HD **(ED) ANZ Global: Aust bond futures trade muted in US markets**

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Weekend markets update

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US Treasuries were little changed on Friday night. The 2-year bond yield fell 1bp to 0.49% while the 10-year bond yield was flat at 2.34%.

Moves in Australian bond futures were similarly muted, with the implied 3-year bond yield flat at 2.64% and the implied 10-year bond yield rising 1bp to 3.30%.

European equities rebounded in the last hour of trading to finish modestly higher, retracing an earlier fall. The UK FTSE finished 0.2% higher at 6,820, led by the health care sector, although a poor result from Tesco weighed on the index. The Euro STOXX 50 rose 0.3% to 3,173 and the German DAX gained 0.1% to 9,470.

US equities rose modestly amid a quiet session, with the S&P 500 finishing August with a gain of around 4% for the month. The S&P 500 finished Friday night's session 0.3% higher at 2,003, the Nasdaq rose 0.5% to 4,580 and the Dow Jones gained 0.1% to 17,098.

Australian SPI futures were flat at 5,613.

In currency markets the USD forged marginal, but broad gains despite a muted session for yields. Trade appeared to be driven more by flow than fundamentals. The EUR continued to decline despite the European CPI data matching analyst forecasts and diffusing expectations of any further ECB action this week, while the AUD and NZD also declined despite US front end yields ending the session lower. This week will be a critical one for the currency market. PMI's will be released for both Europe and **China** and need to show some signs of stabilisation, while in the US, manufacturing activity and employment data should continue to show that economy performing more strongly. The Bank of England, ECB and RBA will also all meet. For the AUD, domestic data will have some influence, however the key will be whether the USD, and US yields can rise independently of the trends in Europe.

Indicative trading levels: AUD 0.9326, AUD/EUR 0.7102, AUD/GBP 0.562, AUD/NZD 1.1167, AUD/JPY 97.17, AUD/CNY 5.73, EUR/USD 1.31, GBP/USD 1.66, USD/JPY 104.19.

Oil prices rose modestly. WTI futures rose 1.2% to USD96.0 per barrel on the back of positive consumer confidence and manufacturing data, while escalating tensions between Russia and Ukraine also lifted prices. Brent futures rose 0.4% to USD103.2 per barrel.

Spot **gold** prices declined by a modest 0.2% to USD1287.5 per ounce in a subdued session of trading.

Base metals were stronger on Friday night. **Copper** rose 0.7% to 6,892 per tonne, with aluminium (+0.6%), nickel (+0.6%) and zinc (+0.7%) also gaining. However, **lead** (-0.3%) recorded a modest decline. **Iron ore** prices bounced, increasing 0.7% to USD87.9 per tonne, but thermal **coal** prices eased a further 1.4% to USD69.2 per tonne.

Agricultural commodities were generally weaker on Friday night. Wheat prices recorded their first decline in four sessions, falling 2.0% on speculation that escalating tensions between Russia and Ukraine won't disrupt trade. Meanwhile, corn (-1.0%) and soybeans (-0.5%) also declined following rainfall in the US Midwest. Palm **oil** (-2.5%) and canola (-1.3%) also declined, while cotton was broadly unchanged.

Key drivers

Financial markets were quiet on Friday ahead of today's US Labor Day holiday, despite the busier data flow. Attention was fixed on headlines around the Russian presence in Ukraine, given the volatility that developments there provided earlier in the week. Global equities rallied modestly. US bond markets were very quiet. The spot **iron ore** price rose 0.7% to USD87.9 per tonne on Friday but still finished the week 2.4% lower.

August CPI data for the euro area printed broadly in line with market expectations, with headline CPI rising 0.3% y/y as expected, but core printing a touch higher at 0.9% y/y (mkt: +0.8% y/y). This saw the euro initially strengthen and euro area sovereign **bonds** sell off modestly on speculation the inflation result would take pressure off this week's ECB meeting, reducing the chances of the Committee announcing more stimulus measures. We see this as unlikely.

US data were mixed on Friday. The July personal income and spending report was a little disappointing, with nominal spending falling 0.1% **m**/**m** (mkt: +0.2% **m**/**m**), its first decline since January. Income growth was also a touch softer at 0.2% **m**/**m** (mkt: 0.3% **m**/**m**), although growth in June was revised up by 0.1ppt to 0.5% **m**/**m**. Meanwhile, the PCE deflator printed right on expectations at 0.1% **m**/**m** and 1.6% y/y for the headline measure and 0.1% **m**/**m** and 1.5% y/y for the core, suggesting inflationary pressures remain below the Fed's target. However, there was a strong rebound in the August Chicago PMI, with the headline figure rising to 64.3 from 52.6 in July, more than unwinding July's sharp decline and resting a touch higher than June's result. The final print of the University of Michigan consumer confidence series was also revised up to track more in line with the Conference Board measure. The overall index was revised to 82.5 from an initial print of 79.2, with the current conditions series reaching its highest level since July 2007. Five-year inflationary expectations were also revised up to 2.9% from a preliminary print of 2.8%.

This week will be busy in Australia.

On Tuesday, the RBA's post Board meeting statement is likely to note the upgrade to non-**mining** firms' investment intentions from this week's CAPEX report.

Apart from this, we expect the post meeting statement, as well as RBA Governor Stevens' speech on Wednesday to provide few surprises, given that we have heard from the RBA a number of times in recent weeks.

In terms of data, the Q2 GDP report is published on Wednesday.

We and the market expect Q2 GDP growth to come in at +0.4% q/q and 3.0% y/y.

This would follow a strong 1.1% q/q gain in Q1 and while that figure probably overstated the strength in the economy, Q2's 0.4% gain likely understates the underlying momentum in the economy, in part due to volatility in net exports.

More recent data - July building approvals and retail sales - are also due for release.

Offshore, the key event will be the ECB's meeting on Thursday, where we expect no change in the policy stance, and the US ISM manufacturing on Wednesday and non-farm payrolls on Friday. Note that financial markets in the US will be closed today for the Labor Day public holiday.

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