



**HD** (ED) ANZ Global: Aust bond futures sold off on curve in US

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Sydney - Tuesday - April 15: (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 overnight. Moves were more pronounced in the belly and long end of the curve, with the 5-year bond yield increasing 6bps to 1.61% and the 10-year bond yield rising 4bps to 2.65%, while the 2-year bond yield edged up 2bps to 0.37%.

Australian bond futures sold off across the curve. The implied 3-year yield was 4bps higher at 3.03% and the 10-year yield rose 5bps to 4.03%.

European equities rallied towards the end of the session following the release of better-than-expected US retail sales data to finish modestly higher after selling off over the past week. The Euro Stoxx 50 index closed 0.5% higher at 3,132, the German DAX finished 0.3% higher at 9,399 while the UK FTSE 100 also increased 0.3% to 6,584.

US equities gapped sharply higher at the open on positive US retail sales data, while better-than-forecast Q1 **company** profit results, including from Citigroup, eased investor concerns over stretched **equity** valuations.

The Nasdaq increased 0.6% to 4,023, after recording its largest weekly fall since mid 2012. The S&P 500 increased 0.8% to 1,831, with all of its subindices rising, and the Dow Jones rose 0.9% to 16,173.

Australian SPI futures increased 0.5% to 5,373.

In currency markets, the USD steadied as better data and strong earnings announcements in the US helped **bonds** stabilise and US stock rise.

The strength in the USD was primarily against other core currencies, with the EUR dipping alongside German yields as concerns surrounding events in the Ukraine rose once again.

With global rates still low, positive sentiment dominated other currencies driving the AUD and NZD higher.

For the AUD, the RBA minutes will be closely watched today, however Yellen's speech tonight and the **Chinese** data later today will likely have more impact.

Indicative trading levels: AUD 0.942, AUD/EUR 0.6817, AUD/GBP 0.56325, AUD/NZD 1.0837, AUD/JPY 95.979, AUD/CNY 5.8586, EUR/USD 1.382, GBP/USD 1.6725, USD/JPY 101.88.

**Oil** prices were mixed overnight. WTI futures closed 0.6% lower at USD103.55 per barrel, while Brent futures gained 1.0% to USD108.91 per barrel on renewed concerns over hostility in Ukraine.

The spot **gold** price gained 0.5% overnight to USD1,327.4 per ounce on concerns over the situation in Ukraine.

Base metals prices typically rose overnight. Nickel (+2.3%) continued recent strength, nearing a 14-month price high overnight on Indonesia's export ban and the prospect of harsher sanctions on Russia. **Lead** (+0.9%) and zinc (+1.2%) also rose, while **copper** (-0.2%) and aluminium (-0.3%) declined. Meanwhile, **iron ore** gained 0.1% to USD117.0 per tonne, while thermal **coal** futures remained largely unchanged at USD74.6 per tonne.

Agricultural commodities broadly gained overnight. Wheat rose 1.1% on concerns over frost impacting US crops as well as renewed tensions in Ukraine. Corn (+0.3%), soybeans (+1.1%), palm **oil** (+0.8%), canola (+1.1%) and cotton (+2.0%) also rose overnight, while sugar (-0.8%) and cocoa (-0.3%) fell.

#### Key drivers

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Risk appetite was boosted overnight following stronger-than-expected US retail sales.

US equities rose solidly, while US Treasuries sold off across the curve, with moves most pronounced in the belly and long end of the curve.

European sovereign 10-year bond yields also rose, with a narrowing in peripheral Eurozone spreads to bunds. In currency markets, EUR/USD eased slightly following comments from Banque de France Governor Christian Noyer who stated that "the more the euro appreciates, the more of a need [for the ECB] to act."

In the US, retail sales printed stronger than expected in March, with headline sales rising 1.1% **m/m** (mkt: +0.9% **m/m**). The increase in sales was broadly based with 10 of the 13 retail categories showing a pick-up.

Sales in the control group, which feed directly into GDP, managed a 0.8% (mkt: +0.5% **m/m**) increase, which along with upward revisions for January and February, suggests solid underlying momentum in the US economy.

In Europe, the 0.2% (mkt: +0.2% **m/m**) rise in Eurozone industrial production (+1.7% y/y) was underpinned by rising intermediate and non-durable consumption goods and was consistent with a gradual recovery.

In Australia today, the RBA publishes the Minutes from its April Board meeting.

Recent communication from the RBA has been slightly more upbeat, with Governor Stevens suggesting a fair degree of optimism over the handover of growth from **mining** to other sectors of the economy.

The minutes may provide additional colour on the Bank's thoughts on the housing market given recent warnings on potential excesses.

We will also be looking for the RBA's view of whether the recent bout of AUD strength will hamper the ability to achieve more balanced growth.

RBA Assistant Governor (Financial Markets) Guy Debelle will also be speaking on The Australian Bond Market at 12:30AEST in Canberra. In offshore markets, Fed Chair Yellen is speaking at 22:45AEST.

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