



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 as stocks fell and the euro slid to almost a 14-month low on concern fiscal tightening across Europe will limit growth. Weak stock markets also supported bonds. The US Treasury sold \$16bn of 30-year bonds at a yield of 4.49% compared with a forecast of 4.471%. The bid-to-cover ratio was 2.6, compared with an average of 2.56 for the past 10 sales. The yield on 2-year notes decreased 4bps to 0.823%, whilst the 10-year fell 4bps to 3.526%.
- **Australian bond** futures traded in line with US Treasuries. The implied yield on 3-year bond futures decreased 5bps to 5.090% (price up 5bps to 94.910) and the implied yield on the 10-year bond futures declined 3bps to 5.510% (price up 3bps to 94.490).
- **US equities** fell, led by banks and technology companies, on reports that more mortgage-bond deals are being scrutinized by prosecutors and an earnings forecast from Cisco Systems Inc. that disappointed some investors. The DJIA was down 1.0% to 10783, the S&P 500 declined 1.2% to 1157 and the Nasdaq was 1.3% lower at 2394.
- **European equities** rose after better-than-estimated earnings from J Sainsbury and BT Group outweighed concerns that Europe's debt crisis will hurt the economic recovery. The DJ Euro Stoxx 50 ended flat at 2764, the German DAX rose 1.1% to 6252 and the UK FTSE was 0.9% higher at 5434.
- **The Australian SPI 200 May 10 futures** contract was down 51 points or 1.1% to 4620.
- The **EUR** hit a new 14-month low against the USD near the 1.2500 level and **GBP/USD** opens lower at 1.4605 after falling steadily overnight. **USD/JPY** opens lower at 92.65 after falling from its overnight high of 93.65.
- The **AUD** traded mixed against major currency pairs overnight. **AUD/USD** opens at 0.8950 after a predominantly flat session. **AUD/EUR** touched a new high of 0.7177 but pared some gains to open marginally lower at 0.7145. **AUD/JPY** traded high initially but later weakened to open at 82.95 and the **AUD/NZD** opens higher at 1.2535 after gaining steadily.
- **Crude oil** strengthened overnight as a widening discount for front-month crude against futures for later delivery prompted purchases of the contract. WTI futures contract for June 10 decreased 2.4% to US\$73.80 a barrel.
- **Spot gold** weakened overnight as the recent rally in prices prompted investors to book some profits. Spot gold decreased 0.5% to US\$1,232.43.
- **LME copper** gained 1.9% to US\$7,160 on expectations that fiscal austerity in Europe would help stem the region's budget shortfalls and support global growth. Other base metals traded positive with **zinc** and **aluminum** increasing 2.9% and 2.4% while **lead** and **nickel** rose 1.0% each.
- **US wheat** fell 2.4% on concerns that the US harvest would boost supply. **Soybeans** gained 0.1% on signs of rising demand for US supplies. **Sugar** declined 0.3%, while **corn** lost 1.4% while **palm oil** futures were 1.4% 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 Import Price Index m/m** (Apr) rose 0.9% (0.8%, 0.5%) in April led by higher costs for commodities including oil. Prices excluding petroleum rose 0.3%.
- **US Import Price Index y/y** (Apr): 11.1% (11.3%, 11.3%)
- **US Initial Jobless Claims** (w/e 8 May) has dropped for the fourth consecutive week to 444K (440K, 448K), adding to signs that employers are retaining more workers as the economy expands. The number of people receiving unemployment insurance increased and those getting extended payments fell.
- **US Continuing Jobless Claims** (w/e 1 May): 4627K (4590K, 4615K)
- **UK Nationwide Consumer Confidence Index** (Apr) was at 74 (73, 73) on uncertainty about the election and proposed government spending cuts.
- **UK Trade Balance in Goods** (Mar) widened to -£7522M (-£6407M, -£6305M) in March as imports jumped the most in six months, led by demand for goods from cars to engineering equipment.
- **UK Trade Balance in Goods with Non EU Countries** (Mar): -£4103M (-£3450M, -£3406M)
- **UK Trade Balance Value of Trade Balance** (Mar): -£3683M (-£2500M, -£2187M)
- **UK DCLG House Prices y/y** (Mar): 9.7% (7.3%)
- **US Federal Reserve Vice Chairman Donald Kohn on interest rates:** *"Commitments to maintain interest rates at a given level must be properly conditioned on the evolution of the economy... Central banks cannot make unconditional interest rate commitments based only on a time dimension."*
- **US Federal Reserve Policy Maker Narayana Kocherlakota on interest rates:** *"Readers of the FOMC statement should pay very careful attention to its explicit conditionality...The statement says that the committee will raise interest rates if economic conditions change appropriately, whether that's in three weeks, three months or three years...Most or maybe even all of the members of the FOMC and the other presidents agree that current conditions necessitate interest rates near zero."*
- **US Federal Reserve Chairman Ben S. Bernanke said:** *"We have a very high unemployment rate. We need to get that down."*
- **Malaysia raises rates.** Bank Negara raised the O/N rate 25bps to 2.50%, the second rise this year, citing stringer growth.
- **Violence in Thailand, situation escalating.** A renegade Thai general backing the "red shirts" was shot in the head during an interview with the NY Times, increasing fears of more escalation. The PM withdrew his offer for early elections, and has taken steps to blockade protesters.

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- NZ: REINZ Housing Price Index m/m – (Apr): Last: 1.7% - 22:00 GMT (08.00 AEST)
- NZ: REINZ House Sales y/y – (Apr): Last: -8.0% - 22:00 GMT (08.00 AEST)
- NZ: Retail Sales m/m – (Mar): ANZ: 1.6% Market: 1.2% Last: -0.6% - 22:45 GMT (08.45 AEST)
- NZ: Retail Sales Ex-Auto m/m – (Mar): ANZ: 1.5% Market: 1.5% Last: -0.9% - 22:45 GMT (08.45 AEST)
- NZ: Retail Sales Ex Inflation q/q – (Q1): ANZ: 0.3% Market: 0.4% Last: 1.0% - 22:45 GMT (08.45 AEST)
- NZ: Non Resident Bond Holdings – (Apr): Last: 63.6% - 03:00 GMT (13.00 AEST)
- AU: AOFM auctions 1000 mn of Dec 2013 bonds
- EU: ECB's Constancio Speaks in Lisbon - 08:00 GMT (18.00 AEST)
- US: Advance Retail Sales – (Apr): Market: 0.3% Last: 1.9% - 12:30 GMT (22.30 AEST)
- US: Retail Sales Less Autos – (Apr): Market: 0.5% Last: 0.9% - 12:30 GMT (22.30 AEST)
- US: Retail Sales Ex Auto & Gas – (Apr): Market: 0.4% Last: 0.7% - 12:30 GMT (22.30 AEST)
- US: Industrial Production – (Apr): Market: 0.6% Last: 0.1% - 13:15 GMT (23.15 AEST)
- US: Capacity Utilization – (Apr): Market: 73.7% Last: 73.2% - 13:15 GMT (23.15 AEST)
- US: U. of Michigan Consumer Confidence – (May P): Market: 73.5 Last: 72.2 - 13:55 GMT (23.55 AEST)
- US: Business Inventories – (Mar): Market: 0.4% Last: 0.5% - 14:00 GMT (24.00 AEST)
- US: Fed's Evans Speaks in Illinois - 17:40 GMT (03.40 AEST)
- CA: New Motor Vehicle Sales m/m – (Mar): Market: -4.0% Last: 8.1% - 12:30 GMT (22.30 AEST)
- CA: Manufacturing Sales m/m – (Mar): Market: 1.0% Last: 0.1% - 12:30 GMT (22.30 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME *

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	0.831	-3.2	US 2y swap	1.14	-2.0
US 5y note	2.246	-3.3	US 5y swap	2.51	-3.0
US 10y note	3.530	-4.1	US 10y swap	3.57	-3.2
US 30y bond	4.431	-5.0	AUS 3y swap	5.40	-4.3
US 2y swap spread	30.41	3.3	AUS 5y swap	5.72	-5.0
US 5y swap spread	26.50	0.5	AUS 10y swap	6.02	-2.8
US 10y swap spread	3.69	-0.3	NZ 3y swap	4.93	-1.5
AUS 3y	94.900	4.0	NZ 10y swap	5.91	0.0
AUS 10y	94.485	3.0	AUS 3m bills	4.88	-6.8
US 3m Libor	0.436	0.6	NZ 3m bills	2.93	0.0

Source: ANZ and Bloomberg. Change in basis points

TABLE 2: FOREIGN EXCHANGE#

	LAST	CHANGE	OVERNIGHT RANGE	CURRENT VS AUD
AUD	0.8953	0.0017	0.8953 - 0.9024	-
TWI*	70.9000	-	-	-
NZD	0.7142	0.0010	0.7143 - 0.7192	1.2534
EUR	1.2522	-0.0092	1.2518 - 1.2655	0.7161
JPY	92.72	-0.5200	92.59 - 93.47	83.01
GBP	1.4602	-0.0222	1.4601 - 1.4859	0.6131
CAD	1.0202	0.0009	1.011 - 1.0209	0.9134
CHF	1.1184	0.0069	1.1077 - 1.1188	1.0013
DXY	85.4150	0.5770	-	-

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	10783	-1.0	Gold (\$US/ounce)	1232.6	-0.5
S&P	1157	-1.2	Copper (\$US/tonne)	7160.0	1.9
Nasdaq	2394	-1.3	Nickel (\$US/tonne)	22775.0	1.0
FTSE 100	5434	0.9	CRB Index	265.8	-0.4
DAX	6252	1.1	Oil (\$US/barrel)	73.85	-2.4

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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