



ECONOMICS & MARKETS RESEARCH

OVERNIGHT MARKETS UPDATE

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ANZ AUSTRALIAN
MACROECONOMICS,
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OVERNIGHT MARKETS UPDATE

- **US bonds** fluctuated on reduced demand for higher-yielding assets and low trading volume. The yield on 2-year notes remained unchanged at 0.766% and the 10-year yield decreased 3bps to 3.259%.
- **Australian bond futures** outperformed US Treasuries. The implied yield on 3-year bond futures decreased 4bps to 4.710% (price up 5bps to 95.290) and the implied yield on the 10-year bond futures fell 4bps to 5.290% (price up 3bps to 94.695).
- **US equities** decreased as a fall in energy sector stocks overshadowed higher than expected growth in US construction spending and manufacturing. The DJIA was down 1.1% to 10024, the S&P 500 lost 1.7% to 1071 and the Nasdaq was 1.5% lower at 2222.
- **European equities** were mixed as concerns that economic activity is slowing in China and Europe offset positive US manufacturing and construction data. A decline in energy sector stocks also weighed on markets. The DJ Euro Stoxx 50 lost 0.1% to 2607, the German DAX increased 0.3% to 5981 and the UK FTSE was 0.5% lower at 5163.
- **The Australian SPI 200 May 10 futures** contract was down 49 points or 1.1% to 4361.
- It was a mixed night for the **USD**. **EUR/USD** opens stronger at 1.2230 after rebounding from its overnight low of 1.2110. **GBP/USD** strengthened to a high of 1.4723 but later pared back gains to open at 1.4650. **USD/JPY** opens higher at around 91.00 after gaining in late night trade.
- The **AUD** traded mixed against the major crosses overnight after the RBA kept policy rates unchanged. **AUD/USD** strengthened to an overnight high of 0.8437 but later pared back gains to open little changed at 0.8310. **AUD/EUR** opens today's session lower at 0.6795. **AUD/JPY** opens at 75.65 after a whippy session and the **AUD/NZD** pair opens lower at 1.2310 after falling through the night.
- **Crude oil** fell on frustration regarding the oil spill in the in the Gulf of Mexico, while the strengthening USD also dampened the outlook for the commodity. WTI futures contract for July 10 decreased 2.6% to US\$72.03 a barrel.
- **Spot gold** rose as the European debt crisis boosted the appeal of the metal as an alternative holding currency. Spot gold increased 0.8% to US\$1225.70.
- **LME copper** decreased 2.7% to US\$ 6,750 on concerns that demand would slow in China. Other base metals traded negative with **zinc**, **aluminum**, **lead** and **nickel** decreasing 4.5%, 2.7%, 5.6% and 4.0%, respectively.
- **US sugar** increased 1.5% on signs of increasing demand from commodity funds and on the expectation that China would increase imports due to the recent fall in prices. **Wheat** and **corn** declined 1.5% and 1.4% as favorable weather boosts production in the US. **Soybeans** fell 0.6% and **palm oil** futures were 1.0% 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 ISM Manufacturing PMI** (May) softened to 59.7 (59.0, 60.4) on the back of rising export orders and employment.
- **US ISM Prices Index** (May): 77.5 (72.0, 78.0)
- **US Construction Spending m/m** (Apr) increased more than expected by 2.7% (0.0%, 0.4%) as Americans rushed to utilise a government tax credit before its expiry, encouraging builders to increase housing construction.
- **US Dallas Fed Manufacturing Activity (May)**: 2.9% (18.6%, 21.1%)
- **US Weekly Consumer Comfort Index** (w/e 30 May): -44 (-45, -45)
- **UK Manufacturing PMI** (May) remained unchanged at 58.0 (57.9, 58.0), a 15½-year peak, as a weak pound helped to increase export orders.
- **GE Retail Sales m/m** (Apr) rose by 1.0% (1.0%, -1.6%) in April as companies added more jobs to meet reviving global demand, led by Asian countries. However, household spending may be curtailed going forward due to the European debt crisis.
- **GE Retail Sales y/y** (Apr): -3.1% (-0.7%, 3.7%)
- **GE Manufacturing PMI** (May F): 58.4 (58.3, 58.3)
- **GE Unemployment** (May) fell more than forecast by markets by -45K (-17K, -67K) as exports surged, supported by a weakening euro, bolstering the economic recovery.
- **GE Unemployment Rate** (May): 7.7% (7.8%, 7.8%)
- **EU Manufacturing PMI** (May F): 55.8 (55.9, 55.9)
- **EU Unemployment Rate** (Apr) increased to 10.1% (10.0%, 10.0%), a 12-year high. The shadow cast over the continent from the regions debt crisis will likely see unemployment remain elevated for an extended period of time.
- **CA Bank of Canada Overnight Lending Rate** (w/e 1 Jun) increased as expected to 0.50% (0.50%, 0.25%), the first of the G7 central banks to raise rates. What's interesting about this – at least from a market sentiment perspective – was that they did so despite recent volatility, favouring the strong domestic case for higher rates over a cautious stance on global grounds.
- **Chicago Federal Reserve President Charles Evans said** that targeted asset purchases were more effective at responding to financial crises than injections of cash. *"The jury is still out on exactly how much additional monetary accommodation these purchases have provided... Well-designed lending facilities may be able to mitigate amplification and knock-on effects associated with wholesale increases in the risk aversion of private liquidity providers."*

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- NZ: ANZ Commodity Price – (May): Last: 4.9% - 03:00 GMT (13.00 AEST)
- AU: Gross Domestic Product q/q – (Q1): ANZ: 0.4% Market: 0.5% Last: 0.9% - 01:30 GMT (11.30 AEST)
- AU: Gross Domestic Product y/y – (Q1): ANZ: 2.3% Market: 2.4% Last: 2.7% - 01:30 GMT (11.30 AEST)
- AU: AOFM auctions \$500mn of Feb 2017 bonds
- JP: Monetary Base y/y – (May): Last: 2.9% - 23:50 GMT (09.50 AEST)
- EU: Euro-Zone PPI m/m – (Apr): Market: 0.7% Last: 0.6% - 09:00 GMT (19.00 AEST)
- EU: Euro-Zone PPI y/y – (Apr): Market: 2.6% Last: 0.9% - 09:00 GMT (19.00 AEST)
- UK: Net Consumer Credit – (Apr): Market: 0.3B Last: 0.3B - 08:30 GMT (18.30 AEST)
- UK: Net Lending Secured on Dwellings – (Apr): Market: 0.6B Last: 0.3B - 08:30 GMT (18.30 AEST)
- UK: Mortgage Approvals – (Apr): Market: 49.5K Last: 48.9K - 08:30 GMT (18.30 AEST)
- UK: M4 Money Supply m/m – (Apr F): Last: 0.0% - 08:30 GMT (18.30 AEST)
- UK: M4 Money Supply y/y – (Apr F): Last: 3.3% - 08:30 GMT (18.30 AEST)
- UK: PMI Construction – (Apr F): Market: 58.0 Last: 58.2 - 08:30 GMT (18.30 AEST)
- US: MBA Mortgage Applications – (28 May): Last: 11.3% - 11:00 GMT (21.00 AEST)
- US: Challenger Job Cuts y/y – (Apr): Last: -71.1% - 11:30 GMT (21.30 AEST)
- US: Pending Home Sales m/m – (Apr): Market: 5.0% Last: 5.3% - 14:00 GMT (00.00 AEST)
- US: Pending Home Sales y/y – (May): Market: 20.2% Last: 23.5% - 14:00 (00.00 AEST)
- US: Domestic Vehicle Sales – (May): Market: 8.90M Last: 8.78M - 21:00 GMT (07.00 AEST)
- US: Total Vehicle Sales – (May): Market: 11.40M Last: 11.21M - 21:00 GMT (07.00 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME *

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	0.766	0.0	US 2y swap	1.23	-1.3
US 5y note	2.059	-3.3	US 5y swap	2.40	0.2
US 10y note	3.259	-2.6	US 10y swap	3.36	2.3
US 30y bond	4.180	-2.4	AUS 3y swap	5.06	0.0
US 2y swap spread	46.38	-0.6	AUS 5y swap	5.45	0.0
US 5y swap spread	34.25	0.0	AUS 10y swap	5.80	0.7
US 10y swap spread	9.75	1.5	NZ 3y swap	4.79	0.5
AUS 3y	95.300	6.0	NZ 10y swap	5.74	0.5
AUS 10y	94.710	4.5	AUS 3m bills	4.78	10.2
US 3m Libor	0.536	0.0	NZ 3m bills	3.05	0.0

Source: ANZ and Bloomberg. Change in basis points

TABLE 2: FOREIGN EXCHANGE#

	LAST	CHANGE	OVERNIGHT RANGE	CURRENT VS AUD
AUD	0.8321	-0.0138	0.8282 - 0.8437	-
TWI*	66.8000	-	-	-
NZD	0.6758	-0.0047	0.6702 - 0.6839	1.2313
EUR	1.2241	-0.0065	1.2111 - 1.2353	0.6798
JPY	91.01	-0.2500	90.54 - 91.46	75.74
GBP	1.4650	0.0112	1.4444 - 1.4722	0.5680
CAD	1.0550	0.0105	1.0421 - 1.0552	0.8780
CHF	1.1563	0.0014	1.147 - 1.1731	0.9623
DXY	86.7340	0.2270	-	-

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	10024	-1.1	Gold (\$US/ounce)	1225.2	0.7
S&P	1071	-1.7	Copper (\$US/tonne)	6750.0	-2.7
Nasdaq	2222	-1.5	Nickel (\$US/tonne)	20500.0	-4.0
FTSE 100	5163	-0.5	CRB Index	252.4	-0.9
DAX	5981	0.3	Oil (\$US/barrel)	72.14	-2.5

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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