



**HD (ED) ANZ Global: Aust bond futures underperform US Treasuries**

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Sydney - Thursday - July 17: (RWE Aust **Business** News) - The latest global **business** information compiled by ANZ research analysts.

Overnight Markets Update

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US Treasuries moves were modest as Fed Chair Janet Yellen said little new on her second day of testimony to Congress. The curve flattened as the 2-year yield rose a modest 1bp to 0.48% while the 10-year yield was flat at 2.53%.

Australian bond futures continue to underperform US Treasuries.

Both the implied 3- and 10-year bonds **sold** off, with yields rising 1bp to 2.56% and 3.44% respectively.

European equities rallied strongly, with Portuguese banking stocks gaining on comments from the Bank of Portugal that Banco Espirito Santo SA may raise EUR2bn to strengthen its capital ratios. The Euro Stoxx 50 rose 1.6% to 3,203, the German DAX increased 1.4% to 9,859 and the UK FTSE finished the session 1.1% higher to close at 6,785.

US equities gained, supported by **M&A** activity and some solid earnings reports. The S&P 500 rose 0.4% to 1,982 and the Nasdaq closed 0.2% higher at 4,426. The Dow Jones closed at a record high, up 0.5% to 17,138.

Australian SPI futures gained 0.3% overnight to 5,491.

In currency markets there was little follow through in the USD strength and familiar ranges remained intact. The AUD ended the day unchanged after some early weakness, but rallied solidly against the NZD. There, a soft CPI outcome together with the weaker **dairy** auction soured sentiment and pushed the NZD lower across the **board**.

The data in **China** was better than expected, but had little impact on markets. Looking ahead, ranges are likely to remain intact as the data calendar quiets down.

Indicative trading levels: AUD 0.9367, AUD/EUR 0.6926, AUD/GBP 0.54659, AUD/NZD 1.0746, AUD/JPY 95.238, AUD/CNY 5.8117, EUR/USD 1.3524, GBP/USD 1.7136, USD/JPY 101.69.

Oil prices rose overnight, as WTI futures gained 1.0% to USD101.44 per barrel following a drop in US crude stockpiles, while Brent futures edged 0.1% higher to USD107.16 per barrel.

The spot gold price rebounded from the three-week low reached in the previous session, rising 0.3% overnight to USD1,298.5 after an increase in imports by India.

Base metals prices largely declined overnight. Copper (-1.0%), nickel (-0.7%), lead (-0.8%) and zinc (-0.5%) all fell, while aluminium (+0.4%) continued to rise, reaching a 16-month high last night on reports of weak stockpiles. The spot iron ore price remained largely unchanged at USD98.0 per tonne, while thermal coal futures slid -1.8% lower to close at USD67.1 per tonne.

Agricultural commodity prices were mixed overnight. Soybeans (+1.4%) made their largest gain in eight weeks following signs of increased demand for US exports, as corn (+0.3%), palm oil (+2.5%) and canola (+1.2%) also rose. Cocoa (-1.2%) experienced its largest drop in almost two months, while wheat (-0.5%), sugar (-0.8%) and cotton (-0.2%) also declined. ` Key drivers

----- \* European equities rallied strongly overnight, led by a relief rally in Portuguese bank stocks and encouraging activity data from **China**. The move higher in US equities was a little more muted, although the S & P approached record highs.

Currency markets were mixed, with the euro and pound weakening against the dollar but the AUD and NZD both clawing back some ground after yesterday's falls.

Dallas Fed President (and 2014 FOMC voter) Richard Fisher gave his views on the outlook for US monetary policy. Fisher believes the Fed could start shrinking its balance sheet in October and start raising the fed funds rate in early 2015 (consistent with the median FOMC voter), but worries that the Fed may be "staying too loose for too long".

In terms of US data, industrial production rose 0.2% **m/m** in June (mkt: +0.3% **m/m**) after increasing 0.5% **m/m** in May.

According to the Federal Reserve, the rise in Q2 industrial production was the strongest in four years (5.5% annualised). Forward-looking indicators, such as the PMI new orders sub-indices, suggest the expansion in output and production has further to run in the US. The NAHB survey was stronger than expected in July at 53, compared to 49 in June (mkt: 50).

Meanwhile, the headline PPI series rose 0.4% **m/m** and 1.9% y/y in June. The Federal Reserve's July Beige Book reported an expansion in activity across all districts for the second consecutive time, consistent with activity data during Q2. Most districts reported that wages pressure remained modest, with the exception of some skilled positions. \* The UK labour force report for May was somewhat mixed. While the employment data for the three months May were positive, markets initially focused on the disappointing average earnings growth of 0.3% y/y in the three months to May, which underscores the risk of a non-inflationary recovery in the broader economy. Ex-bonuses, however, earnings were a touch stronger at 0.7% y/y. The unemployment rate dropped to 6.5% from 6.6% and the economy created 254k jobs in the three months to May. \* Yesterday, **China's** Q2 GDP growth was a touch stronger than expected at 2.0% q/q and 7.5% y/y (mkt: 1.8% q/q; 7.4% y/y). Pro-growth fiscal policies, improving external demand, and selective reserve requirement ratio cuts to about 40% of the banking system have played some part in stabilising the economy recently.

Meanwhile, industrial production rose 9.2% y/y in June (mkt: 9.0% y/y), while retail sales increased 12.4% y/y (mkt: 12.5% y/y) and fixed asset investment rose 17.3% y/y (mkt: 17.2% y/y). \* In New Zealand yesterday, CPI rose 0.3% q/q in Q2, slightly below the market consensus (0.4%) but in line with the RBNZ's forecast. What was surprising to us (and likely the RBNZ) was how tame domestically generated inflation readings were - as flagged by our monthly inflation gauge, with few signs of a generalised pick-up in prices.

ANZ forecasts the RBNZ to hike the policy rate in July and then pause until at least the end of the year to assess the activity and pricing outlook.

**CO** fed : Federal Reserve Board

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