

HD (ED) ANZ Global: Aust bond futures rally but moves small in US

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Overnight Markets Update

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US Treasuries rallied modestly at the long end overnight following a USD30bn 3-year government bond auction that drew the most demand since February 2013 (this was the first of several bond auctions scheduled for this week). The 10-year bond yield ended 2bps lower at 2.68%, while the 2 year bond yield was unchanged at 0.39%.

Australian bond futures also rallied but again moves were relatively small. Both the implied 3- and 10-year yields fell 2bps to 3.03% and 4.08%, respectively.

European equities fell in early trade, reportedly on news of escalating tension between Russia and the US, but staged a rally late in the session to finish only modestly lower. The Euro Stoxx 50 index closed 0.3% lower at 3,178, the German DAX finished 0.2% lower at 9,491 and the FTSE 100 declined 0.5% to 6,591.

US equities closed a little higher after recording some large declines earlier this week. Technology stocks rose, with the Nasdaq increasing 0.8% to 4,113 after the index recorded its steepest three-day retreat since 2011. The S&P 500 increased 0.4% to 1,852, with eight of ten sub-indices rising. Meanwhile, the Dow Jones increased 0.1% to 16,256.

Australian SPI futures increased 0.5% to 5,429.

In currency markets, the USD was universally weak as positions built after the last FOMC meeting continue to be unwound. Certainly US bond yields remain very stable, with a bias to move a bit lower, and that will have been surprising to USD bulls. The JPY was a notable outperformer after the Bank of Japan did not signal a change in monetary policy stance despite the recent increase in sales tax there. In emerging markets, and to a certain extent the AUD, the story remains largely the same, with investors continuing to favour carry. In the near term, support for the USD will be scarce, while the domestic employment numbers tomorrow will be a key test for AUD strength.

Indicative trading levels: AUD/USD 0.9357, AUD/EUR 0.6782, AUD/GBP 0.5587, AUD/NZD 1.0791, AUD/JPY 95.26, AUD/CNY 5.7986, EUR/USD 1.3797, GBP/USD 1.6747, USD/JPY 101.81.

Oil prices rose overnight. WTI futures closed 1.3% higher at USD102.34 per barrel, driven by the weaker US dollar and expectations for a draw of US stockpiles. Brent futures gained 1.4% to USD107.52 per barrel.

The spot **gold** price gained 0.9% to USD1,308.7 per ounce on the lower USD and increased concerns over the ongoing political unrest in Ukraine.

Base metals prices typically rose overnight amid further US dollar weakness. Following gains earlier in the week, **copper** (+0.1%) steadied, reportedly on investor concerns over growth in **China**. Aluminium (+0.1%), **lead** (+0.5%) and zinc (+1.2%) also gained, while nickel (-0.5%) declined. Meanwhile, thermal

coal futures lost 0.1% to USD73.6 per tonne and spot **iron ore** closed 0.9% higher at USD118.2 per tonne.

Agricultural commodities broadly gained overnight, in part due to the weaker US dollar. Wheat (+0.7%), corn (+1.3%), soybeans (+1.4%), sugar (+1.3%), canola (+1.5%), cotton (+1.3%), cocoa (+1.1%) all rose, while palm **oil** (-1.8%) declined.

Key drivers

It was a quiet overnight session with little in the way of economic data releases or major events to provide direction.

US dollar weakness was relatively broadly based, with AUD/USD rallying sharply to be currently trading around USD0.9360. The yen also gained strongly on the back of the Bank of Japan's 'no change' policy decision, despite the recent increase in the sales tax. US Treasury yields continued to drift lower but core European sovereign **bonds** yields typically rose. US equities consolidated overnight following sharp declines in the previous two sessions.

The IMF released its April 2014 World Economic Outlook overnight and revised its global growth forecasts slightly lower. World GDP is expected to expand by 3.6% in 2014 and 3.9% in 2015, both 0.1ppts lower than forecast in January (growth in 2013 was 3.0%). Consistent with our view, the US economy is expected to **lead** the way and growth in **China** is forecast to remain strong at 7.5% and 7.3%, respectively, for this year and next. \ For Australia, GDP is forecast to expand by 2.6% this year and 2.7% in 2015 - this is a weaker outlook than both we and the RBA expect (particularly for 2015). The IMF noted that while downside risks to global growth have diminished, lower-than-expected inflation poses risks for advanced economies (and challenges for monetary policy); there is increased financial volatility in emerging markets; and increases in the cost of capital will likely dampen investment and weigh on growth.

The IMF noted that commodity consumption is unlikely to have peaked at **China's** current level of income per capita, with a doubling required before that happens. Recent shifts in the composition of **China's** commodity consumption, however, are consistent with nascent signs of demand rebalancing.

In the United States, the headline number for the March NFIB small business survey was stronger than expected, rising slightly to 93.4 (mkt: 92.5). Importantly, the component that gauges whether firms are raising wages lifted strongly to its highest level since early 2008. This suggests that the decline in the unemployment rate is starting to leak into higher wages growth.

In Australia yesterday, the NAB survey measure of business conditions improved modestly in March and remained well above the below-average levels of the past three years.

Putting aside the recent volatility, business conditions remain on a rising trend, consistent with ANZ's view that the transition to non-**mining** growth drivers is occurring.

The NAB measure of business confidence declined modestly in March alongside a slight easing in global business conditions in recent months.

In Australia today, housing finance data for February are published at 11:30AEST.

The number of owner-occupier loan approvals is expected to have increased (ANZ: +2.0% **m/m**; mkt: +1.5% **m/m**), reflecting solid housing sales. While the investor segment has been the primary driver of the pick-up in housing finance in recent months, owner-occupier finance is also expected to continue to grow solidly. Westpac consumer confidence data for April are released at 10:30AEST.

The key event offshore tonight will be the Minutes from the FOMC's most recent policy meeting.

At this meeting, the Fed suggested that the trajectory for the eventual increase in the federal funds rate is likely to be modest and gradual.

The Fed also dropped the 6.5% unemployment rate threshold in favour of 'qualitative' forward guidance, stressed the economic outlook was little changed and modestly increased its interest rate projections.

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