



ECONOMICS & MARKETS RESEARCH OVERNIGHT MARKETS UPDATE

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ANZ AUSTRALIAN
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RESEARCH

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OVERNIGHT MARKETS UPDATE

- **US bonds** declined as positive economic data releases in the US dampened the safe-haven appeal of US debt, but losses were later pared back as US stocks closed lower. The US Treasury sold \$40bn of 5-year notes at a yield of 2.13% (forecast 2.11%) at a bid to cover ratio of 2.71 times (forecast 2.57). The yield on 2-year notes increased 6bps to 0.813%, the 10-year yield increased 3bps to 3.189%.
- **Australian bond** futures outperformed US Treasuries. The implied yield on 3-year bond futures increased 1bps to 4.700% (price down 1bps to 95.280) and the implied yield on the 10-year bond futures fell 3bps to 5.290% (price up 2bps to 94.695).
- **US equities** advanced initially after US new home sales rose to a two year high and durable goods orders rose more than forecast but later pared gains on reports that China is considering reducing investments in European government bonds. The DJIA was down 0.7% to 9974, the S&P 500 fell 0.6% to 1068 and the Nasdaq was 0.7% lower at 2196.
- **European equities** rebounded from an 8-month low as better-than-expected US economic data offset concerns about the strength of the Euro and the tensions on the Korean peninsula. The DJ Euro Stoxx 50 gained 1.7% to 2530, the German DAX increased 1.6% to 5758 and the UK FTSE was 2.0% higher at 5038.
- **The Australian SPI 200 May 10 futures** contract was down 11 points or 0.3% to 4289.
- The **USD** strengthened against the major crosses overnight. **EUR/USD** traded stronger initially but fell late in the night to open weaker at 1.2170. **GBP/USD** opens 1.4370 after a whippy session overnight. **USD/JPY** opens marginally lower at 89.80 after a quiet night.
- The **AUD** broadly weakened against the major currency pairs. **AUD/USD** opens weaker at around 0.8210 after falling in late night trade. **AUD/EUR** touched an overnight high of 0.6848 but later pared back some gains to open marginally higher at 0.6745. **AUD/JPY** opens weaker at 73.70, and the **AUD/NZD** pair little changed at 1.2380 after a rally above 1.2450 unwound.
- **Crude oil** increased the most since September after a US government report showed that demand for fuel rose to the highest level since January 2009. WTI futures contract for July 2010 increased 3.0% to US\$70.83 a barrel.
- **Spot gold** rose as investors sought an alternative to the Euro on the back of the widening sovereign-debt crisis in Europe. Spot gold increased 0.6% to US\$1,211.75.
- **LME 3 month copper** increased 0.7% to US\$6,779 on signs of an improving economy in the US. Other base metals traded mixed with **zinc** and **lead** increasing 1.8% and 0.4% and **aluminum** and **nickel** decreasing 0.2% and 0.4%, respectively.
- **US sugar** increased 0.7% on signs of increasing stockpiles and rising demand. **Corn** increased 2.0% on expectations that China would boost imports from the US. **Wheat** increased 0.3%, **soybeans** gained 0.8% and **palm oil** rose 0.7%.

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

ECONOMIC DATA & EVENTS

OVERNIGHT DATA AND EVENTS (MARKET EXPECTATIONS, LAST OBSERVATION)

- **US MBA Mortgage Market Index** (w/e 21 May) increased the most a month by 11.3% (-1.5%) as homeowners took advantage of low borrowing costs and falling refinancing mortgage rates.
- **US Durable Goods New Orders m/m** (Apr) increased more than expected by 2.9% (1.3%, 0.0%) as rising exports and lean inventories prompted companies to place more orders with factories.
- **US Durable Goods New Orders ex Transportation m/m** (Apr): -1.0% (0.5%, 4.8%)
- **US New Home Sales** (Apr) climbed to 504K (425K, 439K), a 2-year high, as buyers rushed to qualify for a government tax credit before it expired, with contracts required to be signed by the end of April.
- **US New Home Sales m/m** (Apr): 14.8% (3.4%, 29.9%)
- **UK BBA Home Loan Approvals** (Apr): 35729 (37000, 35044)
- **GE GfK Consumer Confidence** (Jun): 3.5 (3.6, 3.7)
- **US Federal Reserve Chairman Ben S. Bernanke said:** *"In undertaking financial reforms, it is important that we maintain and protect the aspects of central banking that proved to be strengths during the crisis and that will remain essential to the future stability and prosperity of the global economy...Policy makers in a central bank subject to short-term political influence may face pressures to over stimulate the economy to achieve short-term output and employment gains that exceed the economy's underlying potential."*
- **OECD growth forecasts revised up.** In its 6-monthly report the OECD raised its forecast for world growth to 4.6 percent for 2010 (previously 3.4 percent) and 4.5 percent for 2011 (previously 3.7 percent). OECD economies (growth of 2.7 percent in 2010 and 2.8 percent in 2011) were getting a lift from resurgent international trade, propelled primarily by export demand from rising economies in Asia. Forecasts for most economies were upgraded, with the recovery in the euro area more gradual than for other economies. The biggest challenges for OECD economies were cutting post recession debts and containing financial market instability that had spread recently from Europe.

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- NZ: Trade Balance – (Apr): ANZ: 500M Market: 455M Last: 567M – 22:45 GMT (08.45 AEST)
- NZ: Imports – (Apr): ANZ: 3.45B Market: 3.43B Last: 3.49B – 22:45 GMT (08.45 AEST)
- NZ: Exports - (Apr): ANZ: 3.95B Market: 3.88B Last: 4.06B – 22:45 GMT (08.45 AEST)
- NZ: Trade Balance 12 Mth – (Apr): ANZ: -15.0 Market: -60.0 Last: -194.0 - 22:24 GMT (08.45 AEST)
- AU: Conference Board Leading Index – (Mar): Last: -0.3% - 00:00 GMT (10.00 AEST)
- AU: Private Capital Expenditure – (Q1): ANZ: 2.5% Market: 2.5% Last: 5.5% - 01:30 GMT (11.30 AEST)
- JP: Merchandise Trade Balance Total – (Apr): Market: ¥700.3B Last: ¥948.9B – 23:50 GMT (09.50 AEST)
- JP: Adjusted Merchandise Trade Balance Total– (Apr): Market: ¥687.5B Last: ¥666.2B – 23:50 GMT (09.50 AEST)
- JP: Merchandise Trade Exports y/y– (Apr): Market: 38.3% Last: 43.5% – 23:50 GMT (09.50 AEST)
- JP: Merchandise Trade Imports y/y– (Apr): Market: 23.3% Last: 20.6% – 23:50 GMT (09.50 AEST)
- EU: ECB's Paramo Speacks in Barcelona – 11:00 GMT (21.00 AEST)
- GE: Consumer Price Index m/m – (May P): Market: 0.1% Last: -0.1%
- GE: Consumer Price Index y/y – (May P): Market: 1.2% Last: 1.0%
- GE: CPI - EU Harmonised m/m – (May P): Market: 0.1% Last: -0.1%
- GE: CPI - EU Harmonised y/y – (May P): Market: 1.2% Last: 1.0%
- UK: CBI Distributive Trades – (May) - 10:00 GMT (20.00 AEST)
- US: GDP q/q (Annualized) – (Q1 S): Market: 3.4% Last: 3.2% - 12:30 GMT (22.30 AEST)
- US: Personal Consumption – (Q1 S): Market: 3.8% Last: 3.6% - 12:30 GMT (22.30 AEST)
- US: GDP Price Index – (Q1 S): Market: 0.9% Last: 0.9% - 12:30 GMT (22.30 AEST)
- US: Core PCE q/q – (Q1 S): Market: 0.6% Last: 0.6% - 12:30 GMT (22.30 AEST)
- US: Initial Jobless Claims – (May 22): Market: 455K Last: 471K - 12:30 GMT (22.30 AEST)
- US: Continuing Claims – (May 15): Market: 4613K Last: 4625K - 12:30 GMT (22.30 AEST)
- US: Fed's Evans Speaks at BoJ Conference – 00:00 GMT (10.00 AEST)
- US: Fed's Bullard Speaks in Stockholm – 06:40 GMT (16.40 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME *

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	0.813	5.8	US 2y swap	1.29	4.9
US 5y note	2.018	4.6	US 5y swap	2.36	-0.7
US 10y note	3.189	3.1	US 10y swap	3.28	-2.4
US 30y bond	4.093	3.6	AUS 3y swap	5.10	-4.0
US 2y swap spread	47.44	-4.3	AUS 5y swap	5.49	-4.0
US 5y swap spread	34.44	-2.1	AUS 10y swap	5.85	-3.3
US 10y swap spread	8.63	-0.6	NZ 3y swap	4.67	0.0
AUS 3y	95.300	1.0	NZ 10y swap	5.73	-1.0
AUS 10y	94.710	3.0	AUS 3m bills	4.84	-8.8
US 3m Libor	0.538	0.2	NZ 3m bills	2.95	0.0

Source: ANZ and Bloomberg. Change in basis points

TABLE 2: FOREIGN EXCHANGE#

	LAST	CHANGE	OVERNIGHT RANGE	CURRENT VS AUD
AUD	0.8217	-0.0060	0.8213 - 0.839	-
TWI*	65.8000	-	-	-
NZD	0.6629	-0.0073	0.6607 - 0.6743	1.2391
EUR	1.2174	-0.0171	1.2167 - 1.2345	0.6750
JPY	89.94	-0.2900	89.83 - 90.68	73.91
GBP	1.4388	-0.0021	1.4332 - 1.4443	0.5711
CAD	1.0707	0.0032	1.0581 - 1.0745	0.8798
CHF	1.1606	0.0035	1.1515 - 1.1619	0.9536
DX	87.3000	0.9520	-	-

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	9974	-0.7	Gold (\$US/ounce)	1211.2	0.6
S&P	1068	-0.6	Copper (\$US/tonne)	6779.0	0.7
Nasdaq	2196	-0.7	Nickel (\$US/tonne)	21115.0	-0.4
FTSE 100	5038	2.0	CRB Index	252.8	1.6
DAX	5758	1.6	Oil (\$US/barrel)	70.71	2.9

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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