



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** closed weaker, paring earlier gains, as equities erased losses and the Euro rebounded against the USD. The yield on 2-year notes increased 2bps to 0.798%, whilst the 10-year yield gained 3bps to 3.489%.
- **Australian bond** futures underperformed the US Treasuries at both the short and long end of the curve. The implied yield on 3-year bond futures increased 6bps to 5.030% (price down 6bps to 94.970) and the implied yield on the 10-year bond futures rose 4bps to 5.515% (price down 4bps to 94.485).
- **US equities** rebounded sharply as the Euro's recovery bolstered optimism that the Euro zone would weather the debt crisis. The DJIA was up 0.1% to 10626, the S&P 500 gained 0.1% to 1137 and the Nasdaq was 0.3% higher at 2354.
- **European equities** initially fell amid lingering concerns the region's debt crisis may derail the global economic recovery but later pared losses as the Euro rebounded. The DJ Euro Stoxx 50 rose 0.1% to 2635, the German DAX gained 0.2% to 6067 and the UK FTSE was flat at 5263.
- **The Australian SPI 200 May 10 futures** contract was up 33 points or 0.7% to 4528.
- It was a mixed night for the **USD**. **EUR/USD** opens higher at 1.2390 after gaining late in the night. **GBP/USD** is stronger at around 1.4480, while **USD/JPY** now trades at 92.50 after a choppy session.
- The **AUD** weakened against major crosses overnight ahead of the release of the RBA minutes and on concerns that the European crisis would dampen demand for higher-yielding assets. **AUD/USD** opens little changed at 0.8770 after falling from its overnight high of 0.8831. **AUD/EUR** opens weaker at 0.7075 after declining steadily. **AUD/JPY** is 81.20 after a choppy session and the **AUD/NZD** opens stronger at 1.2580.
- **Crude oil** briefly tumbled below \$70 a barrel for the first time this year on concerns that Europe's sovereign debt crisis may derail the global economic recovery and reduce fuel consumption. WTI futures contract for June 10 decreased 1.5% to US\$70.52 a barrel.
- **Spot gold** declined as the Euro rebounded diminishing the appeal of the precious metal as an alternative asset. Spot gold decreased 0.9% to US\$1,223.70.
- **LME copper** declined 6.6% to US\$6,470 on mounting concern the global economic recovery is slowing. Other base metals traded negative with **zinc**, **aluminum**, **lead** and **nickel** decreasing 7.7%, 5.4%, 7.2% and 4.0%, respectively.
- **US corn**, **soybeans** and **wheat** fell 2.7%, 1.3% and 1.6%, respectively, on concerns that steps taken by China to curb real-estate speculation and spending cuts by European nations may slow demand for food, animal feed and fuel made from the crops. **Sugar** fell 0.3%, while **palm oil** futures were 0.9% 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 Empire State Manufacturing Survey** (May), declined in May to 19.11 (30.00, 31.86) as sales slowed down, indicating that manufacturing activity is settling into a slower, more sustainable pace of growth. Factories boosted payrolls this month at the fastest pace in six years.
- **US Foreign Net Transactions** (Mar) doubled more than forecasts to \$140.5B (\$50.0B, \$47.1B) as global demand for US financial assets strengthened in March. Investors, including China and the UK, purchased the most Treasuries since November.
- **US TIC Net Monthly Inflows** (Mar): \$10.5B (\$9.7B)
- **US NAHB Market Index** (May) rose to 22 (20, 19) in May, with homebuilders less pessimistic after a US government tax credit boosted sales.
- **EU 25 New Car Registrations** (Apr): -7.4% (10.8%)
- **The Tri-party Repurchase Agreement (Repo) Infrastructure Reform Task Force**, an industry group that advises the Federal Reserve on the market for borrowing and lending securities, said that the tri-party repo market should be smaller and efforts should be taken towards greater transparency; it added that the objective should be the "practical elimination" of intraday credit provided by the clearing banks.
- **IMF Managing Director Dominique Strauss-Kahn said:** *"The current crisis is only a Greek crisis...I expect that the Europeans will take advantage of this crisis to really reshape and revamp the European institutions...There is a single currency, but there is not the economic environment which makes a single currency viable when you have a crisis, and that is what we are seeing now."*
- **Luxembourg Prime Minister Jean-Claude Juncker said:** *"I'm not worried about the current exchange rate, but more worried about the rapid deterioration of the exchange rate. We will intensively watch developments on the foreign-exchange market."*

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- NZ: Producer Prices- Inputs q/q – (Q1): Last: 0.4% - 22:45 GMT (08.45 AEST)
- NZ: Producer Prices- Outputs q/q – (Q1): Last: -0.1% - 22:45 GMT (08.45 AEST)
- AU: CBAHIA House Affordability – (Q1): Last: 120.0 - 00:30 GMT (10.30 AEST)
- AU: Reserve Bank's May Board Minutes - 01:30 GMT (11.30 AEST)
- AU: RBA's Luci Ellis speaks in Sydney - 04:35 GMT (14.35 AEST)
- JP: Tertiary Industry Index m/m – (Mar): Market: -1.5% Last: -0.2% - 23:50 GMT (09.50 AEST)
- JP: Consumer Confidence – (Apr): Last: 41.0 - 05:00 GMT (15.00 AEST)
- JP: Consumer Confidence Households – (Apr): Market: 42.0 Last: 40.9 - 05:00 GMT (15.00 AEST)
- JP: Nationwide Dept. Sales y/y – (Apr): Last: -3.5% - 05:30 GMT (15.30 AEST)
- JP: Machine Tool Orders y/y – (Apr F): Last: 220.5% - 06:00 GMT (16.00 AEST)
- EU: Euro-Zone CPI m/m – (Apr): Market: 0.4% Last: 0.9% - 09:00 GMT (19.00 AEST)
- EU: Euro-Zone CPI y/y – (Apr): Market: 1.5% Last: 1.4% - 09:00 GMT (19.00 AEST)
- EU: Euro-Zone CPI - Core y/y – (Apr): Market: 0.8% Last: 1.0% - 09:00 GMT (19.00 AEST)
- EU: ZEW Survey (Economic Sentiment) – (May): Market: 38 Last: 46.0 - 09:00 GMT (19.00 AEST)
- EU: Euro-Zone Trade Balance – (Mar): Market: 5.0B Last: 2.4B - 09:00 GMT (19.00 AEST)
- EU: Euro-Zone Trade Balance sa – (Mar): Market: 6.4B Last: 3.4B - 09:00 GMT (19.00 AEST)
- GE: ZEW Survey (Economic. Sentiment) – (May): Market: 47.0 Last: 53.0 - 09:00 GMT (19.00 AEST)
- GE: ZEW Survey (Current Situation) – (May): Market: -33.0 Last: -39.2 - 09:00 GMT (19.00 AEST)
- UK: CPI m/m – (Apr): Market: 0.4% Last: 0.6% - 08:30 GMT (18.30 AEST)
- UK: CPI y/y – (Apr): Market: 3.5% Last: 3.4% - 08:30 GMT (18.30 AEST)
- UK: Core CPI y/y – (Apr): Market: 2.8% Last: 3.0% - 08:30 GMT (18.30 AEST)
- UK: RPI m/m – (Apr): Market: 0.5% Last: 0.7% - 08:30 GMT (18.30 AEST)
- UK: RPI y/y – (Apr): Market: 4.9% Last: 4.4% - 08:30 GMT (18.30 AEST)
- UK: RPI Ex Mortgage & Interest Payments y/y – (Apr): Market: 4.9% Last: 4.8% - 08:30 GMT (18.30 AEST)
- US: Producer Price Index m/m – (Apr): Market: 0.1% Last: 0.7% - 12:30 GMT (22.30 AEST)
- US: Producer Price Index y/y – (Apr): Market: 5.6% Last: 6.0% - 12:30 GMT (22.30 AEST)
- US: PPI Ex Food & Energy m/m – (Apr): Market: 0.1% Last: 0.1% - 12:30 GMT (22.30 AEST)
- US: PPI Ex Food & Energy y/y – (Apr): Market: 0.9% Last: 0.9% - 12:30 GMT (22.30 AEST)
- US: Housing Starts – (Apr): Market: 650K Last: 626K - 12:30 GMT (22.30 AEST)
- US: Housing Starts m/m – (Apr): Market: 3.8% Last: 1.6% - 12:30 GMT (22.30 AEST)
- US: Building Permits – (Apr): Market: 680K Last: 680K - 12:30 GMT (22.30 AEST)

ECONOMIC DATA & EVENTS

- US: Building Permits m/m – (Apr): Market: 0.0% Last: 6.8% - 12:30 GMT (22.30 AEST)
- US: ABC Consumer Confidence – (w/e 16 May): Last: -47 - 21:00 GMT (07.00 AEST)
- US: Fed's Pinalto Speaks in Pittsburgh - 16:20 GMT (02.20 AEST)
- CA: International Securities Transactions – (Mar): Last; 6.720B - 12:30 GMT (22.30 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME *

| | LEVEL | CHANGE | | LEVEL | CHANGE |
|--------------------|--------|--------|--------------|-------|--------|
| US 2y note | 0.798 | 1.6 | US 2y swap | 1.15 | 2.2 |
| US 5y note | 2.199 | 4.3 | US 5y swap | 2.47 | 3.7 |
| US 10y note | 3.489 | 3.5 | US 10y swap | 3.53 | 3.5 |
| US 30y bond | 4.363 | 2.7 | AUS 3y swap | 5.39 | 4.0 |
| US 2y swap spread | 35.00 | 0.4 | AUS 5y swap | 5.73 | 4.0 |
| US 5y swap spread | 27.50 | -1.0 | AUS 10y swap | 6.06 | 4.3 |
| US 10y swap spread | 4.00 | 0.5 | NZ 3y swap | 4.87 | 3.7 |
| AUS 3y | 94.970 | -6.0 | NZ 10y swap | 5.89 | 3.8 |
| AUS 10y | 94.485 | -4.5 | AUS 3m bills | 4.85 | 2.7 |
| US 3m Libor | 0.460 | 1.5 | 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 | 0.8778 | -0.0080 | 0.8686 - 0.8831 | - |
| TWI * | 69.5000 | - | - | - |
| NZD | 0.6969 | -0.0102 | 0.6917 - 0.7033 | 1.2596 |
| EUR | 1.2397 | 0.0039 | 1.2265 - 1.2414 | 0.7081 |
| JPY | 92.53 | 0.0600 | 91.84 - 92.69 | 81.23 |
| GBP | 1.4491 | -0.0045 | 1.4363 - 1.451 | 0.6058 |
| CAD | 1.0330 | -0.0026 | 1.0319 - 1.043 | 0.9069 |
| CHF | 1.1309 | -0.0027 | 1.1298 - 1.1419 | 0.9928 |
| DXY | 86.1330 | 0.0380 | - | - |

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 | 10626 | 0.1 | Gold (\$US/ounce) | 1222.5 | -0.9 |
| S&P | 1137 | 0.1 | Copper (\$US/tonne) | 6470.0 | -6.6 |
| Nasdaq | 2354 | 0.3 | Nickel (\$US/tonne) | 20700.0 | -4.0 |
| FTSE 100 | 5263 | 0.0 | CRB Index | 253.2 | -2.1 |
| DAX | 6067 | 0.2 | Oil (\$US/barrel) | 70.50 | -1.6 |

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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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

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