7 April 2016

Markets Today

National Australia Bank

June is alive

An improvement in risk appetite has helped global equity markets recovered some grown overnight with the Nikkei a notable exception. FOMC minutes revealed an April hike was discussed, but a cautious approach appears to be well entrenched. A pick up in oil prices contributed to the positive move, but the strength in the yen continues to weigh on Japan's equity market.

The March FOMC minutes revealed that Fed officials debated an April hike, but "several expressed the view that a cautious approach to raising rates would be prudent or noted their concern that raising the target range as soon as April would signal a sense of urgency they did not think appropriate". Overall and consistent with recent Fed officials' commentary, the minutes gave the impression of a spilt committee and while an April hike looks to be off the table, a June hike is still live.

While Fed Chair Yellen appears to have strong support for her cautious approach with the minutes noting that a lower path of the federal funds rate "was broadly shared across participants, especially for the first two years of their forecasts", the committee appears to be more split on the inflation and growth outlook. For now however the minutes gave the impression that a cautious approach is still well entrenched. The probability of a 25bps June hike is currently sitting at 17.5%, assuming a stable labour market, US inflation data and a recovery in global will dictate the timing of the next Fed hike.

The release of the FOMC minutes didn't seem elicit an immediate reaction from US Equity and Treasury markets. That said, half an hour later US equity indices restarted their upward trend which as already in place earlier in the session. The S&P500 ended the day +1.05, DJ +.64% and NASDAQ +1.59%. Europe also closed in positive territory with the FTSE100 +1.16% while the EUR Stoxx index was +0.66%.

In currencies the Yen has continued its ascendency against the USD with USD/JPY making a new 17 month low of ¥109.34. The Yen strengthening has occurred against a backdrop of improved risk appetite, suggesting the market may be losing confidence on the BoJ ability to reflate the Japanese economy. Commodity currencies lost some ground agains the big dollar, with the AUD -1 and NZXD -1.34%. The GBP is again at the bottom of the leader G10 leader, -1.77% . Brexit concerns continue to weigh on GBP.

Oil prices have continued their recent ascendency seemingly still buoyed by yesterday's Kuwait's comments that a production freeze deal was still a possibility. Iron ore ended the day unchanged at $54.8 and gold was down 0.4% at $ 1223.60.

Core global bond yield have ended the day a couple of bps higher. 10y UST are at 1.7566 and 10y Bunds closed at 0.117%, up 1.9bps.

Fed Bullard said a growth slowdown in the first quarter could weigh on the central bank's plan to raise interest rates gradually, even as he noted inflation has picked up. Meanwhile Fed Mester noted that slow rate rises provide insurance against downside risks.

The RBA's Assistant Governor (Economic) Chris Kent gave a speech in Tasmania last night and while not market moving, our economist Tapas Strickland picked up an interesting observation on inflation. RBA Kent said that RBA's models of inflation incorporate the low inflation and low interest rates of other advanced economies with the models suggesting these influences are quite persistent. Tapas noted that Kent's comments reinforce the notion of inflation being low and the uncertainty and risks over the inflation outlook highlighted in the RBA Statement.

Coming Up

In Australia today we only have second tier data releases. This morning we get the AiG Construction Index and job advertisement for February and this afternoon the RBA releases foreign reserves for March.

BoJ Kuroda is scheduled to speak in Tokyo and given the recent soft data as well as appreciation of the Yen, his comments will no doubt garner a fair bit of attention. Expectations for additional BoJ stimulatory actions at their next 28 April meeting have been gathering momentum and comments from Kuroda earlier in the week suggest that now the real question is about what this stimulatory actions will entail, rather than whether the Bank will move at all.

Later in the day we should get China's foreign exchange reserve data for March. Market consensus is for a small drop of $6bn, a stark contrast to the $28.6 bn decline in February and $99.5 bn drop in January. A number close to expectations should help alleviate concerns over China's financial stability while a halt in capital outflows should also serve to assuage downward pressure on the Yuan (see chart below).

Author:
Rodrigo Catril – FX Strategist

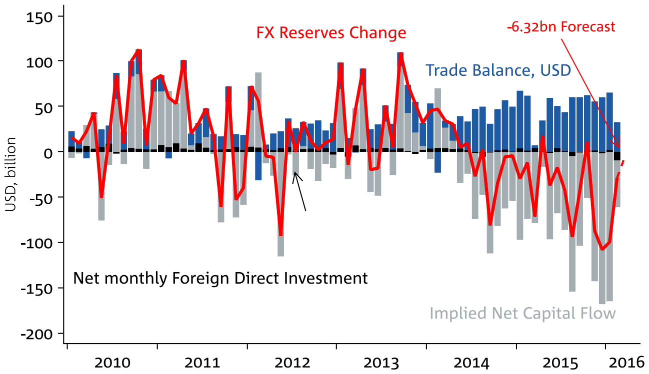
Today in Europe, ECB Draghi will give a speech in Portugal on the economic and financial situation in Europe. The ECB March minutes are also due for release, but given the raft of policy measures introduced at the last meeting we are unlikely to learn anything new, other than a potential sense of the number of dissenters.

The US releases consumer credit figures for February and we also get weekly jobless claims. As for Fed Speakers, Fed Bullard speaks at 8:30 am this morning followed by Fed Kaplan at 10:00 am. Note too that Fed Chair Yellen speaks tomorrow morning at 7:30am (all times are AEST).

Overnight

On global stock markets, the S&P 500 was +1.10%. Bond markets saw US 10-years +3.65bp to 1.76%. On commodity markets, Brent crude oil +4.89% to $39.72, gold-0.4% to $1,224, iron ore -0.1% to $54.75. AUD is at 0.7599 and the range was 0.7533 to 0.7619.

Chart of the day: End to the drain?



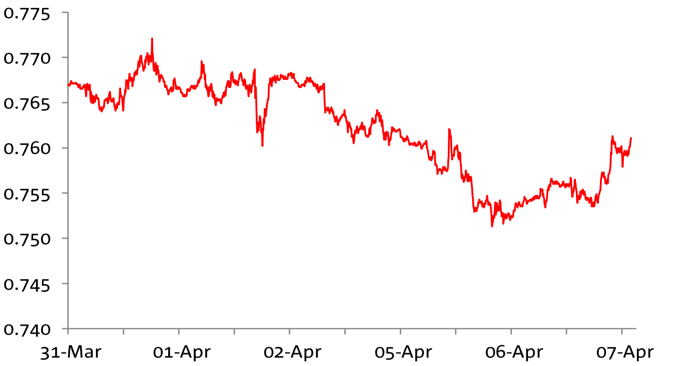
Source: National Australia Bank, Macrobond

Good luck,

Rodrigo

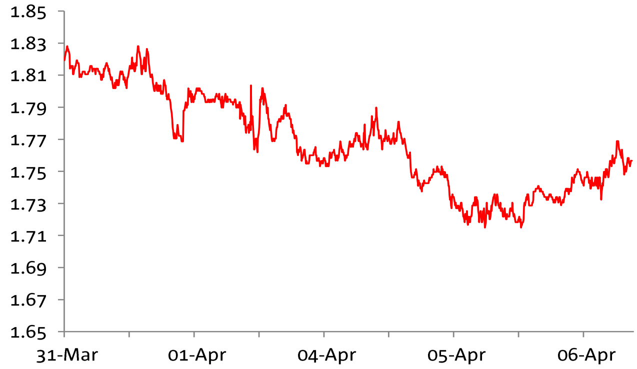
Markets

AUD/USD - past week



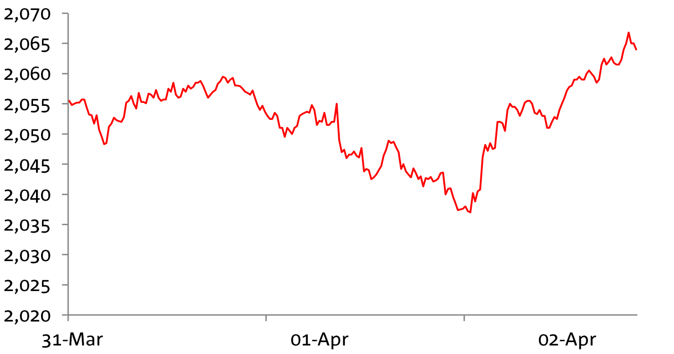
Source: Bloomberg.

US 10 yr - past week



Source: Bloomberg.

S&P Futures - past week



Source: Bloomberg.

WTI - past week

Source: Bloomberg.

Foreign Exchange

	Last	% chge	Indicative 24hr ranges (**) Low	High
AUD	0.7607	0.8	0.7533	0.7619
NZD	0.6830	0.4	0.6774	0.6844
EUR	1.1399	0.1	1.1327	1.1432
GBP	1.4125	-0.3	1.4006	1.4171
JPY	109.72	-0.6	109.3400	110.6400
CAD	1.3088	-0.4	1.3063	1.3187
AUD/EUR	0.6676	0.7		
AUD/JPY	83.49	0.3		
AUD/GBP	0.5387	1.1		
AUD/NZD	1.1133	0.4		
AUD/CNY	4.9072	0.6		

Other FX	Last	% chge
HKD	7.7573	0.0
CNY	6.4809	0.1
SGD	1.3467	-0.7
IDR	13,238	0.1
THB	35.23	-0.2
KRW	1,156	0.1
TWD	32.42	0.1
PHP	46.29	0.1
CHF	0.96	0.0
SEK	8.15	0.2

Equities

Major Indices	Last	% day	% y/y
Dow	17,719	+0.7	-0.9
S&P 500	2,067	+1.1	-0.7
Nasdaq	4,920	+1.6	0.1
VIX	14	-8.8	-4.6
FTSE	6,162	+1.2	-9.8
DAX	9,625	+0.6	-19.6
CAC 40	4,285	+0.1	-15.6
Nikkei	15,715	-0.1	-20.0
Shanghai	3,051	-0.1	-23.0
Hang Seng	20,207	+0.1	-20.1
ASX 200	4,946	+0.4	-16.5

Commodities*

	Last	% day
Oil (Brent)	39.72	4.9
Oil (WTI)	37.75	5.2
Oil (Tapis)	39.63	3.0
Gold	1223.60	-0.4
CRB	167.52	1.4
GS Metals	256.0	-0.5
Aluminium	1499	-0.3
Copper	4805	0.3
Nickel	8556	1.3
Zinc	1800	-0.3
Ch. steel	2186	0.1
Iron ore	54.8	-0.1
Coal	50.1	-0.3
Wheat Chic.	469.8	-2.3
Sugar	14.62	-0.1
Cotton	58.75	-0.3
Coffee	121.5	0.5

* clsd = market holiday

CO_2 Emissions - Euros

	Last	% day
Jun-2016	5.30	1.3
Dec-2016	5.31	1.3
Jun-2017	5.35	1.3

Interest Rates

Indicative Swap Rates	Cash	3mth	2Yr	10Yr
USD	0.50	0.63	0.86	1.63
AUD	2.00	2.27	2.09	2.60
NZD	2.25	2.34	2.18	2.93
EUR	0.00	0.06	-0.15	0.52
GBP	0.50	0.59	0.76	1.38
JPY	-0.01	0.00	-0.12	0.14
CAD	0.50	1.17	0.88	1.47

Benchmark 10 Year Bonds	Last	chge	Sprd
USD 10	1.76	0.04	
AUD 10	2.44	-0.02	0.68
NZD 10	2.85	-0.01	1.09
CAD 10	1.21	0.04	-0.55
EUR 10	0.12	0.02	-1.64
GBP 10	1.38	0.01	-0.38
JPY 10	-0.06	-0.01	-1.81

Overnight Futures

	Last	Chge
Australia		
3 mth bill	97.80	-0.01
3 Yr bond	98.14	-0.03
10 Yr bond	97.55	-0.02
3/10 sprd	0.59	-0.01
SPI	24.0	0.5

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	AEST
Thursday, 7 April 2016								
NZ	ANZ Truckometer Heavy MoM	Mar				1.6	22.00	8.00
AU	AiG Perf of Construction Index	Mar				46.1	23.30	9.30
US	Fed's Kaplan speaks in Dallas						0.00	10.00
JN	BoJ's Kuroda speaks at BoJ's branch manager's meeting						0.30	10.30
AU	Foreign Reserves, $Abn	Mar				61.2	6.30	16.30
EC	ECB and Its Watchers Conference						6.30	16.30
EC	ECB's Constancio speak at EU Parliament in Brussels						7.00	17.00
CH	Foreign Reserves	Mar		3196		3202.3	9.10	19.10
EC	ECB account of the monetary policy meeting						11.30	21.30
EC	ECB's Draghi attends meeting of Portuguese President's Council						14.00	
CA	Building Permits MoM	Feb		4		-9.8	12.30	22.30
US	Initial Jobless Claims	Apr 2		270		276.0	12.30	22.30
US	Bloomberg Consumer Comfort	Apr 3				42.8	13.45	23.45
US	Consumer Credit	Feb		14.9		10.5	19.00	5.00
Friday, 8 April 2016								
CH	Foreign Direct Investment YoY (for release 8-12 Apr)					1.8		
US	Fed's Yellen in New York, with Greenspan, Bernanke and Volcker						21.30	7.30
NZ	Crown accounts	Feb					22.00	8.00
US	Fed's George Speaks in York, Nebraska						0.15	10.15
UK	Industrial production MoM/YoY	Feb		0.1/0		0.3/0.2	8.30	18.30
UK	UK trade balance	Feb		-3400		-3459.0	8.30	18.30
CA	Employment/Unemployment rate	Mar		10/7.3		-2.3/7.3	12.30	22.30
US	Wholesale inventories/sales MoM	Feb		-0.2/0.2		0.3/-1.3	14.00	0.00
US	Fed's George Speaks in York, Nebraska						0.15	10.15
Monday, 11 April 2016								
JN	BoP Current Account/Trade Adjusted	Feb		1571.9		1492.4/-411.0	22.50	9.50
JN	Bankruptcies YoY	Mar				4.5	3.30	14.30
JN	Consumer Confidence Index	Mar		40.5		40.1	4.00	15.00
JN	Eco Watchers Survey Outlook	Mar		48.3		48.2	5.00	16.00
GE	Trade Balance	Feb		18		13.6	5.00	16.00
GE	Current Account Balance	Feb		16.5		13.2	5.00	16.00
UK	Industrial Production MoM	Feb		0.1		0.3	7.30	18.30
UK	Manufacturing Production MoM	Feb		-0.2		0.7	7.30	18.30
UK	Trade Balance	Feb		-3400		-3459.0	7.30	18.30
CA	Housing Starts	Mar		190		212.6	11.15	22.15
CA	Unemployment Rate	Mar		7.3		7.3	11.30	22.30
NZ	REINZ House Sales YoY	Mar				5.7		
CH	Foreign Direct Investment YoY CNY	Mar		2.4		1.8		
UK	NIESR GDP Estimate	Mar				0.3	13.00	0.00
US	Wholesale Inventories MoM	Feb		-0.2		0.3	13.00	0.00
CH	New Yuan Loans CNY	Mar		1130		726.6		
CH	Aggregate Financing CNY	Mar		1500		780.2		
CH	Money Supply M2 YoY	Mar		13.5		13.3		
Tuesday, 12 April 2016								
NZ	Card Spending Retail MoM	Mar				0.7	21.45	8.45
JN	Machine Orders MoM	Feb				15.0	22.50	9.50
AU	Home Loans MoM	Feb				-3.9	0.30	11.30
AU	Investment Lending	Feb				-1.6	0.30	11.30
AU	Owner-Occupier Loan Value MoM	Feb				-4.3	0.30	11.30
CH	CPI YoY	Mar		2.4		2.3	0.30	11.30
CH	PPI YoY	Mar		-4.6		-4.9	0.30	11.30
CA	Bloomberg Nanos Confidence	Apr 8				54.7	13.00	0.00
UK	BRC Sales Like-For-Like YoY	Mar				0.1	22.10	9.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Apr 10				113.4	22.30	9.30
JN	Bank Lending Incl Trusts YoY	Mar				2.2	22.50	9.50
AU	Credit Card Balances	Feb				50.9	0.30	11.30
AU	NAB Business Conditions	Mar				8.0	0.30	11.30
AU	NAB Business Confidence	Mar				3.0	0.30	11.30
JN	Machine Tool Orders YoY	Mar P				-22.5	5.00	16.00
GE	CPI MoM	Mar F				0.8	5.00	16.00
UK	CPI MoM	Mar				0.2	7.30	18.30
UK	Retail Price Index	Mar				260.0	7.30	18.30
UK	RPI MoM	Mar				0.5	7.30	18.30
UK	PPI Input NSA MoM	Mar				0.1	7.30	18.30
US	NFIB Small Business Optimism	Mar				92.9	9.00	20.00
US	Import Price Index MoM	Mar		1		-0.3	11.30	22.30
AU	CBA/HIA House Affordability	1Q				78.3		
US	Monthly Budget Statement	Mar		-88		-192.6	17.00	4.00
US	Fed's Williams Speaks in San Francisco							
Wednesday, 13 April 2016								
NZ	Food Prices MoM	Mar				-0.6	21.45	8.45
JN	Money Stock M2 YoY	Mar				3.1	22.50	9.50
JN	PPI MoM	Mar				-0.2	22.50	9.50
AU	Westpac Consumer Conf Index	Apr				99.1	23.30	10.30
EC	Industrial Production SA MoM	Feb				2.1	8.00	19.00
US	MBA Mortgage Applications	Apr 1				-1.0	10.00	21.00
US	Retail Sales Advance MoM	Mar		0.2		-0.1	11.30	22.30
CA	Teranet/National Bank HPI YoY	Mar				6.5	11.30	22.30
US	Retail Sales Ex Auto MoM	Mar		0.4		-0.1	11.30	22.30
US	PPI Final Demand MoM	Mar		0.2		-0.2	11.30	22.30
CH	Trade Balance	Mar		36.5		32.6		
CH	Exports YoY	Mar		9.3		-25.4		
CH	Imports YoY	Mar		-10		-13.8		
GE	Wholesale Price Index MoM	Mar				-0.5		
CA	Bank of Canada Rate Decision	Apr 13		0.5		0.5	13.00	0.00
US	U.S. Federal Reserve Releases Beige Book							
Thursday, 14 April 2016								
NZ	BusinessNZ Manufacturing PMI	Mar				56.0	21.30	8.30
UK	RICS House Price Balance	Mar				50.0	22.10	9.10
JN	Japan Buying Foreign Bonds	Apr 1				1164.1	22.50	9.50
JN	Japan Buying Foreign Stocks	Apr 1				-30.0	22.50	9.50
JN	Foreign Buying Japan Bonds	Apr 1				-1826.7	22.50	9.50
JN	Foreign Buying Japan Stocks	Apr 1				-358.5	22.50	9.50
AU	Consumer Inflation Expectation	Apr				3.4	0.00	11.00
AU	Labour Force Report (unemployment)	Mar				5.8	0.30	11.30
NZ	Non Resident Bond Holdings	Mar				68.3	2.00	13.00
JN	Tokyo Condominium Sales YoY	Mar				-13.9	3.00	14.00
EC	CPI MoM	Mar				0.2	8.00	19.00
UK	Bank of England Bank Rate	Apr 14		0.5		0.5	10.00	21.00
UK	BOE Asset Purchase Target	Apr				375.0	10.00	21.00
CA	New Housing Price Index MoM	Feb				0.1	11.30	22.30
US	Initial Jobless Claims	Apr 2		270		276.0	11.30	22.30
US	Continuing Claims	Mar 26		2170		2173.0	11.30	22.30
US	CPI MoM	Mar		0.2		-0.2	11.30	22.30
US	Real Avg Weekly Earnings YoY	Mar				0.6	11.30	22.30
US	Bloomberg Consumer Comfort	Apr 3				42.8	12.45	23.45
US	Fed's Powell Appears Before Senate Banking Committee							

Upcoming Central Bank Interest Rate Announcements					
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%
Australia, RBA	3-May	2.00%	2.00%		2.00%

GMT: Greenwich Mean Time; AEST: Australian Eastern Standard 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