# 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** fell overnight on a continued unwind of flight-to-quality demand as conditions improve in European debt markets. Supply did not help after the US Treasury sold $24bn of 10-year notes at a yield of 3.548%, compared with a forecast of 3.582%. The bid/offer cover was 2.96, in line with the average over the past 10 auctions, but down on 3.72 at the last auction The yield on 2-year notes increased 3bps to 0.863%, whilst the 10-year yield gained 5bps to 3.571%.
- **Australian bond** futures traded in line with US Treasuries. The implied yield on 3-year bond futures increased 4bps to 5.100% (price down 4bps to 94.890) and the implied yield on the 10-year bond futures gained 5bps to 5.540% (price down 5bps to 94.460).
- **US equities** advanced after pledges from the UK and Spain to shrink their budget deficits alleviated concerns that the European debt crisis will curtail global growth. The DJIA was up 1.4% to 10897, the S&P 500 gained 1.4% to 1172 and the Nasdaq was 2.1% higher at 2425.
- **European equities** rose as companies from A.P. Moeller-Maersk to ING Groep and Allianz reported better than expected quarterly profit and the Spanish government announced a package on spending cuts. The DJ Euro Stoxx 50 gained 1.2% to 2764, the German DAX rose 2.4% to 6183 and the UK FTSE was 0.9% higher at 5383.
- **The Australian SPI 200 May 10 futures** contract was up 59 points or 1.3% to 4642.
- It was a positive night for the **USD** against major crosses. **EUR/USD** rose initially but later dipped sharply to open lower at 1.2625 as worries about Euro zone growth outweighed Spanish spending cuts and a successful bond sale in Portugal. **GBP/USD** opens weaker at 1.4820. **USD/JPY** opens marginally higher at 93.20.
- It was a mixed night for the **AUD** on concerns that Europe's debt crisis would dampen the demand for higher yielding assets. **AUD/USD** opens lower at around 0.8935 after falling late in the night. **AUD/EUR** opens at 0.7080. **AUD/JPY** opens at 83.30 and the **AUD/NZD** cross opens higher at around 1.2530.
- **Crude oil** declined after a US government report showed that crude inventories climbed for the 14th time in 15 weeks. WTI futures contract for June 10 decreased 1.2% to US$75.50 a barrel.
- **Spot gold** rose for the second consecutive day as financial turmoil in Europe spurred demand for the metal. Spot gold increased 0.5% to US$1,237.30.
- **LME copper** decreased 0.4% to US$7,025 due to uncertainty regarding EU debt problems and potential China monetary policy changes. Other base metals traded mixed with **zinc** and **aluminum** increasing 1.5% and 0.8% while **lead** and **nickel** shed 0.2% each.
- **US soybeans** rose 0.1% despite reports that farmers in the US and China would plant their crops quickly, increasing yield potential. **Corn** rose 0.5% while **wheat** fell 0.2% on reports that Chinese imports increased. **Sugar** declined 0.3% while **Palm oil** futures were 0.1% 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 7 May) increased to 3.9% (4.0%) led by a rebound in refinancing as long-term borrowing costs dropped below 5% for the first time in two months.
- **US Trade Balance BoP** (Mar) widened to -$40.4B (-$40.5B, -$39.4B), the highest level in more than a year, as imports climbed faster than exports..
- **US Treasury Federal Budget Debt Summary** (Apr) widened more than estimates to -$82.7B (-$57.9B, -$20.9B) in April. Revenue and other income fell 7.9% to $245.3bn in April from $266.2bn the same month last year.
- **US Bloomberg Confidence Index** (May): 51.36 (67.57)
- **UK Claimant Count Rate** (Apr): 4.7% (4.8%, 4.8%)
- **UK Unemployment Claimant Count** (Apr): -27.1K (-20.0K, -32.7K)
- **UK ILO Unemployment Rate** (Mar): 8.0% (8.0%, 8.0%)
- **GE GDP Chain Linked q/q** (1Q P) unexpectedly rose to 0.2% (0.1%, 0.2%) as rising exports and company investment outweighed the effects of the cold winter.
- **GE GDP Chain Linked y/y** (1Q P): 1.6% (1.3%, -2.2%)
- **GE GDP Chain Linked y/y** (1Q P): 1.7% (1.2%, -1.5%)
- **EC Industrial Production Ex-Construction m/m** (Mar): 1.3% (1.0%, 0.7%)
- **EC Industrial Production Ex-Construction y/y** (Mar): 6.9% (6.5%, 3.9%)
- **EC GDP Constant Prices q/q** (1Q A) grew at a faster pace more than forecasts to 0.2% (0.1%, 0.0%) as a global recovery boosted exports.
- **EC GDP Constant Prices y/y** (1Q A): 0.5% (0.5%, -2.2%)
- **The US Senate** today approved an amendment to the financial-overhaul bill to retain the Federal Reserve's powers to supervise small banks, in a victory for the central bank and industry lobbyists.
- **US Federal Reserve Bank of Atlanta President Dennis Lockhart on Greece's situation**: *"The political position of 'never again' sounds good but it can't be guaranteed. Crises will recur, I fear. Last week may have been just a little bit of a reminder, a wakeup call, to that effect."*
- **European Central Bank President Trichet on issue of a euro bond**: *"No, this has not been envisaged. This would represent the huge problem of making it impossible to judge budgetary policies for each of the countries in the region."*
- **Spain doing its bit too.** Spanish PM Zapatero has said that public sector wages by 5% this year, and freeze them next year. He also said he plans to drop a subsidy to new parents, and cut public investment by €6bn. The move was in response to EC urging made at the time of the bailout.
- **The Bank of England Inflation Report** forecasts subdued. While inflation is expected to hold up in the neat-term, the medium term and policy relevant forecasts were very subdued. Inflation is expected to reach 1.4% in 2yrs time assuming rate hikes priced in eventuate. This was taken as a dovish sign.

# ECONOMIC DATA & EVENTS

## UPCOMING DATA AND EVENTS

- NZ: Business NZ PMI – (Apr): Last: 56.3 - 22:30 GMT (08.30 AEST)
- NZ: Food Prices m/m – (Apr): Last: 0.2% - 22:45 GMT (08.45 AEST)
- AU: RBA Assistant Governor Lowe speaks in Sydney - 01:00 GMT (11.00 AEST)
- AU: Employment Change – (Mar): ANZ: +15K Market: 25.0K Last: 19.6K - 01:30 GMT (11.30 AEST)
- AU: Unemployment Rate – (Mar): ANZ: 5.3% Market: 5.3% Last: 5.3% - 01:30 GMT (11.30 AEST)
- AU: Full Time Employment Change – (Mar): Last: 30.1K - 01:30 GMT (11.30 AEST)
- AU: Part Time Employment Change – (Mar): Last: -10.6K - 01:30 GMT (11.30 AEST)
- AU: Participation Rate – (Mar): ANZ: 65.2% Market: 65.2% Last: 65.1% - 01:30 GMT (11.30 AEST)
- JP: Current Account Total – (Mar): Last: ¥1470.6B - 23:50 GMT (09.50 AEST)
- JP: Adjusted Current Account Total – (Mar): Last: ¥1119.0B - 23:50 GMT (09.50 AEST)
- JP: Trade Balance – (Mar): Last: ¥778.0B - 23:50 GMT (09.50 AEST)
- JP: Japan Money Stock M2 y/y – (Apr): Last: 2.6% - 23:50 GMT (09.50 AEST)
- JP: Japan Money Stock M3 y/y – (Apr): Last: 2.0% - 23:50 GMT (09.50 AEST)
- JP: Bank Lending y/y – (Apr): Last: -1.8% - 23:50 GMT (09.50 AEST)
- JP: Bank Lending Banks y/y – (Apr): Last: -2.0% - 23:50 GMT (09.50 AEST)
- JP: Bank Lending Banks Adjust y/y – (Apr): Last: -1.7% - 23:50 GMT (09.50 AEST)
- JP: Bankruptcies y/y – (Apr): Last: -14.5% - 04:30 GMT (14.30 AEST)
- JP: Eco Watchers Survey: Current – (Apr): Last: 47.4
- JP: Eco Watchers Survey: Outlook – (Apr): Last: 47.0
- EU ECB Publishes May Monthly Report - 07:00 GMT (18:00 AEST)
- UK: Nationwide Consumer Confidence – (Apr): Market: 73 Last: 72 - 23:01 GMT (09.01 AEST)
- UK: Visible Trade Balance GBP/Mn: Last: -£6179 - 23:01 GMT (09.01 AEST)
- UK: Trade Balance Non EU GBP/Mn: Last: -£3329 - 08:30 GMT (18.30 AEST)
- UK: Total Trade Balance (GBP/Mln): Last: -£2061 - 08:30 GMT (18.30 AEST)
- UK: DCLG UK House Prices y/y: Last: 7.4% - 08:30 GMT (18.30 AEST)
- US: Import Price Index m/m – (Apr): Market: 0.8% Last: 0.7% - 12:30 GMT (22.30 AEST)
- US: Import Price Index y/y – (Apr): Market: 11.3% Last: 11.4% - 12:30 GMT (22.30 AEST)
- US: Initial Jobless Claims – (w/e 8 May): Market: 440K Last: 444K - 12:30 GMT (22.30 AEST)
- US: Continuing Claims – (w/e 1 May): Market: 4590K Last: 4594K - 12:30 GMT (22.30 AEST)
- US: Fed's Kohn Speaks in Ottawa - 13:00 GMT (00.00 AEST)
- US: Bernanke Participates in Q&A Session in Philadelphia - 16:30 GMT (03.30 AEST)
- US: Fed's Kocherlakota Speaks in Altoona, Wisconsin - 17:00 GMT (03.00 AEST)
- US: Fed's Fisher Speaks in Odessa, Texas - 17:15 GMT (03.15 AEST)

# MARKET TABLES

**TABLE 1: FIXED INCOME***

| | LEVEL | CHANGE | | LEVEL | CHANGE |
|---|---|---|---|---|---|
| US 2y note | 0.863 | 3.2 | US 2y swap | 1.14 | -0.8 |
| US 5y note | 2.279 | 4.6 | US 5y swap | 2.54 | 2.6 |
| US 10y note | 3.567 | 4.6 | US 10y swap | 3.61 | 3.7 |
| US 30y bond | 4.478 | 5.8 | AUS 3y swap | 5.41 | -5.0 |
| US 2y swap spread | 27.25 | -3.1 | AUS 5y swap | 5.75 | -4.7 |
| US 5y swap spread | 26.00 | -1.6 | AUS 10y swap | 6.05 | 0.0 |
| US 10y swap spread | 4.06 | -0.4 | NZ 3y swap | 4.91 | -6.9 |
| AUS 3y | 94.890 | -5.0 | NZ 10y swap | 5.88 | -1.8 |
| AUS 10y | 94.455 | -6.0 | AUS 3m bills | 4.88 | 3.3 |
| US 3m Libor | 0.430 | 0.7 | NZ 3m bills | 2.93 | 0.5 |

Source: ANZ and Bloomberg. Change in basis points

**TABLE 2: FOREIGN EXCHANGE#**

| | LAST | CHANGE | OVERNIGHT RANGE | CURRENT VS AUD |
|---|---|---|---|---|
| AUD | 0.8936 | -0.0016 | 0.8899 - 0.8981 | - |
| TWI* | 70.3000 | - | - | - |
| NZD | 0.7135 | -0.0028 | 0.7111 - 0.72 | 1.2524 |
| EUR | 1.2621 | -0.0041 | 1.2614 - 1.2739 | 0.7080 |
| JPY | 93.17 | 0.5200 | 92.65 - 93.29 | 83.23 |
| GBP | 1.4826 | -0.0130 | 1.4819 - 1.5045 | 0.6028 |
| CAD | 1.0199 | -0.0022 | 1.0154 - 1.0221 | 0.9114 |
| CHF | 1.1110 | -0.0007 | 1.106 - 1.1125 | 0.9926 |
| DXY | 84.8820 | 0.4150 | - | - |

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 | 10897 | 1.4 | Gold ($US/ounce) | 1239.2 | 0.5 |
| S&P | 1172 | 1.4 | Copper ($US/tonne) | 7025 | -0.4 |
| Nasdaq | 2425 | 2.1 | Nickel ($US/tonne) | 22550.0 | -0.2 |
| FTSE 100 | 5383 | 0.9 | CRB Index | 266.8 | 0.7 |
| DAX | 6183 | 2.4 | Oil ($US/barrel) | 75.47 | -1.2 |

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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