ECONOMICS & MARKETS RESEARCH
OVERNIGHT MARKETS UPDATE

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ANZ AUSTRALIAN MACROECONOMICS, FX & COMMODITIES RESEARCH

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OVERNIGHT MARKETS UPDATE

- **US bonds** rallied as data showed consumer spending in US remained unchanged in April and on expectations that the economic recovery would be slow due to Europe's debt crisis. The yield on 2-year notes decreased 11bps to 0.766%, the 10-year yield decreased 7bps to 3.292%. Ten-year yields fell by 36bps over the month.
- **Australian bond futures** also rallied. The implied yield on 3-year bond futures decreased 7bps to 4.770% (price up 7bps to 95.230) and the implied yield on the 10-year bond futures fell 6bps to 5.355% (price up 6bps to 94.645).
- **US equities** declined after US consumer spending unexpectedly stagnated and on concerns that the European debt crisis is spreading. US President Obama's moratorium on new deepwater drilling permits also weighed on equities. The DJIA was down 1.2% to 10137, the S&P 500 lost 1.2% to 1089 and the Nasdaq was 0.9% lower at 2257.
- **European equities** declined as US personal spending remained unchanged and the energy sector retreated. The DJ Euro Stoxx 50 fell 0.2% to 2614, the German DAX increased 0.2% to 5946 and the UK FTSE was 0.1% lower at 5188.
- **The Australian SPI 200 May 10 futures** contract was down 42 points or 0.9% to 4424.
- It was a positive night for the **USD** on Friday. **EUR/USD** opens the week at 1.2265 after declining steadily on Friday. **GBP/USD** opens at 1.4415 after falling in late night trade. **USD/JPY** opens Monday's session at 91.00 after trading flat.
- It was a mixed night for the **AUD** against the major crosses on Friday. **AUD/USD** opens around 0.8455 levels after falling in the latter half of Friday night's session. **AUD/EUR** traded quiet initially but later rallied to open today's session around 0.6880. **AUD/JPY** traded Friday's session predominantly above 77.00 but opens the morning lower at 76.90 and the **AUD/NZD** pair opens little changed at 1.2460 after failing to break 1.2500.
- **Crude oil** decreased after US President Barack Obama suspended some deepwater drilling permits and as Fitch downgraded Spain's credit rating. WTI futures contract for July 10 decreased 0.8% to US$ 73.97 a barrel.
- **Spot gold** rose as the European debt crisis boosted the appeal of the metal as an alternative holding currency. Spot gold increased 0.1% to US$ 1,214.38.
- **LME copper** decreased 0.6% to US$ 6,939 after a report showed that US consumer spending stalled, diminishing the demand outlook for metals. Other base metals traded negative with **zinc**, **aluminum** and **nickel** decreasing 0.2%, 1.1% and 2.1%, respectively. **Lead** ended 0.3% higher.
- **US sugar** decreased 4.9% on forecasts that global supplies would increase supported by higher production in Brazil and India. **Soybeans** fell 1.5% on expectations that warm climatic conditions would aid development of crops in the US. **Wheat** declined 2.1% on signs that importers are shunning US grain in favor of cheaper supplies from competing exporters. **Corn** lost 3.8% while **palm oil** futures were 0.2% higher.

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

ECONOMIC DATA & EVENTS

OVERNIGHT DATA AND EVENTS (MARKET EXPECTATIONS, LAST OBSERVATION)

- **US Personal Income m/m** (Apr) rose by 0.4% (0.4%, 0.4%), in line with market expectations wile the savings rate rose to 3.6%.
- **US Personal Spending m/m** (Apr) was unchanged in April (0.3%, 0.6%) as households used wage gains to increase savings.
- **US PCE Deflator y/y** (Apr): 2.0% (1.9%, 2.0%)
- **US PCE Core Price Index m/m** (Apr): 0.1% (0.1%, 0.1%)
- **US PCE Core Price Index y/y** (Apr): 1.2% (1.1%, 1.3%)
- **US Chicago Purchasing Managers Index** (May) softened to 59.7 (61.0, 63.8) in May. The survey indicates that manufacturing activity has expended for eight consecutive months, with firms boosting production on the back of rising sales.
- **US University of Michigan Consumer Confidence Survey** (May F) increased more than expected to 73.6 (73.3, 73.3) adding to signs that the economy is strengthening.
- **US Milwaukee PMI** (May): 65.0 (64.0, 66.0)
- **GE Import Prices m/m** (Apr): 2.0% (1.5%, 1.7%)
- **GE Import Prices y/y** (Apr): 7.9% (7.1%, 5.0%)
- **US and UK markets are closed today**. The US is closed for Memorial Day while the UK is closed for the May Bank Holiday, potentially limiting liquidity (and volatility) over the next 24 hours.
- **European Central Bank Governing Council member Axel Weber said:** *"Recent proposals to prohibit certain risky activities altogether pursue a more radical course...The complete prohibition of certain activities is a very far-reaching market intervention, especially since these activities do not necessarily have zero economic value-added."*
- **European Central Bank Executive Board member Lorenzo Bini Smaghi said:** *"One cannot doubt the determination of the 16 euro-area countries to stick together and do the necessary to defend what has been achieved over the past 10 years... Financial markets are testing each country, one by one, to see whether they are willing to adopt the necessary budgetary measures, starting with those which seem to be facing the greatest hurdles to consolidation... not easy. But it will be done, because it can be done and it has to be done in any case."*
- **European Central Bank Governing Council member Michael Bonello said:** *"The recovery in Europe is also constrained by the deleveraging process currently underway in the banking sector and in the private sector generally. Together with the fiscal tightening, this balance sheet consolidation largely explains why the EC is forecasting only a modest recovery in the euro area and the EU this year.''*
- **Bank of England policy maker Adam Posen said:** *"Ratings agencies really just have to be excised from the whole process... Not just because they're corrupt and inaccurate and have no value -- but that would be enough -- but because as some pundits have put it, we're moving to a world where equities look like options and bonds look like equities."*

ECONOMIC DATA & EVENTS

- **Spanish Downgrade.** Fitch Ratings has downgraded Spain's sovereign credit rating by one notch from AAA to AA+, noting that "process of adjustment to a lower level of private sector and external indebtedness will materially reduce the rate of growth of the Spanish economy over the medium term." Quite. And this is exactly how markets should be viewing Europe's fiscal problems. Emergency packages can help bolster confidence and fill liquidity voids, but the debt hasn't gone away, and the only way it will is the old fashioned way – via more saving and less spending. S&P cut Spain's rating to AA on April 28th.

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- NZ: NBNZ Business Confidence – (May): Last: 49.5 - 03:00 GMT (13.00 AEST)
- AU: TD Securities Inflation m/m – (May): Last: 0.4% - 00:30 GMT (10.30 AEST)
- AU: TD Securities Inflation y/y – (May): Last: 2.9% - 00:30 GMT (10.30 AEST)
- AU: HIA New Home Sales m/m – (Apr): Last: 0.9% - 01:00 GMT (11.00 AEST)
- AU: Private Sector Credit m/m – (Apr): ANZ: 0.5% Market: 0.5% Last: 0.5% - 01:30 GMT (11.30 AEST)
- AU: Private Sector Credit y/y – (Apr): ANZ: 2.4% Market: 2.4% Last: 2.1% - 01:30 GMT (11.30 AEST)
- AU: Current Account Balance – (Q1): ANZ: -14500M Market: -16250M Last: -17459M - 01:30 GMT (11.30 AEST)
- AU: Net Exports Contribution to GDP – (Q1): ANZ: 0.3 Market: -0.2 Last: -1.3 - 01:30 GMT (11.30 AEST)
- AU: Company Operating Profit q/q – (Q1): ANZ: 3.0% Market: 3.0% Last: 2.2% - 1:30 GMT (11.30 AEST)
- AU: Inventories – (Q1): ANZ:1.0% Market: 0.5% Last:0.2% - 01:30 GMT (11.30 AEST)
- AU: Rismark Australia Median House Price – (May): Last: 450.0K - 01:30 GMT (11.30 AEST)
- JP: Nomura/JMMA Manufacturing PMI – (May): Last: 53.5 - 23:15 GMT (09.15 AEST)
- JP: Industrial Production m/m – (Apr P): Market: 2.5% Last: 1.2% - 23:50 GMT (09.50 AEST)
- JP: Industrial Production y/y – (Apr P): Market: 27.4% Last: 31.8% - 23:50 GMT (09.50 AEST)
- JP: Labor Cash Earnings y/y – (Apr): Market: 0.8% Last: 1.0% - 01:30 GMT (11.30 AEST)
- JP: Vehicle Production y/y – (Apr): Last: 71.2% - 04:00 GMT (14.00 AEST)
- JP: Housing Starts y/y – (Apr): Market: 6.6% Last: -2.4% - 05:00 GMT (15.00 AEST)
- JP: Annualized Housing Starts – (Apr): Market: 0.840M Last: 0.854M - 05:00 GMT (15.00 AEST)
- JP: Construction Orders y/y – (Apr): Last: 42.3% - 05:00 GMT (15.00 AEST)
- EU: ECB's Trichet, Nowotny Speak at OENB Spring Conference
- EU: Euro-Zone M3 y/y – (Apr): Market: -0.3% Last: -0.1% - 08:00 GMT (18.00 AEST)
- EU: Euro-Zone M3 3 mth avg – (Apr): Market: -0.2% Last: -0.1% - 08:00 GMT (18.00 AEST)
- EU: Business Climate Indicator – (May): Market: 0.20 Last: 0.23 - 09:00 GMT (19.00 AEST)
- EU: Euro-Zone Industrial Confidence – (May): Market: -7 Last: -7 - 09:00 GMT (19.00 AEST)
- EU: Euro-Zone Consumer Confidence – (May F): Market: -18 Last: -18 - 09:00 GMT (19.00 AEST)
- EU: Euro-Zone Economic Confidence – (May): Market: 100.6 Last: 100.6 - 09:00 GMT (19.00 AEST)
- EU: Euro-Zone CPI Estimate y/y – (May): Market: 1.7% Last: 1.5% - 09:00 GMT (19.00 AEST)
- EU: Euro-zone Services Confidence – (May): Market: 6 Last: 5 - 09:00 GMT

ECONOMIC DATA & EVENTS

(19.00 AEST)

- EU: ECB's Trichet speaks at Korea Conference - 00:25 GMT (10.25 AEST)
- UK: Markets closed for bank holiday
- UK: Hometrack Housing Survey m/m – (May): Last: 0.2% - 23:01 GMT (09.01 AEST)
- UK: Hometrack Housing Survey y/y – (May): Last: 1.8% - 23:01 GMT (09.01 AEST)
- US: Markets closed for Memorial Day
- US: Fed's Bernanke speaks at Korea Conference - 00:25 GMT (10.25 AEST)
- US: Fed's Evans Speaks to Media at Bank of Korea Conference - 01:10 GMT (11.10 AEST)
- US: Fed's Plosser Speaks at Bank of Korea Conference - 09:30 GMT (19.30 AEST)
- CA: Gross Domestic Product m/m – (Mar): Market: 0.5% Last: 0.3% - 12:30 GMT (22.30 AEST)
- CA: Quarterly GDP Annualized – (Q1): Market: 5.9% Last: 5.0% - 12:30 GMT (22.30 AEST)
- CA: Industrial Product Price m/m – (Apr): Market: -0.2% Last: -0.4% - 12:30 GMT (22.30 AEST)
- CA: Raw Materials Price Index m/m – (Apr): Market: 1.4% Last: 0.8% - 12:30 GMT (22.30 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME*

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	0.766	-11.1	US 2y swap	1.23	-2.6
US 5y note	2.092	-10.0	US 5y swap	2.43	2.8
US 10y note	3.292	-6.8	US 10y swap	3.37	4.0
US 30y bond	4.209	-4.7	AUS 3y swap	5.13	-8.0
US 2y swap spread	44.94	4.7	AUS 5y swap	5.51	-8.0
US 5y swap spread	33.75	3.6	AUS 10y swap	5.87	-3.8
US 10y swap spread	8.25	-0.8	NZ 3y swap	4.74	-3.6
AUS 3y	95.230	7.0	NZ 10y swap	5.73	-3.1
AUS 10y	94.645	5.5	AUS 3m bills	4.88	-4.5
US 3m Libor	0.536	-0.2	NZ 3m bills	2.99	0.0

Source: ANZ and Bloomberg. Change in basis points

TABLE 2: FOREIGN EXCHANGE#

	LAST	CHANGE	OVERNIGHT RANGE	CURRENT VS AUD
AUD	0.8474	-0.0040	0.8463 - 0.8551	-
TWI*	67.8000	-	-	-
NZD	0.6780	-0.0009	0.6755 - 0.6855	1.2473
EUR	1.2270	-0.0003	1.2266 - 1.2453	0.6906
JPY	90.98	-0.0800	90.61 - 91.39	76.94
GBP	1.4427	-0.0031	1.4435 - 1.4611	0.5873
CAD	1.0526	-0.0020	1.0444 - 1.0561	0.8910
CHF	1.1591	0.0000	1.1481 - 1.1597	0.9810
DXY	86.7810	0.5080	-	-

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	10137	-1.2	Gold ($US/ounce)	1214.4	0.1
S&P	1089	-1.2	Copper ($US/tonne)	6939.0	-0.6
Nasdaq	2257	-0.9	Nickel ($US/tonne)	21350.0	-2.1
FTSE 100	5188	-0.1	CRB Index	254.8	-1.1
DAX	5946	0.2	Oil ($US/barrel)	73.97	-0.8

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.

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