



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** fell after the US government sold \$36bn of 3-year notes at a yield of 1.22%, in line with forecasts, with a bid to cover ratio of 3.23 times (forecast 3.02 times). Fed Chairman Ben S. Bernanke's comments that the economic recovery is intact also weighed on the treasuries. The yield on 2-year notes increased 3bps to 0.742%, whilst the 10-year yield increased 4bps to 3.184%.
- **Australian bond futures** traded mostly in line with the US Treasuries. The implied yield on 3-year bond futures increased 2bps to 4.750% (price down 2bps to 95.250) and the implied yield on the 10-year bond futures gained 2bps to 5.340% (price down 2bps to 94.660).
- **US equities** fluctuated between gains and losses after rising oil prices led to a rally in oil and semiconductor stocks, but UBS's comments that the European weakness may hurt shipments dampened the outlook for equities. The DJIA was up 1.3% to 9940, the S&P 500 gained 1.1% to 1062 and the Nasdaq was 0.2% lower at 2171.
- **European equities** declined, led by a retreat in German utilities and on investors' concern that the region's debt crisis would slow down economic recovery. The DJ Euro Stoxx 50 fell 0.8% to 2511, the German DAX declined 0.6% to 5869 and the UK FTSE was 0.8% lower at 5028.
- **The Australian SPI 200 May 10 futures** contract was up 10 points or 0.2% to 4404.
- The **USD** was mixed against the major currency pairs overnight. **EUR/USD** initially strengthened to a high of 1.2010 but later pared back some gains to open lower at 1.1970. **GBP/USD** opens lower at 1.4465 after some negative comments from Fitch on the UK's fiscal challenge. **USD/JPY** dipped to a low of 90.84 but later erased some losses to open at 91.50.
- The **AUD** rose after gains in commodities and equities bolstered investor appetite for higher yielding assets. **AUD/USD** opens stronger at 0.8270 after rallying late in the night. **AUD/EUR** opens higher at 0.6910 after making some solid gains late in the session. **AUD/JPY** hit a low of 74.11 but later rebounded to open stronger at 75.70 and the **AUD/NZD** cross opens at 1.2390 after grinding higher overnight.
- **Crude oil** increased after the Fed Chairman Bernanke said the economic recovery is intact. WTI futures contract for July 10 increased 0.8% to US\$72.53 a barrel.
- **Spot gold** declined as the strengthening USD diminished the appeal of the precious metal as an alternative investment. Spot gold decreased 0.2% to US\$1,237.25.
- **LME copper** rose 1.0% to US\$ 6,165 after prices neared an 8-month low. Volatility in the USD also supported the commodity. Other base metals traded positive with **zinc**, **aluminium**, **lead** and **nickel** increasing 6.6%, 2.9%, 3.5% and 1.5%, respectively.
- **US sugar** rose 3.8% on expectations that production would increase in Brazil. **Corn** rose 0.4% on reports that the condition of the US crop deteriorated. **Wheat** ended flat, **Soybeans** lost 0.4% and **palm oil** futures were 0.7% lower.

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

ECONOMIC DATA & EVENTS

OVERNIGHT DATA AND EVENTS (MARKET EXPECTATIONS, LAST OBSERVATION)

- **US NFIB Small Business Optimism Index** (May) increased to 92.2 (91.0, 90.6), its highest level since September 2008, with small businesses more optimistic about the economy six months down the track. But the survey suggests the economic recovery will continue to be subdued, with the index still far below its long-run average.
- **US IBD/TIPP Index of Economic Optimism** (Jun) 46.2 (48.7, 48.7)
- **GE Trade Balance** (Apr) 13.4B (15.0B, 16.9B)
- **GE Imports m/m** (Apr): -7.3% (-3.0%, 11.4%)
- **GE Current Account** (Apr): 11.8B (12.2B, 18.1B)
- **GE Exports m/m** (Apr) fell more than expected by -5.9% (-2.0%, 10.8%) after an exceptionally strong growth spurt in March.
- **GE Industrial Production m/m** (Apr) increased 0.9% (0.7%, 4.3%) on strong recovery in construction after the winter, supported by the weakening euro, which in turn boosted future export orders.
- **CA Housing Starts** (May): 189.1K (202.0K, 201.8K)
- **Fitch Ratings:** *"The scale of the United Kingdom's fiscal challenge is formidable and warrants a strong medium-term consolidation strategy – including a faster pace of deficit reduction than set out in the April 2010 budget."*
- **US Federal Reserve Chairman Ben Bernanke:** *"My best guess is we'll have continued recovery, but it won't feel terrific...There seems to be good momentum in consumer spending and investment."* However, Bernanke expects the unemployment rate to be high for a while.
- **US Federal Reserve Governor Elizabeth Duke said** *"Consumers will reengage slowly as confidence, income, and balance sheets strengthen... Although low mortgage rates help to keep mortgage payments relatively low from an historical perspective, households remain quite burdened by debt payment."*
- **US Federal Reserve Bank of Chicago President Charles Evans said** that the US jobless rate will decline slowly after the *"disappointing"* May jobs report and that the central bank's stance on interest rate is correct. He said, *"Currently, policy is, appropriately, very accommodative...But, eventually, we will have to return to a more normal stance."*

ECONOMIC DATA & EVENTS

UPCOMING DATA AND EVENTS

- AU: Westpac Consumer Confidence m/m –(Jun): Last: -7.0% - 00:30 GMT (10.30 AEST)
- AU: Westpac Cons. Confidence Index –(Jun): Last: 108.0 - 00:30 GMT (10.30 AEST)
- AU: Housing Finance (no. of approvals) m/m –(Apr): ANZ: -2.4% Market: -2.0% Last: -3.4% - 01:30 GMT (11.30 AEST)
- AU: Investment Lending m/m –(Apr): Last: 3.0% - 01:30 GMT (11.30 AEST)
- AU: Value of Loans m/m –(Apr): Last: -3.4% - 01:30 GMT (11.30 AEST)
- AU: RBA's Stevens speaks in Sydney - 03:00 GMT (13.00 AEST)
- AU: AOFM auctions \$500M of July 2022 bonds
- JP: Machine Orders m/m – (Apr): Market: 1.7% Last: 5.4% - 23:50 GMT (09.50 AEST)
- JP: Machine Orders y/y – (Apr): Market: 7.3% Last: 1.2% - 23:50 GMT (09.50 AEST)
- JP: Machine Tool Orders y/y – (May P): Last: 220.9% - 06:00 GMT (16.00 AEST)
- UK: BRC May Shop Price Index - 23:01 GMT (09.01 AEST)
- UK: Visible Trade Balance GBP/M – (Apr): Market: -£7000 Last: -£7522 - 08:30 GMT (18.30 AEST)
- UK: Trade Balance Non EU GBP/M – (Apr): Market: -£3800 Last: -£4103 - 08:30 GMT (18.30 AEST)
- UK: Total Trade Balance GBP/M – (Apr): Market: -£3000 Last: -£3683 - 08:30 GMT (18.30 AEST)
- US: MBA Mortgage Applications – (Jun 4): Last: 0.9% - 11:00 GMT (21.00 AEST)
- US: Wholesale Inventories – (Apr): Market: 0.5% Last: 0.4% - 14:00 GMT (00.00 AEST)
- US: Fed's Hoenig speaks in Kansas City - 23:00 GMT (09.00 AEST)
- US: Fed's Bernanke Testifies on Economy at US House Budget Committee - 14:00 GMT (00.00 AEST)
- US: NY Fed's Sack speaks in New York - 16:00 GMT (02.00 AEST)
- US: Fed Releases Beige Book Economic Report - 18:00 GMT (04.00 AEST)
- US: Fed's Bernanke speaks in Virginia - 20:00 GMT (06.00 AEST)

MARKET TABLES

TABLE 1: FIXED INCOME *

	LEVEL	CHANGE		LEVEL	CHANGE
US 2y note	0.734	2.4	US 2y swap	1.16	-0.4
US 5y note	1.976	4.6	US 5y swap	2.34	2.4
US 10y note	3.184	4.2	US 10y swap	3.29	2.2
US 30y bond	4.110	2.9	AUS 3y swap	5.15	3.8
US 2y swap spread	42.00	-4.6	AUS 5y swap	5.52	3.2
US 5y swap spread	35.75	-2.4	AUS 10y swap	5.86	3.3
US 10y swap spread	10.50	-0.8	NZ 3y swap	4.65	1.5
AUS 3y	95.250	-2.0	NZ 10y swap	5.62	1.5
AUS 10y	94.660	-1.5	AUS 3m bills	4.88	-5.7
US 3m Libor	0.537	0.0	NZ 3m bills	3.00	0.0

Source: ANZ and Bloomberg. Change in basis points

TABLE 2: FOREIGN EXCHANGE#

	LAST	CHANGE	OVERNIGHT RANGE	CURRENT VS AUD
AUD	0.8276	0.0172	0.8133 - 0.8286	-
TWI*	65.8000	-	-	-
NZD	0.6671	0.0084	0.6574 - 0.6685	1.2401
EUR	1.1971	0.0048	1.1902 - 1.2009	0.6900
JPY	91.46	0.0900	90.84 - 91.75	75.69
GBP	1.4467	-0.0001	1.4347 - 1.4511	0.5709
CAD	1.0472	-0.0145	1.0471 - 1.0593	0.8666
CHF	1.1527	-0.0104	1.1486 - 1.1624	0.9539
DX	88.1130	-0.2920	-	-

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	9940	1.3	Gold (\$US/ounce)	1236.7	-0.3
S&P	1062	1.1	Copper (\$US/tonne)	6165.0	1.0
Nasdaq	2171	-0.2	Nickel (\$US/tonne)	18470.0	1.5
FTSE 100	5028	-0.8	CRB Index	250.1	0.4
DAX	5869	-0.6	Oil (\$US/barrel)	72.54	1.5

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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