



ECONOMICS & MARKETS RESEARCH ANZ MORNING NOTE

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ANZ AUSTRALIAN
MACROECONOMICS,
FX & COMMODITIES
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OVERNIGHT MARKETS UPDATE

- **US bonds** yields rose despite a report showed that US consumer prices unexpectedly declined in April as the EUR staged a rebound overnight and stock markets recovered from early weakness. The yield on 2-year notes increased 5bps to 0.773%, whilst the 10-year yield gained 2bps to 3.368%.
- **Australian bond** futures out performed the US Treasuries. The implied yield on 3-year bond futures decreased 2bps to 4.850% (price up 2bps to 95.150) and the implied yield on the 10-year bond futures fell 2bps to 5.410% (price up 2bps to 94.590).
- **US equities** declined as Germany's ban on naked short selling and a jump in mortgage foreclosures weighed on the markets. Broker downgrade on Principal Financial and American Apparel's comments on its debt compliance also weighed on the equities. The DJIA was down 0.6% to 10444, the S&P 500 lost 0.5% to 1115 and the Nasdaq was 0.8% lower at 2298.
- **European equities** retreated for the third time in four days after Germany unilaterally banned naked short selling on government bonds and financial institutions, sparking concerns that regulation would increase. The DJ Euro Stoxx 50 fell 2.9% to 2619, the German DAX declined 2.7% to 5989 and the UK FTSE was 2.8% lower at 5158.
- **The Australian SPI 200 May 10 futures** contract was flat at 4389.
- The **EUR** staged a rebound after dipping below 1.2150 overnight. **EUR/USD** opens stronger at around 1.2430 after gaining overnight on report that the euro zone would act to support the euro. **GBP/USD** opens higher at 1.4450 after rallying late in the night. **USD/JPY** opens at 91.60 after falling from its overnight high of 92.24.
- The **AUD** fell below 0.8400 as concerns that the Europe would not be able to contain the Greek debt crisis dampened investor appetite for higher-yielding assets. **AUD/USD** fell to a low of 0.8355 but later pared back losses to open higher at 0.8470. **AUD/EUR** opens lower at 0.6810 after falling steadily. **AUD/JPY** opens at 77.70 after a choppy session and the **AUD/NZD** pair opens lower at 1.2480.
- **Crude oil** rose as the USD weakened. WTI futures contract for June 10 increased 2.8% to US\$71.33 a barrel.
- **Spot gold** tumbled below \$1,200 an ounce as euro rebounded from the lowest level in four years against the dollar and reduced safe-haven buying. Spot gold decreased 2.6% to US\$1,192.80.
- **LME 3 month copper** decreased 2.8% to US\$6,505 for the third time in four sessions as Germany's ban on short selling dampened demand for commodities. Other base metals traded negative with **zinc**, **aluminum**, **lead** and **nickel** decreasing 4.2%, 2.5%, 4.4% and 3.8%, respectively.
- **US soybeans** fell 0.1% despite expectations that cheaper supplies would revive demand for the oilseed from the US. **Corn** fell 0.1% as a German trading ban triggered a sell-off. **Wheat** gained 0.3%, **sugar** rose 0.9%, while **palm oil** futures were 0.4% lower.

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

ECONOMIC DATA & EVENTS

OVERNIGHT DATA AND EVENTS (MARKET EXPECTATIONS, LAST OBSERVATION)

- **FOMC Minutes:** Federal Reserve policy makers said they were in no rush to sell \$1.1tn of mortgage-backed securities, with a majority preferring to wait until after the central bank starts raising interest rates. Officials lowered their projections for inflation, excluding food and fuel, while keeping forecasts little changed for economic growth and unemployment in 2011 and 2012.
- **US CPI m/m (Apr)** unexpectedly dropped for the first time since March 2009 to -0.1% (0.1%, 0.1%) in April, as retailers continue to cut prices to try and spur demand.
- **US CPI y/y (Apr):** 2.2% (2.4%, 2.3%)
- **US Core CPI m/m (Apr):** 0.0% (0.1%, 0.0%)
- **US Core CPI y/y (Apr):** 0.9% (1.0%, 1.1%)
- **US MBA Index (w/e 14 May)** dropped -1.5% (3.9%) last week as purchases declined and the expiration of a homebuyers' tax credit drove away buyers. The group's purchases index slumped 27%, while the refinancing measure rose 15%.
- **US Delinquencies (1Q):** 10.06% (9.47%)
- **US Foreclosures (1Q):** 4.63% (4.58%)
- **EC Monthly Production in Construction m/m (Mar)** surged the most in 14 years to 7.6% (-7.2%) driven by a 27% increase in Germany. European builders are stepping up output to meet reviving demand after unusually cold weather curbed construction in the first two months of the year.
- **EC Monthly Production in Construction y/y (Mar):** -5.2% (-14.8%)
- **Bank of England minutes** from their May meeting showed unanimous support for keeping rates unchanged at 0.5% and maintaining their asset purchase programme at £200bn.
- **European Central Bank Governing Council Member Axel Weber said:** *"A permanently available support scheme would only exacerbate these problems and therefore should not be a policy option...Adverse incentive effects would most likely be even more severe than in the financial sector...It is essential to strengthen the existing fiscal rules to prevent individual governments from running into budgetary difficulties."*
- **European Central Bank Executive Board Member Lorenzo Bini Smaghi said:** *"The crisis of government debt has now begun to have an impact on the functionality of the financial markets... We had to react to this."*
- **German Chancellor Angela Merkel:** *"The lack of rules and limits can make behaviour in financial markets driven purely by the profit motive destructive and lead to an existential threat to financial stability in Europe and even the world."*

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- NZ: New Zealand's 2010 budget is released - 02:00 GMT (12.00 AEST)
- AU: Consumer Inflation Expectation – (May): Last: 4.1% - 01:00 GMT (11.00 AEST)
- AU: RBA Foreign Exchange Transactions – (Apr): Last: 892M - 01:30 GMT (11.30 AEST)
- AU: Average Weekly Wages q/q – (Feb): Market: 0.9% Last: 2.0% - 01:30 GMT (11.30 AEST)
- AU: Average Weekly Wages y/y – (Feb): Market: 5.4% Last: 5.9% - 01:30 GMT (11.30 AEST)
- JP: Housing Loans y/y – (Q1): Last: 1.6% - 23:50 GMT (09.50 AEST)
- JP: Gross Domestic Product q/q – (Q1 P): Market: 1.4% Last: 0.9% - 23:50 GMT (09.50 AEST)
- JP: GDP Annualized – (Q1 P): Market: 5.5% Last: 3.8% - 23:50 GMT (09.50 AEST)
- JP: Nominal GDP q/q – (Q1 P): Market: 1.3% Last: 0.1% - 23:50 GMT (09.50 AEST)
- JP: GDP Deflator y/y – (Q1 P): Market: -3.0% Last: -2.8% - 23:50 GMT (09.50 AEST)
- JP: BoJ Monetary Policy Meeting - 04:00 GMT (14.00 AEST)
- JP: Convenience Store Sales y/y – (Apr): Last: -4.9% - 07:00 GMT (17.00 AEST)
- EU: Euro-Zone Consumer Confidence – (May A): Market: -16 Last: -15 - 14:00 GMT (00.00 AEST)
- GE: Producer Prices m/m – (Apr): Market: 0.6% Last: 0.7% - 06:00 GMT (16.00 AEST)
- GE: Producer Prices y/y – (Apr): Market: 0.4% Last: -1.5% - 06:00 GMT (16.00 AEST)
- UK: Retail Sales Ex Auto Fuel m/m – (Apr): Market: -0.1% Last: 0.2% - 08:30 GMT (18.30 AEST)
- UK: Retail Sales Ex Auto Fuel y/y – (Apr): Market: 3.2% Last: 4.0% - 08:30 GMT (18.30 AEST)
- UK: Retail Sales w/Auto Fuel m/m – (Apr): Market: 0.2% Last: 0.4% - 08:30 GMT (18.30 AEST)
- UK: Retail Sales w/Auto Fuel y/y – (Apr): Market: 1.8% Last: 2.2% - 08:30 GMT (18.30 AEST)
- US: Initial Jobless Claims – (w/e 15 May): Market: 440K Last: 444K - 12:30 GMT (22.30 AEST)
- US: Continuing Claims – (w/e 8 May): Market: 4610K Last: 4627K - 12:30 GMT (22.30 AEST)
- US: RPX Composite 28 day Index – (w/e 31 May): Last: 186.24 - 13:00 GMT (23.00 AEST)
- US: RPX Composite 28 day y/y – (May): Last: -0.18% - 13:00 GMT (23.00 AEST)
- US: Philadelphia Fed Business Outlook Survey – (May): Market: 21.3 Last: 20.2 - 14:00 GMT (00.00 AEST)
- US: Leading Indicators – (Apr): Market: 0.2% Last: 1.4% - 14:00 GMT (00.00 AEST)
- CA: Leading Indicators m/m – (Apr): Market: 0.7% Last: 1.0% - 12:30 GMT (22.30 AEST)
- CA: Bank of Canada Publishes its Quarterly Review - 14:30 GMT (00.30 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME *

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	0.773	4.8	US 2y swap	1.14	2.4
US 5y note	2.122	5.9	US 5y swap	2.41	2.3
US 10y note	3.368	2.2	US 10y swap	3.43	1.7
US 30y bond	4.244	1.5	AUS 3y swap	5.20	3.0
US 2y swap spread	36.56	-2.6	AUS 5y swap	5.57	3.0
US 5y swap spread	28.25	-2.5	AUS 10y swap	5.95	3.4
US 10y swap spread	5.94	0.1	NZ 3y swap	4.77	-0.6
AUS 3y	95.150	2.0	NZ 10y swap	5.82	-0.6
AUS 10y	94.590	2.0	AUS 3m bills	4.81	4.5
US 3m Libor	0.478	1.3	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	0.8483	-0.0162	0.8358 - 0.8562	-
TWI*	68.1000	-	-	-
NZD	0.6779	-0.0162	0.666 - 0.6873	1.2511
EUR	1.2413	0.0211	1.2155 - 1.2416	0.6834
JPY	91.77	-0.4600	90.96 - 92.01	77.85
GBP	1.4446	0.0112	1.4239 - 1.4447	0.5872
CAD	1.0432	0.0039	1.0411 - 1.0539	0.8850
CHF	1.1509	0.0032	1.1419 - 1.1586	0.9763
DXY	86.2750	-1.1070	-	-

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	10444	-0.6	Gold (\$US/ounce)	1192.2	-2.7
S&P	1115	-0.5	Copper (\$US/tonne)	6505.0	-2.8
Nasdaq	2298	-0.8	Nickel (\$US/tonne)	21300.0	-3.8
FTSE 100	5158	-2.8	CRB Index	252.6	-0.9
DAX	5989	-2.7	Oil (\$US/barrel)	71.25	2.7

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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