ECONOMICS & MARKETS RESEARCH
ANZ MORNING NOTE

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ANZ AUSTRALIAN MACROECONOMICS, FX & COMMODITIES RESEARCH

CONTACTS

Warren Hogan
Chief Economist, Australia
+61 2 9227 1562
Warren.Hogan@anz.com

Amy Auster
Head of FX Research
+61 3 9273 5417
Amy.Auster@anz.com

Mark Pervan
Head of Commodity Research
+61 3 9273 3716
Mark.Pervan@anz.com

Tony Morriss
Senior Rates Strategist,
Tony.Morriss@anz.com

Shane Lee
Senior Economist,
+61 2 92264632
Shane.Lee@anz.com

Amber Rabinov
Senior Economist
+61 3 9273 4853
Amber.Rabinov@anz.com

Andrew Dowman
Research Analyst
+61 3 92736881
Andrew.Dowman@anz.com

Natalie Robertson
Commodity Research Analyst
+61 3 9273 3415
Natalie.Robertson@anz.com

OVERNIGHT MARKETS UPDATE

- **US bonds** rose for the second consecutive day as concerns that Europe's sovereign-debt crisis would limit growth and lead to a breakup of its shared currency increased the safe-haven appeal of US debt. The yield on 2-year notes decreased 4bps to 0.782%, whilst the 10-year yield lost 7bps to 3.453%.
- **Australian bond** futures outperformed US Treasuries at the short end, but underperformed at the long end. The implied yield on 3-year bond futures decreased 6bps to 5.030% (price up 6bps to 94.970) and the implied yield on the 10-year bond futures declined 6bps to 5.460% (price up 6bps to 94.540).
- **US equities** declined on Friday as concerns that Europe's debt crisis is destabilizing its currency overshadowed stronger-than-estimated reports on retail sales and industrial production. The DJIA was down 1.5% to 10620, the S&P 500 declined 1.9% to 1136 and the Nasdaq was 2.0% lower at 2347.
- **European equities** slumped amid mounting concerns that the region's debt crisis would hamper economic growth. Credit Suisse's forecast that the new banking regulation would cost the industry nearly €244bn triggered a decline in the banking sector. The DJ Euro Stoxx 50 declined 4.7% to 2634, the German DAX fell 3.1% to 6057 and the UK FTSE was 3.1% lower at 5263.
- **The Australian SPI 200 May 10 futures** contract was down 79 points or 1.7% to 4531.
- The **USD** strengthened against major crosses overnight. **EUR/USD** weakened overnight on concerns about the region's debt crisis; the cross opens the week at 1.2340. **GBP/USD** strengthened to a high of 1.4640 on Friday but later pared gains to open at 1.4510. **USD/JPY** is 92.25 after declining steadily on Friday.
- The **AUD** weakened against its major counterparts as Europe's debt crisis eroded the demand for higher-yielding assets. **AUD/USD** opens lower at 0.8850 after declining steadily on Friday. **AUD/EUR** opens at 0.7170 after a whippy session. **AUD/JPY** opens lower at 81.60 after falling late in the night and the **AUD/NZD** pair opens at 1.2520 after rallying late in the night.
- **Crude oil** tumbled to a three-month low on concerns that Europe's sovereign-debt crisis would reduce global economic growth and fuel consumption. WTI futures contract for June 10 decreased 3.8% to US$71.61 a barrel.
- **Spot gold** initially declined overnight on profit booking but later pared losses as the USD strengthened. Spot gold ended virtually unchanged at US$1,233.18.
- **LME copper** fell 3.3% to US$6,926 on concerns that mounting concerns about Europe's debt would hamper global economy and curb demand for industrial metals. Other base metals traded negative with **zinc, aluminum, lead** and **nickel** decreasing 4.9%, 3.2%, 6.2% and 5.4%, respectively.
- **US soybeans** fell 1.3% after an industry report showed an unexpected decline in demand from US processors in April. **Wheat** and **corn** declined 1.6% and 2.7%, respectively, as a stronger USD reduced export demand. **Sugar** declined 0.3% while **palm oil** futures were 0.7% down.

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

ECONOMIC DATA & EVENTS

OVERNIGHT DATA AND EVENTS (MARKET EXPECTATIONS, LAST OBSERVATION)

- **US Industrial Production m/m** (Apr) rose 0.8% (0.7%, 0.2%) in April. Manufacturing output climbed 1.0% in April for the second consecutive month and was up 6% YoY. The rise seen in the manufacturing sector continued to be broad based. The output of mines rose 1.4% and that of utilities decreased 1.3%.
- **US Capacity Utilization** (Apr): 73.7% (73.8%, 73.1%)
- **US University of Michigan Consumer Confidence** (May P) increased to 73.3 (73.5, 72.2) in May, a sign that households are becoming less pessimistic.
- **US Business Inventories m/m** (Mar) rose 0.4% (0.4%, 0.5%) in March as companies boosted orders to keep pace with demand. Sales climbed 2.3%, the most since November.
- **US Advance Retail Sales** (Apr) rose more than forecast by 0.4% (0.2%, 2.1%) in April, indicating the economic recovery gained momentum at the start of the second quarter.
- **US Retail Sales Ex-Autos** (Apr): 0.4% (0.4%, 1.2%)
- **US Retail Sales Ex-Autos and Gas Stations m/m** (Apr): 0.4% (0.3%, 1.3%)
- **US Treasury Secretary Timothy F. Geithner said**: *"Europe has the capacity to manage through this. And I think they will…Our economy is getting stronger. We're seeing a lot of strength, improvement and confidence…We have a big stake in helping Europe manage through these things…We're going to do it in a way that's sensible for the American economy, the American taxpayer."*
- **US Federal Reserve Bank of Chicago President Charles Evans on interest rates**: *"I think inflation will remain relatively stable…I see the opposing forces of resource gaps and accommodative monetary policy as roughly balancing out over the medium term. As resource slack abates in a recovering economy, I expect inflation to move up to about 1.75% by 2012."*
- **European Central Bank Governing Council Member Axel Weber on the unprecedented measures introduced to protect the euro**: *"Any such measures have to be implemented in a way that respects the appropriate division of responsibilities…Providing liquidity and supporting malfunctioning markets essential to ensure a proper conduct of monetary policy is the central bank's contribution…Ensuring sustainable public finances is a fiscal policy issue."*
- **ECB President Jean-Claude Trichet**: *"There is a need for a quantum leap in the governance of the euro area. There need to be major improvements to prevent bad behaviour, to ensure effective implementation of the recommendations made by peers and ensure real and effective sanctions in the case of breaches."*

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- NZ: Performance Services Index – (Apr): Last: 57.3
- JP: Machine Orders m/m – (Mar): Market: 6.3% Last: -5.4% - 23:50 GMT (09.50 AEST)
- JP: Machine Orders y/y – (Mar): Market: 0.2% Last: -7.1% - 23:50 GMT (09.50 AEST)
- JP: Loans & Discounts Corp y/y – (Mar): Last: -3.3% - 23:50 GMT (09.50 AEST)
- JP: Domestic CGPI m/m – (Apr): Market: 0.3% Last: 0.2% - 23:50 GMT (09.50 AEST)
- JP: Domestic CGPI y/y – (Apr): Market: -0.3% Last: -1.3% - 23:50 GMT (09.50 AEST)
- JP: Tokyo Condominium Sales y/y – (Apr): Last: 54.2% - 04:00 GMT (14.00 AEST)
- EU: EU 25 New Car Registrations – (Apr): Last: 10.8% - 06:00 GMT (16.00 AEST)
- EU: ECB's Nowotny Speaks at Berlin Congress - 09:00 GMT (19.00 AEST)
- UK: Rightmove House Prices m/m – (May): Last: 2.6% - 23:01 GMT (09.01 AEST)
- UK: Rightmove House Prices y/y – (May): Last: 6.0% - 23:01 GMT (09.01 AEST)
- US: Empire Manufacturing – (May): Market: 30.00 Last: 31.86 - 12:30 GMT (22.30 AEST)
- US: Net Long-term TIC Flows – (May): Market: $50.0B Last: $47.1B - 13:00 GMT (23.00 AEST)
- US: Total Net TIC Flows – (May): Last: $9.0B - 13:00 GMT (23.00 AEST)
- US: NAHB Housing Market Index – (May): Market: 20 Last: 19 - 17:00 GMT (03.00 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME*

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	0.782	-4.1	US 2y swap	1.13	-0.9
US 5y note	2.156	-8.7	US 5y swap	2.44	-5.1
US 10y note	3.453	-7.3	US 10y swap	3.49	-5.1
US 30y bond	4.336	-9.1	AUS 3y swap	5.32	-2.0
US 2y swap spread	34.63	3.7	AUS 5y swap	5.67	-2.0
US 5y swap spread	28.50	1.9	AUS 10y swap	5.99	-0.5
US 10y swap spread	3.50	-0.4	NZ 3y swap	4.89	-2.0
AUS 3y	94.970	6.0	NZ 10y swap	5.88	-2.0
AUS 10y	94.540	5.5	AUS 3m bills	4.88	0.8
US 3m Libor	0.445	0.9	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	0.8850	-0.0008	0.8851 - 0.8967	-
TWI*	70.5000	-	-	-
NZD	0.7065	-0.0006	0.7061 - 0.7154	1.2527
EUR	1.2341	-0.0017	1.2359 - 1.2576	0.7171
JPY	92.30	-0.1700	91.8 - 92.97	81.69
GBP	1.4521	-0.0015	1.4497 - 1.4635	0.6095
CAD	1.0338	-0.0018	1.0218 - 1.0378	0.9150
CHF	1.1349	0.0013	1.1154 - 1.1332	1.0044
DXY	86.0950	0.6550	-	-

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	10620	-1.5	Gold ($US/ounce)	1233.2	0.0
S&P	1136	-1.9	Copper ($US/tonne)	6926.0	-3.3
Nasdaq	2347	-2.0	Nickel ($US/tonne)	21555.0	-5.4
FTSE 100	5263	-3.1	CRB Index	258.6	-2.7
DAX	6057	-3.1	Oil ($US/barrel)	71.61	-3.8

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

Australia and New Zealand Group Limited is represented in:

AUSTRALIA

Australia and New Zealand Banking Group Limited

ABN 11 005 357 522

ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands Victoria 3008, Australia

Telephone +61 2 9226 4647 Fax +61 3 9273 5711

UNITED STATES OF AMERICA

ANZ Securities, Inc. is a member of FINRA (www.finra.org) and registered with the SEC.

277 Park Avenue, 31st Floor,

New York, NY 10172, United States of America

Tel: +1 212 801 9160 Fax: +1 212 801 9163

UNITED KINGDOM BY:

Australia and New Zealand Banking Group Limited

ABN 11 005 357 522

40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom

Telephone +44 20 3229 2121 Fax +44 20 7378 2378

NEW ZEALAND BY:

ANZ National Bank Limited

Level 7, 1-9 Victoria Street, Wellington, New Zealand

Telephone +64 4 802 2000