



## 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** were higher overnight on concerns that Europe's fiscal crisis would slow down economic growth boosted the safe haven appeal of US debt. The difference in yield between 2-year and 10-year notes reached a seven-month low ahead of the \$113bn US auction of notes this week. The yield on 2-year notes decreased 4bps to 0.723%, whilst the 10-year yield declined 4bps to 3.196%.
- **Australian bond** futures underperformed US Treasuries. The implied yield on 3-year bond futures was fell 2bps to 4.760% (price up 2bps to 95.240) and the implied yield on the 10-year bond futures fell 1bps to 5.320% (price up 1bps to 94.680).
- **US equities** were lower overnight as concerns on Europe's debt crisis outweighed a rally in technology stocks, triggered by broker upgrade of Apple. The DJIA was down 1.2% to 10067, the S&P 500 lost 1.3% to 1074 and the Nasdaq was 0.7% lower at 2214.
- **European equities** initially rebounded from a six-month low, led by gains in mining shares and on concerns that the recent decline in prices may have been overdone, but gains were later unwound to see bourses broadly end lower. The DJ Euro Stoxx 50 fell 0.6% to 2558, the German DAX declined 0.4% to 5806 and the UK FTSE was 0.1% higher at 5070.
- **The Australian SPI 200 May 10 futures** contract was down 69 points or 1.6% to 4347.
- The **USD** strengthened against major currency pairs overnight. **EUR/USD** has weakened to around 1.2350 after regulators seized Spanish bank CajaSur. **GBP/USD** traded lower initially but later rallied to open at 1.4415. **USD/JPY** opens at 90.15 after a session of range trading.
- It was a mixed night for the **AUD** with a stabilisation in stocks reviving demand for higher-yielding assets. **AUD/USD** is trading lower around 0.8240 after falling early this morning. **AUD/EUR** opens today's session at 0.6665 after gaining marginally overnight. **AUD/JPY** opens stronger at 74.10 after rallying late in the night and the **AUD/NZD** opens little changed at 1.2300.
- **Crude oil** increased on investor buying following recent declines. WTI futures contract for July 10 increased 0.1% to US\$70.05 a barrel.
- **Spot gold** rose on continued European sovereign debt concerns and tensions in Korea. Spot gold increased 1.3% to US\$1,192.35.
- **LME 3 month Copper** increased 0.9% to US\$6910, to a one week high, on expectation of strong demand in China and the US. Other base metals traded positively with zinc, aluminum, lead and nickel increasing 2.0%, 1.4%, 1.0% and 4.0%, respectively.
- **US sugar** declined 2.9% as US dollar's rally eroded the appeal of some commodities as alternative investments. **Corn** gained 0.5% on speculation that China would increase imports from the US. **Soybeans** decreased 0.1% despite expectations that demand for US supplies would increase. **Wheat** fell 1.0%, while **palm oil** futures ended unchanged.

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

## ECONOMIC DATA & EVENTS

### OVERNIGHT DATA AND EVENTS (MARKET EXPECTATIONS, LAST OBSERVATION)

- **US Chicago Fed National Activity Index (Apr)** increased to 0.29 (0.13) in April, the highest level since December 2006, driven by continued improvements in production, which rose 0.41 (0.23), and contribution from employment-related indicators (up 0.23 against 0.16 in March).
- **US Existing Homes Sales (Apr)** rose to a five-month high of 5.77M (5.62M, 5.36M) on the back of a 7.6% surge in purchases as people rushed to take advantage of the government tax credit that expires in June
- **US Existing Homes Sales m/m (Apr):** 7.6% (5.1%, 7.0%)
- **UK pledges spending cuts.** The new UK Government has announced spending cuts totalling £6bn, which is the first step in the pledge of Chancellor George Osborne to reduce the bulk of the £156bn deficit (11% of the GDP) over the next five years. Further steps will be outlined in the June 22 Budget, with the three-yearly spending review later in the year expected to slash department budgets over the next three years. Most of the saving will go towards cutting the deficit this year, so that previously planned tax increases could be avoided.
- **European debt crisis far from over.** Now it's Spain's turn. The Bank of Spain has removed the managers of CajaSur (which accounts for nearly 0.6% of the assets of the country's financial system), a savings bank crippled by property loan defaults, and put the lender under a provisional administrator. Spain has its own fiscal woes, and with a Budget deficit of 11% of the GDP, pressure is on the government to enact a \$19bn austerity plan. Moreover, the IMF has stressed that far-reaching reforms are needed to restore competitiveness. Further signs of strains in credit markets are emerging, with the Libor interest rates for three-month loans in dollars having climbed to their highest since July.
- **US White House economic adviser Lawrence Summers said:** *"Those who recognize the fiscal and growth benefits of strong expansionary policies must also recognize that it is simultaneously desirable today to provide confidence that deficits will come down to sustainable levels... questions about fiscal policy are especially pressing right now."*
- **International Monetary Fund's Chief Economist Olivier Blanchard said:** *"The other European countries don't need to take measures as draconian as those in Greece... They're more credible to start with, their debt is lower and so they can allow themselves to adjust more gradually... the Greek economy doesn't have a very heavy weighting as far as the global economy is concerned."*

## ECONOMIC DATA & EVENTS

### UPCOMING DATA AND EVENTS

- NZ: RBNZ 2yr Inflation Expectation – (Q2): Last : 2.7% - 03:00 GMT (13.00 AEST)
- EU: Industrial New Orders m/m – (Mar): Market: 2.5% Last 1.9% - 09:00 GMT (19.00 AEST)
- EU: Industrial New Orders y/y – (Mar): Market: 15.0% Last 12.5% - 09:00 GMT (19.00 AEST)
- EU: Van Rompuy Speaks at European Movement Conference - 09:15 GMT (19.15 AEST)
- UK: Nationwide House prices m/m - (May): Market: 0.4% Last: 1.0%
- UK: Nationwide House prices y/y – (May): Market: 9.7% Last: 10.5%
- UK: GDP q/q – (Q1P): Market: 0.3% Last: 0.2% - 08:30 GMT (18.30 AEST)
- UK: GDP y/y – (Q1P): Market: -0.2% Last: -0.3% - 08:30 GMT (18.30 AEST)
- UK: Private Consumption – (Q1 P): Market : -0.2% Last : 0.4% - 08:30 GMT (18.30 AEST)
- UK: Government Spending – (Q1 P): Market : 0.6% Last : 1.0% - 08:30 GMT (18.30 AEST)
- UK: Gross Fixed Capital Formation – (Q1 P): Market: -0.3% Last: -2.7% - 08:30 GMT (18.30 AEST)
- UK: Exports – (Q1 P): Market: 0.0% Last: 3.8% - 08:30 GMT (18.30 AEST)
- UK: Imports – (Q1 P): Market: 0.4% Last: 4.7% - 08:30 GMT (18.30 AEST)
- UK: Index of Services (3mth/3mth) – (Mar): Market: 0.2% Last: 0.4% - 08:30 GMT (18.30 AEST)
- UK: BBA Loans for House Purchases – (Apr): Market: 37000 Last: 34905 - 08:30 GMT (18.30 AEST)
- US: S&P/ CS Composite-20 y/y – (Mar): Market: 2.5% Last: 0.6% - 13:00 GMT (23.00 AEST)
- US: S&P/CS Home Price Index – (Mar): Last: 144.0 - 13:00 GMT (23.00 AEST)
- US: S&P/ CS 20 City m/m – (Mar): Market: -0.30% Last: -0.10% - 13:00 GMT (23.00 AEST)
- US: S&P/CS US HPI – (Q1): Last: 136.1 - 13:00 GMT (23.00 AEST)
- US: S&P/CS US HPI y/y – (Q1): Market: 3.2% Last: -2.5% - 13:00 GMT (23.00 AEST)
- US: Richmond Fed Manufacturing Index – (May): Market: 26 Last: 30 - 14:00 GMT (00.00 AEST)
- US: Conference Board Consumer Confidence – (May): Market: 58.5 Last: 57.9 - 14:00 GMT (00.00 AEST)
- US: House Price Index m/m – (May): Market: 0.0% Last: -0.2% - 14:00 GMT (00.00 AEST)
- US: House Price Purchase Index q/q – (Q1): Last: -0.1% - 14:00 GMT (00.00 AEST)
- US: ABC Consumer Confidence – (May 23): Last: -44 – 21:00 GMT (07.00 AEST)
- US: Fed's Bullard Speaks in London - 15:15 GMT (01.15)
- US: Treasury's Geithner holds news conference in Beijing – 11:00 GMT (21:00 AEST)

# MARKET TABLES

**TABLE 1: FIXED INCOME \***

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	0.731	-3.3	US 2y swap	1.24	6.1
US 5y note	1.985	-3.7	US 5y swap	2.34	8.2
US 10y note	3.194	-4.4	US 10y swap	3.28	7.0
US 30y bond	4.089	-1.1	AUS 3y swap	5.09	1.0
US 2y swap spread	51.64	9.9	AUS 5y swap	5.48	1.0
US 5y swap spread	34.88	6.8	AUS 10y swap	5.81	0.4
US 10y swap spread	8.19	3.4	NZ 3y swap	4.69	-0.8
AUS 3y	95.230	1.0	NZ 10y swap	5.75	-0.5
AUS 10y	94.665	0.0	AUS 3m bills	4.75	-4.2
US 3m Libor	0.510	1.3	NZ 3m bills	2.89	-1.0

Source: ANZ and Bloomberg. Change in basis points

**TABLE 2: FOREIGN EXCHANGE#**

	LAST	CHANGE	OVERNIGHT RANGE	CURRENT VS AUD
AUD	0.8268	-0.0050	0.8253 - 0.8342	-
TWI *	65.6000	-	-	-
NZD	0.6694	-0.0092	0.6694 - 0.6774	1.2351
EUR	1.2361	-0.0209	1.2345 - 1.2478	0.6689
JPY	90.31	0.3100	89.94 - 90.62	74.67
GBP	1.4425	-0.0035	1.4353 - 1.4479	0.5732
CAD	1.0627	0.0032	1.0552 - 1.0631	0.8788
CHF	1.1599	0.0102	1.1543 - 1.1611	0.9590
DXY	86.4600	1.0890	-	-

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	10067	-1.2	Gold (\$US/ounce)	1192.1	1.3
S&P	1074	-1.3	Copper (\$US/tonne)	6910.0	0.9
Nasdaq	2214	-0.7	Nickel (\$US/tonne)	22200	4.0
FTSE 100	5070	0.1	CRB Index	252.0	0.2
DAX	5806	-0.4	Oil (\$US/barrel)	70.05	0.0

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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