



Markets Today

A daily outlook for Australia, key global economies and markets

7 May 2015

What a tangled web

We are likely in for an interesting debate ahead: Central banks lower policy accommodation to astonishing levels and then suggest that markets might be a touch expensive. Funny that. The warning from the Fed's Janet Yellen was heeded overnight, with US equities lower and bond yields higher across the board. The oil up, USD down process continues, with the EUR benefitting most from the carry trade unwind.

The Fed's Janet Yellen was responding to a panel question when she (not for the first time) noted that equity market valuations might be "quite high." She then went on to note that bond yields were also "very low" and that there might be "dangers there." She warns that we might see a sharp jump in yields when the Fed raises interest rates.

The distortions in markets which arise from extremes in policy accommodation have been pondered for some time now but we are likely getting to the pointy end of the debate. How to extricate yourself from such policies without causing a rapid re-pricing in markets is the question. We don't want a "taper tantrum" but neither can we see rates on hold forever – which can create overvaluation in assets. It's a tangled web.

Markets are testing out the possible implication and we continue to see bond yields rise sharply. One of the additional explanations for last night's move is the stabilisation of oil prices which raise inflation expectations. And in the currency world, the narrower yield differential to the US, and higher volatility, means an unwinding of short EUR trades. The EUR has recovered the ground it lost from February. This was helped by some modestly positive news from Greece and better services PMI data.

On the downside, for US risk assets, was the poor ADP employment data. This series really isn't that credible an estimate for US payrolls anymore (the last few month's misses have been around 70k), so they shouldn't have been a strong factor in market moves overnight.

Interestingly, the Fed's Lockhart noted that a possible interest rate hike was still "reasonable" in September. So while the data remains mixed as we move on from the Q1 weather distortion, the first baby steps towards normalisation are still in play. That will keep volatility supported. This does create risks for high beta assets, such as the AUD and EM. That is not being factored in at present – EM FX outperformed the USD overnight: revert back to Yellen.

Coming Up

Amid the general market volatility, today we get the monthly Australian labour market data. Expectations can be taken with the usual pinch of salt, with forecasts ranging from -20k to +20k (NAB is flat). With the RBA having provided little guidance to the policy path ahead, the data and the unemployment rate in particular, is going to have more of an influence on markets. We know that volatility rises on less market guidance. Given this, and no matter your thoughts on the data, the employment report remains a key event on the FX and domestic asset calendar.

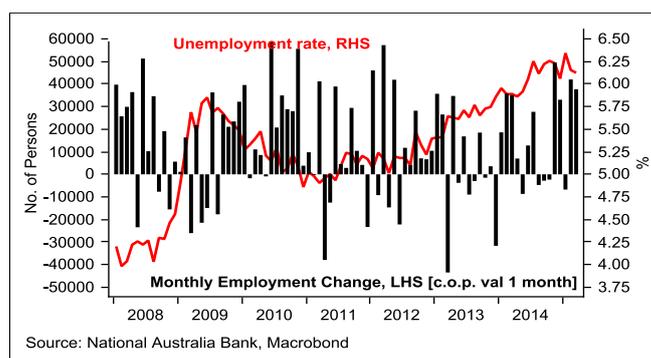
The day is likely to then be relatively quiet as the UK finally gets to vote. Now elections garner lots of interest in markets with speculation over possible partnerships (recent years have seen a rise in coalition governments), and policy; but rarely do they have a lasting effect on market. This one may be different given the inherent uncertainties involved. The polls are neck and neck and the possible partners an interesting mix. Even if the status quo gets up, there may be a referendum on the UK remaining part of the EU. All of this is fodder for market uncertainty and risk aversion. The UK polls close at 10pm (LDN) and the exit polls are likely to be a few hours later. But, given the complexity of the race the results are unlikely to be known until at least well into Friday.

Overnight

On global stock markets, the S&P 500 was -0.70%. Bond markets saw US 10-years +4.52bp to 2.23%. On commodity markets, Brent crude oil +0.07% to \$67.57, gold -0.2% to \$1,191, iron ore +3.7% to \$60.89. AUD is at 0.7975 and the range was 0.7919 to 0.8031. (For more market prices, please see p.2 of the pdf).

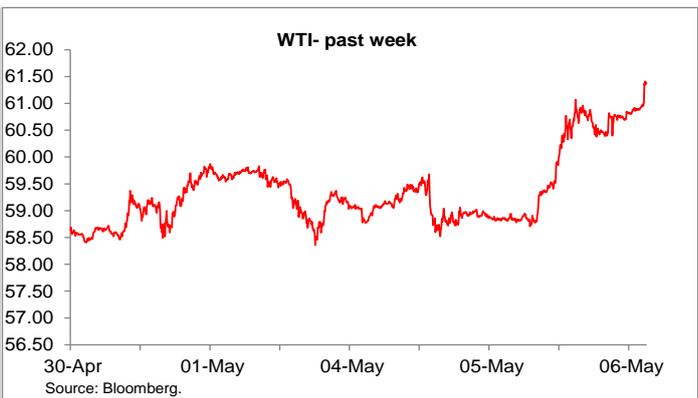
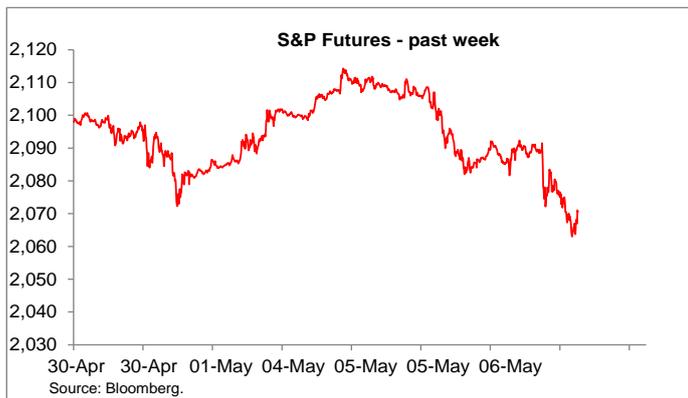
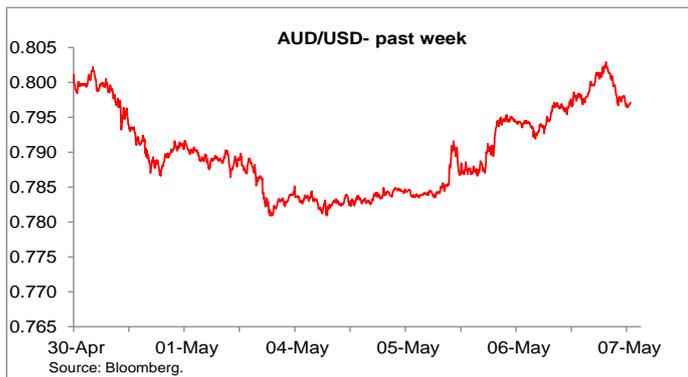
- US ADP +169kA, 200E, 175P rev from 198.
- EU services PMI 54.1A, 53.7E, 53.7P
- UK services PMI 59.5A, 58.5E, 58.9P

Chart of the Day – Australian Employment & Uet



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Markets



Foreign Exchange							Equities				Commodities*																																																																																								
<table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="4">Indicative 24hr ranges (**)</th> <th colspan="2">Other FX</th> </tr> <tr> <th>Last</th> <th>% chge</th> <th>Low</th> <th>High</th> <th>Last</th> <th>% chge</th> </tr> </thead> <tr> <td>AUD</td> <td>0.7973</td> <td>0.4</td> <td>0.7919</td> <td>0.8031</td> <td>HKD</td> <td>7.7521</td> <td>0.0</td> </tr> <tr> <td>NZD</td> <td>0.7505</td> <td>-0.7</td> <td>0.7459</td> <td>0.7570</td> <td>CNY</td> <td>6.2004</td> <td>-0.1</td> </tr> <tr> <td>EUR</td> <td>1.1347</td> <td>1.4</td> <td>1.1175</td> <td>1.1370</td> <td>SGD</td> <td>1.3235</td> <td>-0.7</td> </tr> <tr> <td>GBP</td> <td>1.5251</td> <td>0.5</td> <td>1.5150</td> <td>1.5291</td> <td>IDR</td> <td>13,035</td> <td>-0.2</td> </tr> <tr> <td>JPY</td> <td>119.46</td> <td>-0.3</td> <td>119.21</td> <td>120.05</td> <td>THB</td> <td>33.25</td> <td>-0.3</td> </tr> <tr> <td>CAD</td> <td>1.2041</td> <td>-0.2</td> <td>1.1941</td> <td>1.2088</td> <td>KRW</td> <td>1,080</td> <td>-0.2</td> </tr> <tr> <td>AUD/EUR</td> <td>0.7025</td> <td>-1.1</td> <td></td> <td></td> <td>TWD</td> <td>30.61</td> <td>-0.2</td> </tr> <tr> <td>AUD/JPY</td> <td>95.22</td> <td>0.1</td> <td></td> <td></td> <td>PHP</td> <td>44.47</td> <td>-0.3</td> </tr> <tr> <td>AUD/GBP</td> <td>0.5227</td> <td>-0.1</td> <td></td> <td></td> <td>CHF</td> <td>0.92</td> <td>-1.2</td> </tr> <tr> <td>AUD/NZD</td> <td>1.0628</td> <td>1.1</td> <td></td> <td></td> <td>SEK</td> <td>8.22</td> <td>-1.6</td> </tr> </table>								Indicative 24hr ranges (**)				Other FX		Last	% chge	Low	High	Last	% chge	AUD	0.7973	0.4	0.7919	0.8031	HKD	7.7521	0.0	NZD	0.7505	-0.7	0.7459	0.7570	CNY	6.2004	-0.1	EUR	1.1347	1.4	1.1175	1.1370	SGD	1.3235	-0.7	GBP	1.5251	0.5	1.5150	1.5291	IDR	13,035	-0.2	JPY	119.46	-0.3	119.21	120.05	THB	33.25	-0.3	CAD	1.2041	-0.2	1.1941	1.2088	KRW	1,080	-0.2	AUD/EUR	0.7025	-1.1			TWD	30.61	-0.2	AUD/JPY	95.22	0.1			PHP	44.47	-0.3	AUD/GBP	0.5227	-0.1			CHF	0.92	-1.2	AUD/NZD	1.0628	1.1			SEK	8.22	-1.6
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 | Major Indices | | | | |---------------|--------|-------|-------| | | Last | % day | % y/y | | Dow | 17,814 | -0.6 | 8.6 | | S&P 500 | 2,074 | -0.7 | 11.1 | | Nasdaq | 4,911 | -0.6 | 20.3 | | FTSE | 6,934 | +0.1 | 2.0 | | DAX | 11,350 | +0.2 | 19.9 | | CAC 40 | 4,982 | -0.5 | 12.5 | | Nikkei | 19,532 | +0.1 | 35.1 | | Shanghai | 4,229 | -1.6 | 110.4 | | Hang Seng | 27,641 | -0.4 | 27.1 | | ASX 200 | 5,692 | -2.3 | 4.7 | | | | | | | Last | % day | |-------------|---------|-------| | Oil (Brent) | 67.57 | 0.1 | | Oil (WTI) | 60.71 | 0.5 | | Oil (Tapis) | 70.31 | 3.3 | | Gold | 1190.70 | -0.2 | | CRB | 230.26 | -0.3 | | GS Metals | 345.6 | 2.3 | | Aluminium | 1959 | 3.3 | | Copper | 6480 | 1.1 | | Nickel | 14263 | 4.0 | | Zinc | 2416 | 2.8 | | Ch. steel | 2409 | -0.9 | | Iron ore | 60.9 | 3.7 | | St. coal | 61.8 | n.a. | | Wheat Chic. | 479.3 | 2.7 | | Sugar | 12.87 | 0.9 | | Cotton | 66.10 | -1.3 | | Coffee | 130.0 | -2.8 | | | || | Interest Rates | | | | Benchmark 10 Year Bonds | | | | |-----------------------|------|------|------|-------------------------|--------|------|------| | Indicative Swap Rates | | | | | | | | | | Cash | 3mth | 2Yr | 10Yr | Last | chge | Spnd | | USD | 0.25 | 0.28 | 0.89 | 2.31 | USD 10 | 2.23 | 0.05 | | AUD | 2.00 | 2.15 | 2.24 | 3.25 | AUD 10 | 2.92 | 0.13 | | NZD | 3.50 | 3.59 | 3.45 | 3.96 | NZD 10 | 3.59 | 0.06 | | EUR | 0.05 | 0.06 | 0.10 | 0.91 | CAD 10 | 1.82 | 0.08 | | GBP | 0.50 | 0.57 | 1.04 | 2.06 | EUR 10 | 0.59 | 0.07 | | JPY | 0.06 | 0.10 | 0.16 | 0.59 | GBP 10 | 1.98 | 0.01 | | CAD | 0.75 | 1.17 | 1.08 | 2.25 | JPY 10 | 0.36 | 0.00 | | | | | | | | | Overnight Futures | | | |-------------------|-------|-------| | | Last | Chge | | Australia | | | | 3 mth bill | 97.87 | 0.00 | | 3 Yr bond | 97.86 | -0.01 | | 10 Yr bonc | 97.05 | -0.09 | | 3/10 sprd | 0.81 | 0.08 | | SPI | -36.0 | -0.6 | | | | | | CO ₂ Emissions - Euros | | | |-----------------------------------|-------------|-------| | | Last | % day | | Mar-2015 | aid Not App | N/A | | Dec-2015 | 7.57 | -0.3 | | Dec-2016 | 7.65 | -0.4 | | | |

Please note the high/low FX rates are only an indication. Please refer to your National Dealer for confirmation.

* All near futures contracts, except CRB. GS Metals is Goldman Sachs industrial metals index. Metals prices are CME. Emissions: ICE Dec contracts, Euros

** These are indicative ranges over the past 24 hours; please confirm rates with your NAB dealer

Last is around 6:30am Sydney

Source: Bloomberg

Calendar

Country	Economic Indicator	Time Period	NAB Forecast	Consensus	Actual	Previous	GMT	AEST
Thursday, 7 May 2015								
UK	General Election							
AU	AiG Perf of Construction Index	Apr				50.1	23.30	9.30
AU	Employment Change	Apr	flat	5.0K		37.7K	1.30	11.30
AU	Unemployment Rate	Apr	6.2%	6.2%		6.1%	1.30	11.30
AU	Participation Rate	Apr	64.8%	64.8%		64.8%	1.30	11.30
AU	NAB Quarterly ASX 300 Survey	1Q					1.30	11.30
JN	Markit Japan Services PMI	Apr				48.4	1.35	11.35
CA	Building Permits MoM	Mar				-0.9%	12.30	22.30
US	Initial Jobless Claims	Mar					12.30	22.30
US	Consumer Credit	Mar				\$15.516B	19.00	5.00
Friday, 8 May 2015								
JN	Bank of Japan April 7-8 meeting minutes						23.50	9.50
AU	RBA Statement on Monetary Policy						1.30	11.30
GE	Industrial Production SA MoM	Mar	0.4%			0.2%	6.00	16.00
GE	Trade Balance	Mar	+20.0B			19.2B	6.00	16.00
UK	Trade Balance	Mar	-£2300			-£2859	8.30	18.30
CA	Housing Starts	Apr				189.7K	12.15	22.15
US	Change in Nonfarm Payrolls	Apr	230K			126K	12.30	22.30
CA	Unemployment Rate	Apr				6.8%	12.30	22.30
CA	Net Change in Employment	Apr				28.7K	12.30	22.30
US	Unemployment Rate	Apr	5.4%			5.5%	12.30	22.30
US	Average Hourly Earnings MoM/YoY	Apr	0.2%/2.3%			0.3%/2.1%	12.30	22.30
CH	Trade Balance	Apr	\$34.25B			\$3.08B	14.00	0.00
CH	Imports/Exports YoY	Apr	-9.8%/2.9%			-12.7%/-15.0%	14.00	0.00
Saturday, 9 May 2015								
CH	CPI YoY	Apr	1.6%			1.4%	1.30	11.30
CH	PPI YoY	Apr	-4.6%			-4.6%	1.30	11.30
PO	ECB's Costa, Monti Speak at Conference on Growth and Reform						7.30	17.30
Monday, 11 May 2015								
NZ	Card Spending Total MoM	Apr				1.3%	22.45	8.45
AU	NAB Business Conditions/Confidence	Apr				6/3	1.30	11.30
UK	BOE Asset Purchase Target	May				375B	11.00	21.00
UK	Bank of England Bank Rate	May-11	0.50%			0.50%	11.00	21.00
Tuesday, 12 May 2015								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May-10					23.30	9.30
AU	Home Loans MoM	Mar				1.2%	1.30	11.30
AU	Investment Lending	Mar				-3.4%	1.30	11.30
UK	Industrial Production MoM	Mar				0.1%	8.30	18.30
AU	Federal Budget	2015-16					14.00	0.00
US	NFIB Small Business Optimism	Apr				95.2	13.00	23.00
US	Fed's Williams Speaks at New York Association for Business Eco (V)						16.45	2.45
Wednesday, 13 May 2015								
NZ	Food Prices MoM	Apr				0.1%	22.45	8.45
JN	BoP Current Account Adjusted	Mar				¥603.5B	23.50	9.50
AU	Wage Price Index QoQ/YoY	1Q				0.6%/2.5%	1.30	11.30
CH	Retail Sales / YTD YoY	Apr				10.2%/10.6%	5.30	15.30
CH	Industrial Production / YTD YoY	Apr				5.6%/6.4%	5.30	15.30
CH	Fixed Assets Ex Rural YTD YoY	Apr				13.5%	5.30	15.30
CH	Bloomberg GDP Monthly Estimate YoY	Apr				6.4%	6.00	16.00
GE	CPI MoM/YoY	Apr F					6.00	16.00
GE	GDP SA QoQ	1Q P				0.7%/1.4%	6.00	16.00
GE	CPI YoY	Apr F					6.00	16.00
UK	Average Weekly Earnings 3M/YoY	Mar				1.7%	8.30	18.30
UK	Weekly Earnings ex Bonus 3M/YoY	Mar				1.8%	8.30	18.30
UK	ILO Unemployment Rate 3Mths	Mar				5.6%	8.30	18.30
EC	Industrial Production SA MoM	Mar				1.1%	9.00	19.00
EC	GDP SA QoQ/YoY	1Q A				0.3%/0.9%	9.00	19.00
UK	Bank of England Inflation Report						9.30	19.30
EC	ECB account of the monetary policy meeting						11.30	21.30
US	Retail Sales Advance MoM	Apr				0.9%	12.30	22.30
CA	Teranet/National Bank HPI MoM	Apr				0.3%	12.30	22.30
US	Retail Sales Ex Auto MoM	Apr				0.4%	12.30	22.30
Thursday, 14 May 2015								
NZ	BusinessNZ Manufacturing PMI	Apr				54.5	22.30	8.30
NZ	Retail Sales Ex Inflation QoQ	1Q				1.7%	22.45	8.45
UK	RICS House Price Balance	Apr				21%	23.01	9.01
CA	Teranet/National Bank HPI YoY	Apr				4.7%	12.30	22.30
CA	New Housing Price Index MoM	Mar				0.2%	12.30	22.30
CA	Teranet/National Bank HP Index	Apr				168.01	12.30	22.30
CA	New Housing Price Index YoY	Mar				1.4%	12.30	22.30
US	PPI Final Demand MoM	Apr				0.2%	12.30	22.30
US	Initial Jobless Claims	May-09					12.30	22.30
US	PPI Final Demand YoY	Apr				-0.8%	12.30	22.30
Friday, 15 May 2015								
CA	Manufacturing Sales MoM	Mar				-1.7%	12.30	22.30
US	Empire Manufacturing	May				-1.19	12.30	22.30
CA	Int'l Securities Transactions	Mar				9.27B	12.30	22.30
CA	Existing Home Sales MoM	Apr				4.1%	13.00	23.00
US	Industrial Production MoM	Apr				-0.6%	13.15	23.15
US	Capacity Utilization	Apr				78.4%	13.15	23.15
US	Manufacturing (SIC) Production	Apr				0.1%	13.15	23.15
US	U. of Mich. Sentiment	May P					14.00	0.00
US	Net Long-term TIC Flows	Mar				\$9.8B	20.00	6.00
US	Total Net TIC Flows	Mar				\$4.1B	20.00	6.00
Upcoming Central Bank Interest Rate Announcements								
UK BOE		11-May	0.50%	0.50%		0.50%		
Japan, BoJ		22-May	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
Canada, BoC		27-May				0.75%		
Australia, RBA		2-Jun	2.00%			2.00%		
Europe ECB		3-Jun	0.05%	0.05%		0.05%		
New Zealand, RBNZ		11-Jun	3.50%			3.50%		
US Federal Reserve		18-Jun				0%-0.25%		

GMT: Greenwich Mean Time; AEST: Australian Eastern Standard Time

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