



HD (ED) ANZ Global: Aust bond futures rally in US markets

WC 869 words

PD 16 September 2014

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SC AAPRAW

LA English

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Sydney - Monnday - September 15: (RWE Aust **Business** News) - The latest global **business** information compiled by ANZ research analysts.

Overnight markets update

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US Treasuries rallied slightly overnight as markets consolidated ahead of the FOMC meeting this week, with weaker US industrial production data also contributing to the moves. The 2 and 10-year yields declined 2bps to 0.54% and 2.59% respectively.

Australian bond futures also rallied, but underperformed US Treasuries at the short end of the curve. The implied 3-year yield was unchanged at 2.89%, while the implied 10-year yield fell 2bps to 3.67%.

US equities were mixed overnight, although the Nasdaq underperformed, with internet and small cap stocks hard hit. The Nasdaq declined 1.1% to 4,519, the S&P 500 eased 0.1% to 1,984, but the Dow Jones closed 0.3% higher at 17,031.

European equities opened lower on the weaker **Chinese** economic data, although these moves were pared late in the session amid **M&A** activity. The Euro Stoxx 50 fell 0.1% to 3,232, the FTSE 100 was unchanged at 6,804, but the German DAX gained 0.1% to 9,660.

Australian SPI futures were unchanged at 5,475.

In currency markets, it was a night of quite mixed price action. The AUD retraced yesterday's weakness in response to the weekend **China** data, while Asian currencies sustained their losses. CNH, in particular, weakened 0.5%, its largest daily depreciation on record. Today's RBA Minutes will be overshadowed by tomorrow's FOMC meeting. Currency markets could remain in corrective mode until then, but if the Fed changes its language in a more hawkish direction, as we expect, USD strength is likely to resurface. Tomorrow morning's **dairy** auction will be important for the NZD, and we expect further price weakness.

Indicative trading levels: AUD 0.9032, AUD/EUR 0.698, AUD/GBP 0.5564, AUD/NZD 1.1046, AUD/JPY 96.81, AUD/CNY 5.55, AUR/USD 1.2939, GBP/USD 1.6233, USD/JPY 107.18.

Oil prices closed higher overnight after falling sharply earlier in the day on news of increasing supply in Libya. But with a lot of good news on supply already priced in WTI futures rose 1.7% to USD92.83 per barrel and Brent futures rose 0.6% to USD98.02 per barrel.

The spot **gold** price rose modestly (+0.6%) from an eight month low on signs of increased demand from India to USD1,233.5 per ounce.

Base metals prices continued to fall overnight as softer-than-expected US industrial production data added to concerns over global demand. Aluminium (-1.6%) and nickel (-1.6%) were the weakest, while **lead** (-0.9%), zinc (-0.8%) and **copper** (-0.2%) all lost ground. **Iron ore** prices bounced a solid 3.9% to USD85.20 per tonne and thermal **coal** prices rose 0.5% to USD66.3 per tonne.

Agricultural commodities prices were mixed overnight. Bucking the recent weak trend, corn (2.0%) wheat (0.5%), soybeans (+0.3%), canola (+0.9%), palm **oil** (+0.8%) and cocoa (+0.7%) all rose. Sugar (-0.3%) and cotton (-3.2%) declined.

Key drivers

Global bond markets consolidated overnight ahead of Thursday's FOMC meeting.

The US 10yr bond yield was 2bps lower, with weaker US industrial production data also contributing. Small-cap and technology stocks saw sizeable falls, dragging down the Nasdaq and Russell 2000 over a 1%. Otherwise, US and European **equity** indices were little changed.

The **iron ore** price bounced almost 4% and the AUD retraced yesterday's weakness. Meanwhile CNY volatility spiked, marked by an unusual 396pt trading range for USD/CNY, which was attributed to the weaker **Chinese** IP data, a buildup of CNY longs and a much lower CNY fixing.

Base metals generally fell while **oil** prices rebounded.

US economic data was mixed overnight. Industrial production was weaker than expected in August, falling 0.1% **m/m** (mkt: 0.3%), partly reflecting a plunge in auto production, following a surge in July. Capacity utilisation – a key indicator of slack in the economy – fell to 78.8% from 79.1% previously.

In contrast, the Empire Manufacturing survey came in well above expectations, jumping to a 5-year high (27.5 vs mkt: 16) and signalling another strong print ahead for the ISM.

In Europe, the Eurozone trade surplus was the second largest on record, at EUR21.2b, suggesting some caution is required on further euro weakness.

It's a busy morning in Australia today. ANZ-Roy Morgan weekly consumer confidence is released at 9.30AEST, RBA Assistant Governor (Economic), Christopher Kent, speaks at the Bloomberg Economic Summit at 10.00AEST and the minutes of the RBA September **Board** meeting are published at 11.30AEST.

We expect the Minutes to reiterate the slightly more upbeat tone on the domestic economy conveyed in the post-meeting statement highlighting the improvement in non-**mining business** investment plans and **business** confidence. We will also be looking for any further insight into the **Board**'s concerns about the **Chinese** property market.

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