



HD (ED) ANZ Global: Aust bond futures outperform

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Sydney - Wednesday - July 2 (RWE Aust **Business** News) - The latest global **business** information compiled by ANZ research analysts.

Overnight Markets Update

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US Treasuries **sold** off across the curve overnight, with yields rising the most in two weeks on modestly greater speculation that the US Federal Reserve will raise interest rates in 2015. The curve steepened as the 2-year yield finished the session 1bp higher at 0.47%, while the 10-year yield gained 3bps to 2.57%.

Australian bond futures outperformed US Treasuries at both ends of the curve, with the implied 3-year yield slipping 1bp to 2.71%, while the implied 10-year bond yield was unchanged at 3.60%. * European equities advanced solidly in last night's session, rising the most in close to two months on solid **China** and euro area PMI manufacturing data. The Euro Stoxx 50 and UK FTSE both rose by 0.9% to 3,259 and 6,803, respectively, and the German DAX gained 0.7% to 9,902. * US equities rose solidly overnight, with the Dow Jones and S&P 500 reaching record highs. The Nasdaq finished the session 1.1% higher at 4,459, the Dow Jones rose 0.8% to 16,956 and the S&P 500 gained 0.7% to close at 1,973.

Australian SPI futures rose 0.4% overnight to finish the session at 5,359.

In currency markets, the AUD rose through key resistance levels to a nine-month high near USD0.9500. Also aiding the move was that markets had been looking for a more dovish statement from the RBA following its **Board** meeting yesterday than it actually delivered. Nevertheless, the USD remains a key driver of the AUD.

Globally, the USD was weaker overnight against most currencies, although the moves were not uniform. Some parts of the emerging markets space continue to struggle, particularly in Europe. The USD remains a victim of the search for yield, with last night's relatively mixed US economic data not providing much direction.

The AUD also gained against the NZD, which was weighed down overnight by some weak **milk** price results. We remain medium term bullish AUD/NZD. NZ commodity prices for June are published today.

Indicative trading levels: AUD 0.9496, AUD/EUR 0.6942, AUD/GBP 0.5537, AUD/NZD 1.0822, AUD/JPY 96.42, AUD/CNY 5.8886, EUR/USD 1.3679, GBP/USD 1.7150, USD/JPY 101.55.

Oil prices edged modestly lower overnight, continuing to retrace some of the gains seen over the past three weeks due to geopolitical tensions in Iraq. WTI futures fell 0.2% to USD105.4 per barrel, while Brent futures declined 0.3% to USD112.2 per barrel.

The spot gold price was steady overnight at USD1,325.9 per ounce.

Base metals prices generally fell overnight. Copper (-0.1%), aluminium (-0.3%), lead (-0.5%) and zinc (-1.5%) declined but nickel (+0.3%) rose modestly. Thermal coal futures finished the session 0.7% lower at USD70.9 per tonne, while the spot iron ore price rose 0.4% to USD94.2 per tonne to be little changed over the week. * Agricultural commodity prices were mixed overnight. Soybeans fell a further 0.5% to the lowest level since December 2011 after declining 6.1% on Monday on speculation there would be

abundant supply from the US for the crop. Wheat (-0.7%), sugar (-1.2%), cocoa (-0.3%), palm oil (-0.3%) and cotton (-0.1%) also declined overnight, while corn (+0.3%) rose and canola was unchanged.

Key drivers

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This momentum was supported by US manufacturing data which pointed to a continuation of healthy expansion in output. The improvement in risk appetite boosted AUD/USD which pushed to new highs for the year and is currently trading just shy of USD0.9500. Commodities were little changed, with oil and gold down marginally, while spot iron ore rose slightly.

In the United States, the ISM manufacturing index was broadly unchanged in June at 55.3 (mkt: 55.9). The details of the survey were mixed with new orders rising solidly, while the employment component was flat and the production index eased modestly. Overall, these data are supportive of the view that the US economy is continuing to bounce back from the weather-related softness in Q1. Meanwhile, construction spending in May was weaker than expected, rising a modest 0.1% **m/m** (mkt: +0.5% **m/m**).

The headline number, however, was held down by the volatile residential improvements category. Excluding this component, construction spending has so far increased solidly in Q2, which bodes well for Q2 GDP growth.

Euro area data releases continued to come in on the soft side overnight. There was a fall in the German manufacturing PMI to 52.0 (last: 52.4) - its lowest level since October last year. The final reading for the euro area manufacturing PMI also eased fractionally to 51.8. These data fit with releases earlier this week which showed subdued inflation and soft growth in euro area monetary aggregates.

In **China** yesterday, the official manufacturing PMI picked up for the third consecutive month to 51.0 in June (mkt: 51.0) from 50.8 last month. The details of the survey were also encouraging with both the new orders and exports components rising. Combined with the rise in the HSBC manufacturing PMI, this suggests **China's** growth momentum is picking up, aided by the recent pro-growth policies which included increasing infrastructure investment and an acceleration in fiscal spending.

In Australia yesterday, the RBA left the cash rate unchanged at 2.5% and continues to envisage a "period of stability in interest rates".

Overall, there were very few changes to the statement. The Bank still expects growth to be a little below trend over the year ahead, with a significant decline in mining investment expected to be partly offset by strength in housing construction and "moderate growth" in consumer demand.

The comments on the exchange rate were altered slightly, with the Bank likely to be increasingly uncomfortable with the level of the AUD. We continue to expect the RBA to keep the cash rate on hold until Q1 2015, although the recent loss of momentum in activity indicators suggests the risk is tilted towards a somewhat later start to the tightening cycle.

In Australia today, international trade data for May are published at 11:30AEST and is expected to have shown a modest widening in the trade balance (ANZ: -AUD400m; mkt: -AUD200m).

RBA Assistant Governor (Financial Markets) Guy Debelle is also a panellist at the Financial Times Conference in London tonight on the "Future of Money".

CO fed : Federal Reserve Board

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