

## Perhaps, perhaps, perhaps

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Ahead of a long weekend in the UK and the US, risk assets enjoyed a mildly positive Friday night session, the USD was stronger across the board and US Treasury yields ended the day higher along the curve.

In her much awaited Harvard University appearance, Fed Chair Yellen endorsed recent Fed rhetoric, noting that it would be “appropriate” for the Fed to raise the Funds rate if economic growth picked up as expected and the labour market continued to improve. US data releases were also risk supportive. Revision to the US Q1 GDP number came just under expectations (0.8% vs 0.9% exp), but encouragingly corporate profits showed signs of stabilizing and the final May reading of the University of Michigan consumer confidence index posted its highest level since Jan 2007 (94.7, up 5.7 from April).

The Euro Stoxx index ended 0.24% higher while in the US the S&P500 closed +0.43%, DJ climbed 0.25% and NASDAQ was +0.65%. Ahead of Yellen’s appearance oil prices drifted lower, but post Yellen they staged a mini rally, ending the day practically unchanged. WTI closed at \$49.4 and Brent at \$49.33. Other commodities had a mixed night; gold was -0.61% and iron ore gained 3.4% (ending the week at \$51.15).

Initially, Yellen sounded dovish noting that the US economy has been in a slow recovery while metrics suggest there is still slack in the labour market. Following these opening remarks, the USD was weaker across the board with the USD index (BBDXY) dropping 20 pips or so, however when she was specifically asked about the cash rate outlook, Yellen noted that a Fed rate hike in coming months ‘may be appropriate’ if the economy and labour market continue to strengthen. This comment triggered a USD rally across the board, USDJPY traded up to 110.45, EURUSD dropped to 1.1111 and the AUDUSD traded down to 0.7175. The USD ended the day stronger across the board and near to the upper end of its intraday ranges against most crosses.

Looking at the price action across markets over the past week, it’s probably fair to say that not much is different. Pricing expectations for Fed hikes for this year are little changed, a week ago the OIS market had 6bps of hikes priced for June and now the market is at 5.7bps. July is up a little at 15bps from 14bps, but December is a bit lower at 27bps compared to 29bps. The USD is also little changed with the BBDXY index up 0.3% for the week while ADXY is basically at the same level where it started.

In equities, while the Shanghai Composite and Nikkei were

little changed, European and US indices posted gains between 2% and 3% for the week. One could argue that the positive tone to US equities over the past week appears to be reflecting a growing perception that the US economy can cope with a gradual rise in the Fed’s funds rate.

So with a Fed still very much data dependent, this week will be important. Ahead of US May payrolls report on Friday, we also have ISM activity readings and April’s core PCE. Solid numbers could pave the way for Yellen’s speech next week Monday where she could put the market on notice for a 15 June rate hike or set the scene for a move in late July given the risk of moving ahead of the UK referendum.

Looking at other data news, Sunday’s CoreLogic RP Data shows that last weekend we had a substantial increase in auction activity across the combined capital cities, up 26% compared to the number of auctions in the previous week. Melbourne cleared a preliminary 70.8% of auctions (70% prev.) and Sydney cleared 75% up from 73.2% previously.

CFTC data for the w/e 24 May shows overall net USD speculative trading moved into a net long position for the first time in 7 weeks (+19.9k from -56.3k previously). The biggest change of the week came from a reduction in JPY longs (59.9k to 22k ). AUD longs were practically eliminated (24.9k to 0.1k) and shorts in EUR increased to 37.9k from -22.6k.

## Coming Up

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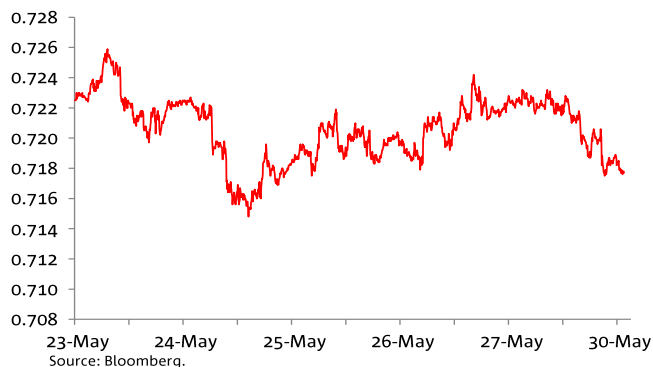
This morning in Australia we get Q1 inventory and company operating profit figures along with new home sales numbers for April. Japan retail sales (April) are also due this morning and Fed Bullard speaks in Seoul at 10:20 AEST. The OEDC releases its economic outlook and Canada gets Q1 current a/c figures and April industrial production. The UK is enjoying a bank holiday and the US is observing Memorial Day.

## Overnight

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On global stock markets, the S&P 500 was +0.41%. Bond markets saw US 10-years +2.28bp to 1.85%. In commodities, Brent crude oil -0.64% to \$49.46, gold -1.0% to \$1,212, iron ore +1.5% to \$51.15. AUD is at 0.7178 and the range since Friday 5pm Sydney time is 0.7175 to 0.7228.

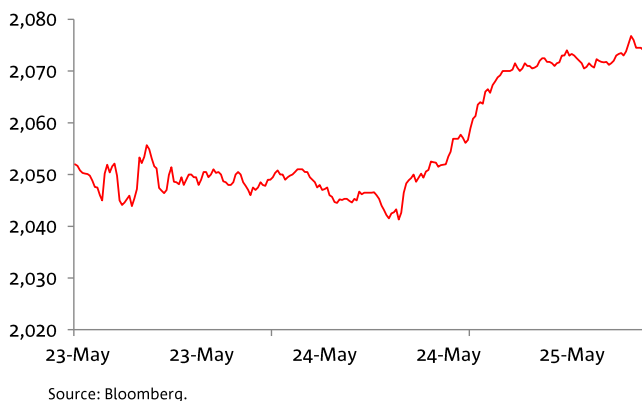
AUD/USD - past week



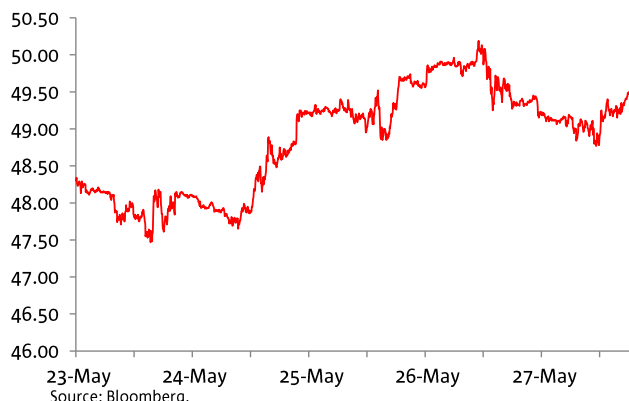
US 10 yr - past week



S&P Futures - past week



WTI - past week



Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7177	-0.7	0.7172	0.7235	HKD	7.7662 0.0
NZD	0.6691	-0.7	0.6687	0.6759	CNY	6.5655 0.1
EUR	1.1115	-0.7	1.1111	1.1201	SGD	1.3805 0.5
GBP	1.4610	-0.4	1.4605	1.4689	IDR	13,587 -0.4
JPY	110.42	0.6	109.48	110.48	THB	35.72 0.3
CAD	1.3026	0.4	1.2969	1.3068	KRW	1,179 -0.3
AUD/EUR	0.6466	0.2	0.6449	0.6471	TWD	32.53 -0.3
AUD/JPY	79.28	0.0	78.90	79.49	PHP	46.66 -0.3
AUD/GBP	0.4914	0.3	0.4907	0.4937	CHF	0.99 0.5
AUD/NZD	1.0727	0.4	1.0696	1.0743	SEK	8.35 0.8
AUD/CNH	4.7263	0.3	4.7164	4.7483		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.50	0.67	1.06	1.71	USD 10	1.85	-1.54
AUD	1.75	1.97	1.82	2.40	AUD 10	2.26	-5.20 0.41
NZD	2.25	2.40	2.26	2.87	NZD 10	2.57	-12.10 0.72
EUR	0.00	-0.26	-0.16	0.54	CAD 10	1.35	-3.50 -0.50
GBP	0.50	0.59	0.84	1.48	EUR 10	0.14	-1.40 -1.71
JPY	-0.05	-0.02	-0.13	0.08	GBP 10	1.44	-2.00 -0.42
CAD	0.50	0.91	1.01	1.60	JPY 10	-0.11	-3.00 -1.96

Equities

Major Indices	Last	% day	% y/y
	Dow	17,873	0.1
S&P 500	2,099	0.4	-0.4
Nasdaq	4,934	0.8	-2.7
VIX	13	-5.6	-5.2
FTSE	6,271	0.1	-10.2
DAX	10,286	0.8	-9.9
CAC 40	4,515	0.7	-9.8
Nikkei	16,835	0.5	-18.1
Shanghai	2,821	0.2	-38.8
Hang Seng	20,577	1.0	-25.0
ASX 200	5,406	0.6	-6.4

Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.02	-1.00
3 Yr bond	97.8	-1.00
10 Yr bond	97.72	-3.50
3/10 sprd	0.08	2.50
SPI	5433.0	-66.0

\*Change in bps

Commodities\*

	Last	% day
Oil (Brent)	49.46	-0.6
Oil (WTI)	49.56	-0.4
Oil (Tapis)	50.09	0.0
Gold	1212.40	-1.0
CRB	186.14	0.5
GS Metals	257.7	1.3
Aluminium	1547.0	0.4
Copper	4699.5	0.9
Nickel	8387.0	-2.9
Zinc	1897.0	3.3
Ch. steel	2034.0	6.2
Iron ore	51.2	1.5
Coal	51.4	0.6
Wheat Chic.	490.8	2.8
Sugar	17.6	2.6
Cotton	64.4	2.5
Coffee	121.4	-0.1

CO<sub>2</sub> Emissions - Euros

	Last	% day
Jun-2016	5.78	Clsd
Dec-2016	6.06	3.2
Jun-2017	6.06	0.2

\* clsd = market holiday

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
<b>Monday, 30 May 2016</b>								
US Memorial Day holiday; UK Spring Bank holiday								
JN	Retail Sales MoM/YoY	Apr		-0.6/-1.2		1.4/-1.1	23.50	9.50
US	Fed's Bullard Speaks in Seoul						0.20	10.20
AU	HIA New Home Sales MoM	Apr				8.9	1.00	11.00
AU	Inventories SA QoQ	1Q	0.1	0		-0.4	1.30	11.30
AU	Company Operating Profit QoQ	1Q	2.5	0.4		-2.8	1.30	11.30
EC	Business Climate Indicator	May		0.17		0.1	9.00	19.00
EC	OECD Economic Outlook						9.00	19.00
EC	Consumer Confidence	May F		-7		-7.0	9.00	19.00
GE	CPI MoM/YoY	May P		0.3/0.1		-0.4/-0.1	12.00	22.00
CA	Current Account Balance	1Q		-16.8		-15.4	12.30	22.30
CA	Industrial Product/ Raw Material Prices MoM	Apr		0.35		-0.6/4.5	12.30	22.30
<b>Tuesday, 31 May 2016</b>								
NZ	Building Permits MoM	Apr				-9.8	22.45	8.45
UK	Lloyds Business Barometer	May				38.0	23.10	9.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May 29				115.7	23.30	9.30
JN	Jobless Rate	Apr		3.2		3.2	23.30	9.30
JN	Overall Household Spending YoY	Apr		-1.1		-5.3	23.30	9.30
JN	Industrial Production MoM/YoY	Apr P		-1.5/-5.1		3.8/0.2	23.50	9.50
NZ	ANZ Business Confidence	May				6.2	1.00	11.00
AU	Net Exports of GDP/Current Account balance	1Q	0.8/19.6	0.7/-19		0.0/-21.0	1.30	11.30
AU	Government spending, real	1Q	0.0			1.3	1.30	11.30
AU	Building Approvals MoM/YoY	Apr	-4/-7.2	-3/-6.7		3.7/-6.5	1.30	11.30
AU	Private Sector Credit MoM/YoY	Apr	0.5/6.9	0.5/6.6		0.4/6.4	1.30	11.30
NZ	Credit aggregates (household) YoY	Apr				7.7	3.00	13.00
JN	Small Business Confidence	May		47.5		47.8	5.00	15.00
GE	Unemployment Change (000's)	May		-5		-16.0	7.55	17.55
EC	Unemployment Rate	Apr		10.2		10.2	9.00	19.00
EC	CPI Core YoY	May A		0.8		0.7	9.00	19.00
US	Personal Income/Spending	Apr		0.4/0.7		0.4/0.1	12.30	22.30
US	PCE Deflator MoM/YoY	Apr		0.3/1.1		0.1/0.8	12.30	22.30
US	PCE Core MoM/YoY	Apr		0.2/1.6		0.1/1.6	12.30	22.30
CA	Quarterly GDP Annualized	1Q		2.8		0.8	12.30	22.30
CA	GDP MoM/YoY	Mar		-0.1/1.4		-0.1/1.5	12.30	22.30
US	S&P/CS 20 City MoM/YoY SA	Mar		0.7/5.11		0.7/5.4	13.00	23.00
US	Chicago Purchasing Manager	May		50.5		50.4	13.45	23.45
US	Consumer Confidence Index	May		96.25		94.2	14.00	0.00
US	Dallas Fed Manf. Activity	May		-8		-13.9	14.30	0.30
<b>Wednesday, 1 June 2016</b>								
NZ	Terms of Trade Index QoQ	1Q	0	1		-2.0	22.45	8.45
UK	BRC Shop Price Index YoY	May				-1.7	23.10	9.10
AU	AiG Perf of Mfg Index	May				53.4	23.30	9.30
JN	Capital Spending/Compnay profits YoY	1Q		1.9		8.5/-1.7	23.50	9.50
AU	CoreLogic RP Data House Px MoM	May				1.7	0.00	10.00
NZ	QV House Prices YoY	May				12.0	0.00	10.00
CH	Manufacturing PMI	May		50		50.1	1.00	11.00
CH	Non-manufacturing PMI	May				53.5	1.00	11.00
AU	GDP SA Qo/YoY	1Q	0.8/2.8	0.6/2.7		0.6/3.0	1.30	11.30
AU	NAB Online Retail Sales Index MoM/YoY	Apr				1.8/12.4	1.30	11.30
CH	Caixin China PMI Mfg	May		49.2		49.4	1.45	11.45
JN	Nikkei Japan PMI Mfg	May F				47.6	2.00	12.00
AU	Commodity Index AUD/YoY	May		/		87.0/-9.4	6.30	16.30
GE	Markit/BME Germany Manufacturing PMI	May F		52.4		52.4	7.55	17.55
EC	Markit Eurozone Manufacturing PMI	May F		51.5		51.5	8.00	18.00
UK	Mortgage Approvals	Apr		67.9		71.4	8.30	18.30
UK	Markit UK PMI Manufacturing SA	May		49.6		49.2	8.30	18.30
CA	RBC Canadian Manufacturing PMI	May				52.2	13.30	23.30
US	Markit US Manufacturing PMI	May F		50.5		50.5	13.45	23.45
US	ISM Manufacturing	May		50.4		50.8	14.00	0.00
US	Construction Spending MoM	Apr		0.6		0.3	14.00	0.00
NZ	Dairy auction, GDT weighted price index					2.6	early am	NZT time
US	U.S. Federal Reserve Releases Beige Book						18.00	4.00
<b>Thursday, 2 June 2016</b>								
AU	Trade Balance	Apr	-2694	-2100		-2163.0	1.30	11.30
AU	Retail Sales MoM	Apr	0.2	0.3		0.4	1.30	11.30
JN	Consumer Confidence Index	May		40.3		40.8	5.00	15.00
UK	Markit/CIPS UK Construction PMI	May		52		52.0	8.30	18.30
US	Challenger Job Cuts YoY	May				5.8	11.30	21.30
EC	ECB Main Refinancing Rate	Jun 2		0		0.0	11.45	21.45
EC	ECB Deposit Facility Rate/marginal Lending Facility rate	Jun 2		-0.4/0.25		-0.4/0.3	11.45	21.45
US	ADP Employment Change	May		175		156.0	12.15	22.15
US	Initial Jobless Claims	May 28		270		268.0	12.30	22.30
US	Fed Governor Powell discusses Prudential Regulation						12.35	22.35
US	ISM New York	May				57.0	13.45	23.45
US	Fed's Kaplan speaks on the economy in Boston						17.00	3.00
<b>Friday, 3 June 2016</b>								
NZ	Crown accounts	Apr					22.00	8.00
NZ	Value of All Buildings SA QoQ	1Q		1		2.5	22.45	8.45
AU	AiG Perf of Services Index	May				49.7	23.30	9.30
JN	Labor Cash Earnings YoY	Apr		0.8		1.4	0.00	10.00
NZ	ANZ Commodity Price	May				-0.8	1.00	11.00
CH	Caixin China PMI Services/Composite	May		/		51.8/50.8	1.45	11.45
JN	Nikkei Japan PMI Services/Composite	May		/		49.3/48.9	2.00	12.00
UK	Fed's Evans Speaks on Economy and Policy in London						7.45	17.45
GE	Markit Germany Services/Composite PMI	May F		55.2/54.7		55.2/54.7	7.55	17.55
EC	Markit Eurozone Services/Composite PMI	May F		53.1/52.9		53.1/52.9	8.00	18.00
UK	Markit/CIPS UK Services/Composite PMI	May		52.5/52.3		52.3/51.9	8.30	18.30
EC	Retail Sales MoM/YoY	Apr		0.4/2.1		-0.5/2.1	9.00	19.00
US	Change in Nonfarm Payrolls/Unemployment rate	May		160/4.9		160.0/5.0	12.30	22.30
US	Average Hourly Earnings MoM/YoY	May		0.2/2.5		0.3/2.5	12.30	22.30
US	Trade Balance	Apr		-41		-40.4	12.30	22.30
CA	Labor Productivity QoQ	1Q		0.35		0.1	12.30	22.30
CA	Int'l Merchandise Trade	Apr		-2.5		-3.4	12.30	22.30
US	Markit US Services/Composite PMI	May F		51.4/		51.2/50.8	13.45	23.45
US	ISM Non-Manf. Composite	May		55.4		55.7	14.00	0.00
US	Factory Orders MoM/YoY	Apr		1.8/		1.1/0.8	14.00	0.00
US	Fed's Brainard Speaks on Economic Outlook and Monetary Policy						16.30	2.30
US	Fed's Mester Speaks at on Macro and Financial Stability						7.00	17.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Europe	ECB	2-Jun				0.00%		
Australia	RBA	7-Jun	1.75%	1.75%		2.00%		
New Zealand	RBNZ	9-Jun		2.00%		2.25%		
US	Federal Reserve	15-Jun	0.25-0.50%	0.5%-0.75%		0.25-0.50%		
Japan	BoJ	16-Jun		-0.1% to +0.1%		-0.1% to +0.1%		
UK	BOE	16-Jun		0.50%		0.50%		
Canada	BoC	14-Jul				0.50%		

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

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