

31 March 2016

Markets Today



Afterglow

Equities and non-US dollar currencies continue to bask in the afterglow of Janet Yellen's Tuesday night speech and the associated re-pricing of Fed tightening expectations. The US money market now has less than one 25-point increase in the Fed Funds target range priced in by end-2016. Shorter dated US yields and money market rates are lower with 2 and 5 year Treasury yields off over 2bps, but 10s are about 2bps higher versus Tuesday's close.

Extension of Tuesday's US equity market gains is fairly broad based with IT and financials leading the way and utilities the only sector in the red. All the main US indices are closing up by about 0.5%+/- and bringing the gains since Yellen's speech hit the tapes to 1.5% for the S&P.

Economic news has been sparse. The ADP US employment survey came in at 200k versus a market expectation for 195k, which does nothing to dislodge expectations for a non-farm payroll print tomorrow night of close to 200k. Catching a little attention though was the German inflation data where the HICP measure lifted to 0.1% y/y from -0.2% in February and above the 0.0% expected. This is though unlikely to prove enough to lift pan-Eurozone CPI out of negative territory later today (it was -0.2% last month and expected to remain at that level in March).

In currencies, the German data did give a very temporary lift to a euro that was already travelling north in the context of broad-based US dollar loses, but lost ground temporarily alongside most other currencies in mid-afternoon London time - for no apparent reason. It is the commodity and higher yielding EM currencies that dominate the FX leader board. The New Zealand dollar is the standout in G10, up 1.26% and quickly racing ahead when NZD/USD broke onto a 0.69 handle very soon after the Sydney market closed last night. It has been out-bid by only four other currencies, namely the Rand, Ringgit and Colombian and Chilean pesos.

Outperformance by commodity-linked currencies might seem slightly surprising given that commodity prices are for the most part a little softer, albeit oil received a small boost from a smaller than expected rise in US inventories in the past week. Rather than look at commodity prices, we are better off simply observing that as US equities move ahead, the VIX measure of downside volatility risk in the S&P 500 continues to leak lower. Having broken below 14 post-Yellen, it has flirted with a 12 handle overnight. At 13.06 it is at its lowest since late October 2015. This readily explains the latest move higher in AUD/USD, which has (briefly) spent time above 0.77 overnight (currently 0.7670).

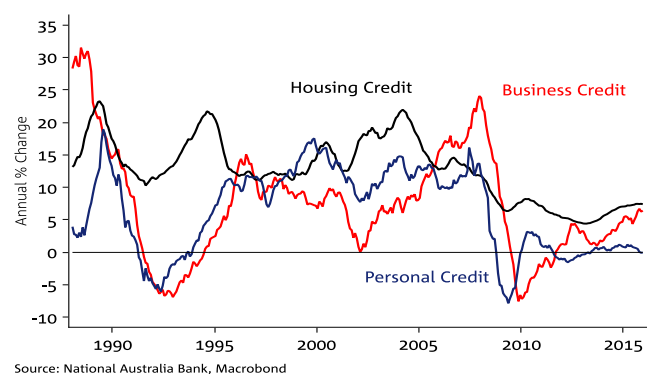
Coming Up

It's not a day of top-drawer data or events, rather one best described as 'Super Friday Eve' with US payrolls, the US manufacturing ISM and China's PMI data all due on Friday. We do have Fed vice Chair and 'Yellen-ite' Bill Dudley speaking in Lexington, but he shouldn't hit the wires before 8:00 AEDT on Friday.

Data wise, some local interest in latest RBA private sector credit numbers and where the main feature of late has been the acceleration in business credit growth (see Chart of the Day below). There's a smattering of data in Europa and US, none-of which is likely to be particularly market sensitive, save perhaps for Eurozone CPI after yesterday's upside surprise in the German numbers (see calendar on p.3).

Being month (and well as quarter) end, there will inevitably be chatter in the FX world about potential hedge-adjustment by fund managers. Here, the presumption is likely to be that since US stocks have performed so well in March (S&P500 +7%) then those managers who only make adjustments at month-end will find themselves under-hedged and needing to sell US dollars for AUD. The historical evidence supporting this line of argument is patchy at best, but suffice to say that if AUD/USD does move further ahead in the coming 24 hours, part of the blame is likely to be laid at the floor of 'month-end rebalancing'.

Chart of the Day – RBA private sector credit



Overnight

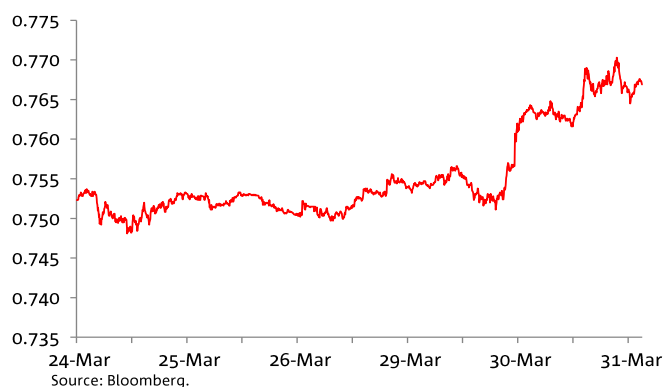
On global stock markets, the S&P 500 was +0.40%. Bond markets saw US 10-years +1.76bp to 1.82%. On commodity markets, Brent crude oil +0.20% to \$39.22, gold-0.8% to \$1,226, iron ore -1.7% to \$54.18. AUD is at 0.7669 and the range was 0.7615 to 0.7709.

Author:

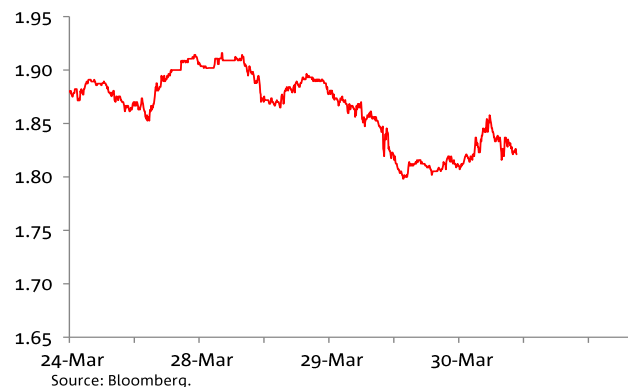
Ray Attrill – Global Co-Head of FX Strategy

Markets

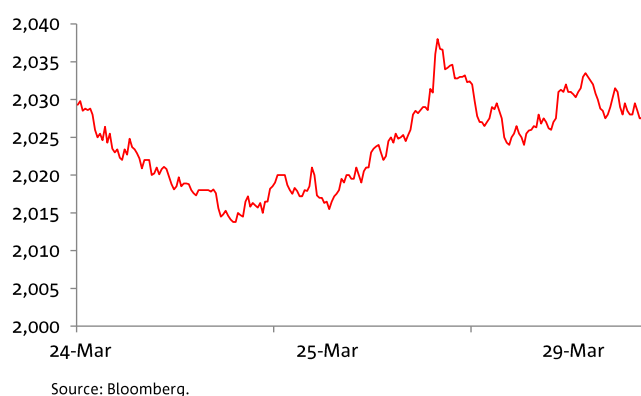
AUD/USD - past week



US 10 yr - past week



S&P Futures - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7669	0.6	0.7615	0.7709	HKD	7.7531 0.0
NZD	0.6930	1.2	0.6842	0.6965	CNY	6.4683 -0.6
EUR	1.1333	0.4	1.1284	1.1365	SGD	1.3506 -0.3
GBP	1.4377	0.0	1.4361	1.4459	IDR	13,256 -1.0
JPY	112.45	-0.2	112.0200	112.8100	THB	35.24 -0.3
CAD	1.2957	-0.9	1.2912	1.3081	KRW	1,151 -1.1
AUD/EUR	0.6767	0.1			TWD	32.27 -1.2
AUD/JPY	86.22	0.3			PHP	46.02 -0.8
AUD/GBP	0.5334	0.6			CHF	0.96 -0.2
AUD/NZD	1.1065	-0.6			SEK	8.14 -0.7
AUD/CNY	4.9616	0.8				

Interest Rates

Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge
USD	0.50	0.63	0.86	1.68	USD 10	1.82 0.02
AUD	2.00	2.29	2.11	2.64	AUD 10	2.50 -0.08
NZD	2.25	2.35	2.22	3.01	NZD 10	2.98 0.01
EUR	0.00	0.06	-0.15	0.56	CAD 10	1.22 0.04
GBP	0.50	0.59	0.81	1.44	EUR 10	0.16 0.02
JPY	-0.02	-0.01	-0.12	0.13	GBP 10	1.43 0.02
CAD	0.50	1.17	0.85	1.49	JPY 10	-0.09 -0.01
						-1.91

Equities

Major Indices			
	Last	% day	% y/y
Dow	17,717	+0.5	-1.4
S&P 500	2,064	+0.4	-1.1
Nasdaq	4,869	+0.5	-1.6
VIX	14	-2.0	-6.7
FTSE	6,203	+1.6	-10.0
DAX	10,047	+1.6	-16.9
CAC 40	4,444	+0.9	-12.6
Nikkei	16,879	-1.3	-12.1
Shanghai	3,001	+2.8	-19.9
Hang Seng	20,803	+2.1	-16.5
ASX 200	5,010	+0.1	-15.0

Commodities*

	Last	% day
Oil (Brent)	39.22	0.2
Oil (WTI)	38.27	0.0
Oil (Tapis)	40.98	0.8
Gold	1226.00	-0.8
CRB	170.97	-0.3
GS Metals	257.2	0.1
Aluminium	1487	0.5
Copper	4898	-0.3
Nickel	8397	-0.3
Zinc	1792	0.9
Ch. steel	2123	0.2
Iron ore	54.2	-1.7
Coal	51.1	-0.4
Wheat Chic.	471.5	-2.5
Sugar	15.87	0.1
Cotton	57.67	0.5
Coffee	127.0	-0.4

* clsd = market holiday

CO₂ Emissions - Euros

	Last	% day
Jun-2016	4.95	N/A N
Dec-2016	4.97	3.8
Jun-2017	5.00	3.7

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	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Thursday, 31 March 2016								
UK	Lloyds Business Barometer	Mar				28.0	23.10	10.10
UK	GfK Consumer Confidence	Mar		-1		0.0	23.50	10.50
AU	HIA New Home Sales MoM	Feb				-1.8	0.00	11.00
NZ	ANZ Activity Outlook/Business Confidence	Mar				25.5/7.1	0.00	11.00
AU	Job vacancies	Feb				3.5	0.30	11.30
AU	Private Sector Credit MoM/YoY	Feb	0.5/6.5	0.5/6.5		0.5/6.5	0.30	11.30
NZ	Credit aggregates (household) YoY	Feb				7.5	2.00	13.00
GE	Unemployment Change (000's)/Rate	Mar		-6		-10.0/6.2	7.55	18.55
UK	Mortgage Approvals	Feb		73.5		74.6	8.30	19.30
UK	GDP QoQ/YoY	4Q F		0.5/1.9		0.5/1.9	8.30	19.30
UK	Current Account Balance	4Q		-21.15		-17.5	8.30	19.30
EC	CPI Estimate/Core YoY	Mar		-0.1/0.9		-0.2/0.8	9.00	20.00
US	Challenger Job Cuts YoY	Mar				21.8	11.30	22.30
CA	GDP MoM/YoY	Jan		0.3		0.2	12.30	23.30
US	Initial Jobless Claims	Mar 26		265		265.0	12.30	23.30
CH	BoP Current Account Balance	4Q F						
US	ISM Milwaukee	Mar				55.2	13.00	0.00
US	Chicago Purchasing Manager	Mar		50.8		47.6	13.45	0.45
US	Bloomberg Consumer Comfort	Mar 27				43.6	13.45	0.45
US	Fed's Evans (non voter) speaks on Bloomberg radio						19.00	6.00
US	Fed's Dudley (voter) speaks on financial crises in lexington						21.00	8.00
Friday, 1 April 2016								
AU	AiG Perf of Mfg Index	Mar				53.5	22.30	9.30
AU	CoreLogic RP Data House Px MoM	Mar				0.5	23.00	10.00
JN	Tankan Large Mfg Index/Outlook	1Q		8/7		12.0/7.0	23.50	10.50
JN	Tankan Large Non-Mfg Index/Outlook	1Q		24/20		25.0/18.0	23.50	10.50
JN	Tankan Large All Industry Capex	1Q		-0.7		10.8	23.50	10.50
CH	Manufacturing/Non-manufacturing PMI	Mar		49.4/		49.0/52.7	1.00	12.00
CH	Caixin China PMI Mfg	Mar		48.3		48.0	1.45	12.45
JN	Nikkei Japan PMI Mfg	Mar F				49.1	2.00	13.00
AU	Commodity Index AUD/YoY	Mar				73.2/-21.6	5.30	16.30
GE	Markit/BME Germany Manufacturing PMI	Mar F		50.4		50.4	7.55	18.55
EC	Markit Eurozone Manufacturing PMI	Mar F		51.4		51.4	8.00	19.00
UK	Markit UK PMI Manufacturing SA	Mar		51.2		50.8	8.30	19.30
UK	Unit Labor Costs YoY	4Q				2.0	7.30	18.30
EC	Unemployment Rate	Feb		10.3		10.3	9.00	20.00
US	Change in Nonfarm Payrolls	Mar		205/4.9		242.0/4.9	12.30	23.30
US	Average Hourly Earnings MoM/YoY	Mar		0.2/2.2		-0.1/2.2	12.30	23.30
CA	RBC Manufacturing PMI	Mar				49.4	13.30	0.30
US	Markit US Manufacturing PMI	Mar F		51.5		51.4	13.45	0.45
US	ISM Manufacturing/New Orders	Mar		50.8/		49.5/51.5	14.00	1.00
US	Construction Spending MoM	Feb		0.1		1.5	14.00	1.00
US	U. of Mich. Sentiment/5-10y inflation expectations	Mar F		90.5/		90.0/2.7	14.00	1.00
US	Fed's Mester (v) Speaks in New York						16.00	3.00
Monday, 4 April 2016								
JN	Monetary Base YoY	Mar				29.0	22.50	9.50
JN	Monetary Base End of period	Mar				358.8	22.50	9.50
AU	Melbourne Institute Inflation MoM/YoY	Mar				-0.2/2.1	0.00	11.00
AU	Retail Sales MoM	Feb				0.3	0.30	11.30
AU	ANZ Job Advertisements MoM	Mar				-1.2	0.30	11.30
AU	Building Approvals MoM/YoY	Feb		/		-7.5/-15.5	0.30	11.30
UK	Markit/CIPS UK Construction PMI	Mar				54.2	7.30	18.30
EC	Sentix Investor Confidence	Apr				5.5	7.30	18.30
US	Fed's Rosengren (voter) speaks at a cybersecurity conference						12.30	23.30
US	ISM New York	Mar				53.6	12.45	23.45
CA	Bloomberg Nanos Confidence	Apr 1				54.5	13.00	0.00
US	Labor Market Conditions Index Change	Mar				-2.4	13.00	0.00
US	Factory Orders	Feb		-1.9		1.6	13.00	0.00
Tuesday, 5 April 2016								
US	Durable Goods Orders/Core Orders	Feb F		/		-2.8/-1.8	13.00	0.00
CA	Business Outlook Future Sales	1Q				16.0	14.30	1.30
CA	BoC Senior Loan Officer Survey	1Q				5.6	14.30	1.30
US	Fed's Kashkari Holds Town Hall on Too Big to Fail						22.00	9.00
AU	AiG Perf of Services Index	Mar				51.8	22.30	9.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Mar 27				116.0	22.30	9.30
JN	Labor Cash Earnings/Real earnings YoY	Feb				0.4/0.4	23.00	10.00
NZ	ANZ Commodity Price	Mar				0.4	0.00	11.00
AU	Trade Balance	Feb				-2937.0	0.30	11.30
JN	Nikkei Japan PMI Services/Composite	Mar				51.2/51.0	1.00	12.00
AU	RBA Cash Rate Target	Apr 5	2	2		2.0	3.30	14.30
GE	Factory Orders MoM/YoY	Feb				-0.1/1.1	5.00	16.00
GE	Markit Services/Composite PMI	Mar F		/		55.5/54.1	6.55	17.55
EC	Markit Services/Composite PMI	Mar F		/		54.0	7.00	18.00
UK	Official Reserves Changes	Mar				1362.0	7.30	18.30
UK	Markit/CIPS UK Services/Composite PMI	Mar				52.7/52.8	7.30	18.30
EC	Retail Sales MoM	Feb				0.4/2.0	8.00	19.00
US	Trade Balance	Feb		-45		-45.7	11.30	22.30
CA	Int'l Merchandise Trade	Feb				-0.7	11.30	22.30
US	Markit Services/Composite PMI	Mar F		/		51.0	12.45	23.45
Wednesday, 6 April 2016								
US	ISM Non-Manf. Composite	Mar		54.2		53.4	13.00	0.00
US	IBD/TIPP Economic Optimism	Apr				0.0	13.00	0.00
US	JOLTS Job Openings	Feb				5541.0	13.00	0.00
UK	BRC Shop Price Index YoY	Mar				-2.0	22.10	9.10
NZ	QV House Prices YoY	Mar				11.6	23.00	10.00
CH	Caixin PMI Services/Composite	Mar		/		51.2	0.45	11.45
JN	Leading Index CI	Feb P				101.8	4.00	15.00
GE	Industrial Production SA MoM	Feb				3.3	5.00	16.00
GE	Industrial Production WDA YoY	Feb				2.2	5.00	16.00
AU	RBA's Kent Speech in Hobart						6.00	17.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		5-Apr	2.00%	2.00%		2.00%		
UK BOE		14-Apr				0.50%		
Canada, BoC		14-Apr				0.50%		
Europe ECB		21-Apr				0.00%		
New Zealand, RBNZ		28-Apr	2.25%	2.25%		2.25%		
Japan, BoJ		28-Apr				-0.1% to +0.1%		
US Federal Reserve		28-Apr				0.25-0.50%		

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Saving Time

Contact Details

Authors

David de Garis
Senior Economist
+61 3 8641 3045
david.degaris@nab.com.au

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848
ray.attrill@nab.com.au

Rodrigo Catril
Currency Strategist
+61 2 9293 7109
rodrigo.h.catril@nab.com.au

Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406
peter.jolly@nab.com.au

Group Economics

Alan Oster
Chief Economist
+61 3 8634 2927
alan_oster@national.com.au

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.