



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

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Sydney - Wednesday - June 11: (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 with no obvious catalysts for the moves. The 2-year yield closed 2bps higher at 0.44% and the 10-year yield rose 5bps to 2.64%.

Australian bond futures also sold off across the curve overnight, outperforming US Treasuries. The implied 3-year yield was 2bps higher at 2.86% and the implied 10-year yield rose 5bps to close at 3.83%.

US equities were little changed overnight, consolidating recent gains. All the major US indices were unchanged: the S&P 500 closed at 1,951, the Dow Jones finished at 16,946 and the Nasdaq ended at 4,338.

European equities mostly continued to grind higher. The Euro Stoxx 50 gained 0.3% to 3,314, the German DAX gained 0.2% to 10,029, while the FTSE was unchanged at 6,874.

Australian SPI futures finished the session 0.1% higher at 5,480.

In currency markets, the USD continued to gain against European and some emerging markets currencies but the AUD and NZD maintained their gains.

For the AUD the better-than-expected business confidence print provided a small boost but renewed focus on **China** drove most of the gains. There, another lower fixing for the CNY, together with some selective reserve requirement cuts, buoyed sentiment. Today, Australian consumer confidence data will be the focus, with the RBNZ, **China** lending figures and US retail sales the other key events this week.

Indicative trading levels: AUD 0.9371, AUD/EUR 0.6918, AUD/GBP 0.5593, AUD/NZD 1.0994, AUD/JPY 95.90, AUD/CNY 5.8339, EUR/USD 1.3546, GBP/USD 1.6755, USD/JPY 102.34

Oil prices slipped overnight after tension between the Ukraine and Russia moderated. WTI futures declined 0.4% to USD104.32, while Brent futures dropped 0.5% to USD109.62, narrowing the spread to WTI futures to its lowest since April.

The spot **gold** price finished the session 0.7% higher at USD1,260.4 per ounce.

Base metals prices were mixed overnight. **Copper** rose modestly (+0.3%). In contrast, zinc (-0.2%) ended its longest rally since February, and aluminium (-0.8%) and nickel (-1.2%) also declined. **Lead** remained unchanged, while spot **iron ore** slipped 0.7% to USD93.6 per tonne and thermal **coal** futures edged 0.1% higher to USD72.3 per tonne.

Agricultural commodities were also mixed overnight. Wheat (-2.1%), corn (-1.1%), palm **oil** (-1.1%), canola (-1.1%) and cotton (-0.1%) all declined, while soybeans (+0.4%) and cocoa (+0.3%) rose. Sugar remained unchanged.

Key drivers

Moves on global market were typically muted overnight, with little in the way of news or dataflow to drive pricing. US equities traded in tight ranges and finished broadly unchanged, while European equities typically edged up modestly. US Treasuries sold off across the curve, as did core European government bonds. In currency markets, the AUD edged marginally higher to be currently trading at USD0.9370.

In the United States, the NFIB small business index increased to 96.6 (mkt: 95.8) in May - a new recovery high. The increase was driven by expectations for an improvement in economic activity, earnings trends and hiring plans. Overall, the pick-up in the NFIB survey in recent months is consistent with other economic indicators that suggest activity in the US economy is improving following a slow start to the year.

In China, the CPI rose a marginal 0.1% m/m in May after declining over the previous two months. Year-ended inflation rose to 2.5% y/y (mkt: +2.4% y/y) in May from 1.8% y/y in April. Producer prices continued to fall to be 1.4% y/y lower in May (mkt: -1.5% y/y), up from -2.0% y/y in April. Overall, inflationary pressures in China remain well contained due to the moderation in economic activity.

In Australia yesterday, the NAB survey measure of business confidence was unchanged in May and firms reported only a slight decline in actual business conditions.

The survey was a positive outcome given the sharp falls in consumer confidence amid adverse news and uncertainty surrounding the Commonwealth Budget. Firms also reported unchanged spare capacity in their operations which supports our outlook for a broadly unchanged unemployment rate in coming months. Meanwhile, the ANZ job advertisements series fell a sharp 5.6% m/m in May, its first decline for first five months.

The job ads and business confidence figures appear inconsistent - the June outturns should provide clarity. Finally, housing finance increased to a new historical peak in April with the value of finance commitments rising 1.7% m/m; the number of owner-occupier home loan approvals, however, was unchanged in April.

These data continue to reflect a housing market dominated by investors and upgraders/downsizers, while first home buyer activity remained at historical lows

NSW Premier Mike Baird yesterday outlined the plan he will take to the March 2015 election to partially privatise the states' electricity network.

The proceeds - estimated to be AUD20bn due to federal government additions and reduced interest costs - will be used for infrastructure spending, including a second Sydney harbour rail crossing and rural water, schools, roads and hospitals projects after an agreement was made with the Nationals, the government's minor coalition partner. * In Australia today, the ANZ-Roy Morgan weekly consumer confidence index is released at 9:30AEST.

While consumer confidence deteriorated sharply since negative news flow around the Budget began, it recorded a modest rise in the week ending 1 June.

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