)
- **UK Industrial Production y/y** (Mar): 2.0% (0.6%, -0.2%)
- **UK Manufacturing Production m/m** (Mar) surged more than five times over market estimates to 2.3% (0.4%, 1.4%) in March as a weaker pound fuelled export demand from the country.
- **UK Manufacturing Production y/y** (Mar): 3.3% (1.6%, 1.3%)
- **UK NIESR GDP Estimate q/q** (Apr) rose to 0.5% in the quarter through April as the weakness of the pound aided exporters.
- **GE CPI m/m** (APR F): -0.1% (-0.1%, -0.1%)
- **GE CPI y/y** (APR F): 1.0% (1.0%, 1.0%)
- **GE HICP m/m** 2005=100 (APR F): -0.1% (-0.1%, -0.1%)
- **GE HICP y/y** (APR F): 1.0% (1.0%, 1.0%)a
- **GE Wholesale Prices m/m** (APR): 1.7% (0.9%, 1.3%)
- **GE Wholesale Prices y/y** (APR): 6.0% (5.2%, 4.3%)
- **US Senate Vote:** The US Senate voted 96-0 today for the proposal offered by Senator Bernard Sanders to allow a congressional regulator to conduct a one-time audit of every Fed emergency action since December 2007.
- **US Federal Reserve Bank of Richmond President Jeffrey Lacker said**: *"We are already seeing evidence that employment is on the path to steady growth, instead of the jobless recovery…Month-to-month movements in the unemployment rate can be misleading in the early stage of a cyclical recovery, and as a result, employment growth can provide a better read on labor market trends."*
- **US Federal Reserve Chairman Ben S. Bernanke commenting on the Euro region's aid package**: *"This is basically not a panacea, and that the measures are temporary. There's got to be fundamental underlying changes in their economies, not just Greece, but a lot of other countries."*
- **International Monetary Fund Managing Director Dominique Strauss-Kahn said**: *"The market has rather well responded to the plan that has been unveiled during the night from Sunday to Monday…In my view, the reactions of the markets were the ones the builders of this plan had expected."*

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- 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
- AU: Home Loans – (Mar): ANZ: -4.4% Market: -2.0% Last: -1.8% - 01:30 GMT (11.30 AEST)
- AU: Investment Lending – (Mar): Last: -1.1% - 01:30 GMT(11.30 AEST)
- AU: Value of Loans m/m – (Mar): Last: -4.4% - 01:30 GMT(11.30 AEST)
- AU: AOFM auctions $700 mn of June 2011 Bonds
- JP: Official Reserve Assets – (Apr): Last: $1042.7B - 23:50 GMT (10.50 AEST)
- JP: Leading Index CI – (Mar P): Last: 98.5 - 05:00 GMT (15.00 AEST)
- JP: Coincident Index CI – (Mar P): Last: 100.5 - 05:00 GMT (15.00 AEST)
- EU: Euro-Zone Ind. Prod. sa m/m - (Mar): Market: 0.7% Last: 0.7% - 09:00 GMT (19.00 AEST)
- EU: Euro-Zone Ind. Prod. wda y/y - (Mar): Last: 4.0% - 09:00 GMT(19.00 AEST)
- EU: Euro-Zone GDP sa q/q – (Q1 A): Market: 0.2% Last: 0.0% - 09:00 GMT (19.00 AEST)
- EU: Euro-Zone GDP sa y/y – (Q1 A): Market: 0.4% Last: -2.2% - 09:00 GMT (19.00 AEST)
- GE: GDP sa q/q – (Q1 P): Market: -0.1% Last: 0.0% - 06:00 GMT (16.00 AEST)
- GE: GDP wda y/y – (Q1 P): Market: 1.1% Last: 1.0% - 06:00 GMT (16.00 AEST)
- GE: GDP nsa y/y – (Q1 P) - 06:00 GMT (16.00 AEST)
- UK: Claimant Count Rate – (Apr): Last: 4.8% - 08:30 GMT (19.30 AEST)
- UK: Jobless Claims Change – (Apr): Market: -20.0K Last: -32.9K - 08:30 GMT (18.30 AEST)
- UK: Average Weekly Earnings 3M/y/y – (Mar): Last: 2.3% - 08:30 GMT (18.30 AEST)
- UK: Weekly Earnings exBonus 3M/y/y – (Mar): Last: 1.7% - 08:30 GMT (18.30 AEST)
- UK: ILO Unemployment Rate (3mths) – (Mar): Last: 8.0% - 08:30 GMT (18.30 AEST)
- UK: Bank of England Quarterly Inflation Report - 09:30 GMT (19.30 AEST)
- UK: NIESR GDP Estimate – (Apr): Last: 0.4%
- US: MBA Mortgage Applications – (May 7): Last: 4.0% - 11:00 GMT (21.00 AEST)
- US: Trade Balance – (Mar): Market: -$39.9B Last: -$39.7B - 12:30 GMT (22.30 AEST)
- US: Monthly Budget Statement – (Apr): Market: -$20.0B Last: -$20.9B - 18:00 GMT
- US: Fed's Rosengren Moderates Financial Markets Panel in Atlanta - 14:15 GMT (01.15 AEST)
- US: Fed's Lockhart Speaks at Atlanta Financial Markets Conference - 16:15 GMT (03.15 AEST)
- US: Fed's Bullard Speaks on Economy in Nashville, Tennessee - 17:15 GMT (04.15 AEST)
- CA: New Housing Price Index m/m – (Mar): Market: 0.3% Last: 0.1% - 12:30

ECONOMIC DATA & EVENTS

GMT (22.30 AEST)

- CA: Int'l Merchandise Trade – (Mar): Market: 1.6B Last: 1.4B - 12:30 GMT (22.30 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME*

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	0.832	-3.2	US 2y swap	1.14	-2.7
US 5y note	2.236	-2.7	US 5y swap	2.51	2.6
US 10y note	3.527	-1.3	US 10y swap	3.57	5.0
US 30y bond	4.422	1.1	AUS 3y swap	5.43	3.0
US 2y swap spread	30.70	2.6	AUS 5y swap	5.77	3.0
US 5y swap spread	27.63	2.7	AUS 10y swap	6.04	2.2
US 10y swap spread	4.56	1.3	NZ 3y swap	4.94	0.0
AUS 3y	94.860	-5.0	NZ 10y swap	5.89	0.3
AUS 10y	94.455	-5.5	AUS 3m bills	4.81	8.3
US 3m Libor	0.423	0.2	NZ 3m bills	2.92	0.0

Source: ANZ and Bloomberg. Change in basis points

TABLE 2: FOREIGN EXCHANGE#

	LAST	CHANGE	OVERNIGHT RANGE	CURRENT VS AUD
AUD	0.8962	-0.0066	0.8933 - 0.9023	-
TWI*	70.4000	-	-	-
NZD	0.7171	-0.0056	0.7161 - 0.7215	1.2494
EUR	1.2671	-0.0116	1.266 - 1.2759	0.7073
JPY	92.70	-0.5900	92.22 - 93.14	83.07
GBP	1.4952	0.0105	1.4721 - 1.5005	0.5993
CAD	1.0222	-0.0010	1.0149 - 1.0272	0.9161
CHF	1.1112	0.0013	1.1036 - 1.1123	0.9956
DXY	84.5730	0.4170	-	-

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	10748	-0.3	Gold ($US/ounce)	1232.0	2.4
S&P	1156	-0.3	Copper ($US/tonne)	7050.0	-1.0
Nasdaq	2375	0.0	Nickel ($US/tonne)	22590.0	-1.8
FTSE 100	5334	-1.0	CRB Index	265.0	-0.1
DAX	6038	0.3	Oil ($US/barrel)	75.97	-1.1

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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