2 June 2016

Markets Today

National Australia Bank

Keep the dream alive

The AUD had a big knee-jerk bounce after the stronger-then-expected GDP but the rally ran out of steam as the pair approached 0.73 then was stunted further after the AFR's RBA-watcher Alan Mitchell's wrote an on line piece suggesting that despite the strong growth, a rate cut would still likely be warranted. And that trading yesterday set the tone for the AUD overnight, and despite what's been a pretty languid USD that's been edging a little lower in the overnight session. Commodity prices did not do a whole lot: oil has been a touch stronger into the OPEC meeting tonight, while base metals were mixed, copper down but nickel up. Spot iron ore has been the standout, giving back $1.75/t to $48.40, down 3.49%.

The final May Eurozone Manufacturing PMIs were left unrevised at 51.5, while the US Manufacturing ISM headline popped a little higher to 51.3 from 50.8 (50.3 was forecast). That's one more hurdle crossed toward the Fed's June/July meetings, though any mild enthusiasm from that report was dented by a weaker-than-expected construction spending report for April and the Atlanta Fed shaving its *GDPNow* estimate for US Q2 GDP back to 2.5% from 2.9%, including from some of the detail of the ISM report. The market continued to price in a still well below 50% probability of a hike at the June 15 FOMC (now 22%) and an over than 50% chance of a hike in July (now 53%). US 2-year Treasury yields have closed 2 bps higher at 0.899%; 10s were virtually unchanged with US equities closing marginally higher.

The Fed's Beige Book was also released earlier this morning and did not reveal too much more that would sway the growth and inflation readings on the US. If anything it was a touch softer. The 12 Districts variously outlined a mixed growth performance across the US of mostly "modest" or "moderate" growth (if someone can explain that nuance I'd be happy to listen), though a few Districts reported flat or slowing activity. Tight labour markets were widely reported with modest wages growth and price pressures growing slightly.

The overnight global dairy auction rose 3.4%, supporting the NZD that outperformed the AUD yesterday despite a better AU GDP print. Sterling has been on the defensive, tinged with Brexit uncertainty while the JPY strengthened after PM Abe officially postponed the sales tax rise until 2019.

Coming up

After GDP, the market now looks to today's retail sales and international trade reports, NAB looking for lower growth in retail sales (0.2% after 0.4% in March) and the trade deficit to push up toward $2,700mn from $2,100mn in March. Our suspicion is that a further bout of discounting may have taken the edge off nominal sales growth, as would some further softness out of WA. As for the trade figures, gold exports are extremely volatile from month to month and were strong last month and due for payback. We also look for softer coal exports and a monthly dip in iron ore shipment volumes. In summary, it's mostly monthly noise rather than any new trend. LNG shipment volumes will be trending higher, much higher, this year and next.

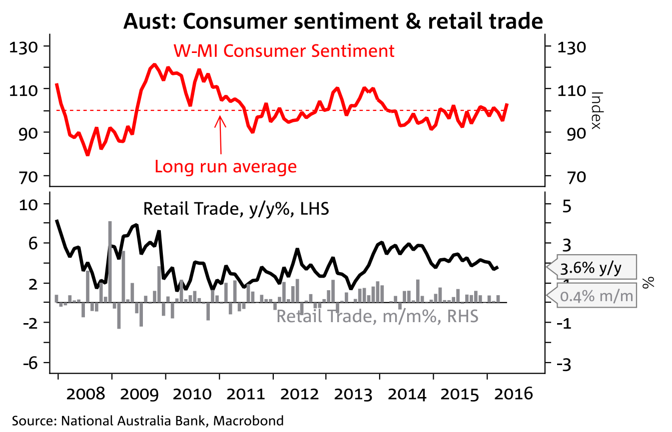
Tonight is the June ECB meeting, OPEC is also meeting, presumably to review and give their tick of approval so far to their market share defence strategy even though there were wire reports overnight of an output ceiling. The ECB will be reviewing the OK growth performance and policy progress with its enhanced monetary accommodation announced and now being rolled out. As far as data is concerned there's the pre-payrolls ADP employment report that the market usually takes with the grain of salt. Much more focus on the weekly US jobless claims. Dallas Fed President Kaplan (non-voter) is speaking in Boston on the economy while Fed Governor Powell is speaking on prudential regulation though there's always the potential there for more economy/ rates grabs for the newswires.

Overnight

On global stock markets, the S&P 500 was +0.11%. Bond markets saw US 10-years -0.34bp to 1.84%. In commodities, Brent crude oil +0.00% to $49.89, gold-0.2% to $1,215, iron ore -3.5% to $48.40. AUD is at 0.7257 and the range since yesterday 5pm Sydney time is 0.7229 to 0.7273.

Good luck.

Chart of the day: Retail sales growing, not accelerating

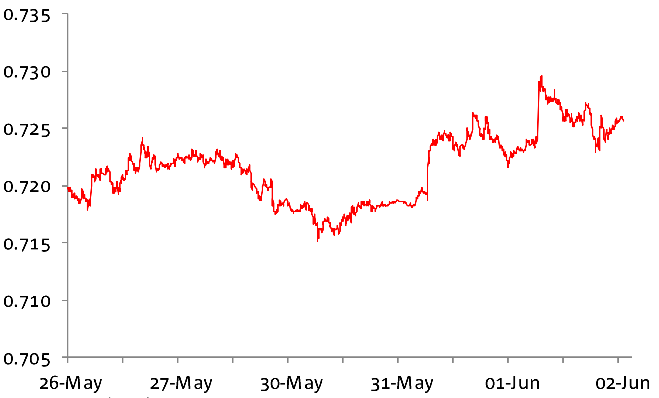


Source: National Australia Bank, Macrobond

Author:
David de Garis, Senior Economist

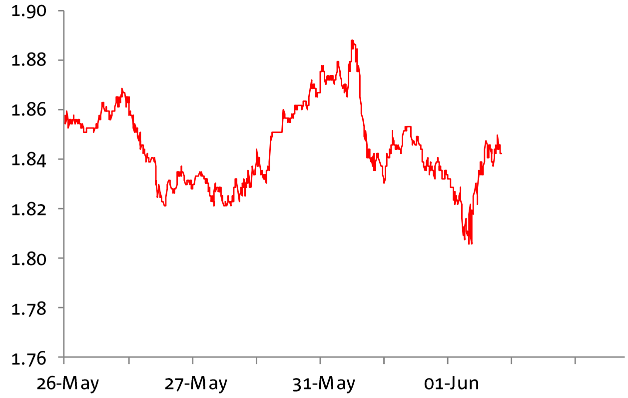
Markets

AUD/USD - past week



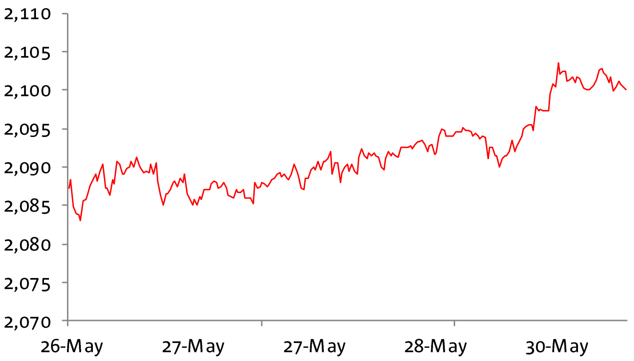
Source: Bloomberg.

US 10 yr - past week



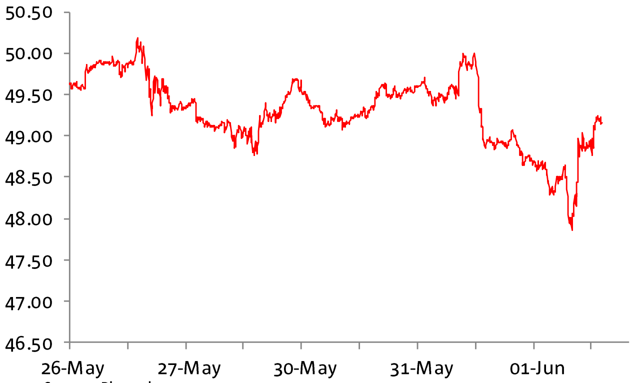
Source: Bloomberg.

S&P Futures - past week



Source: Bloomberg.

WTI - past week



Source: Bloomberg.

Foreign Exchange

			Indicative 24hr ranges (**)	
	Last	% chge	Low	High
AUD	0.7257	0.3	0.7227	0.7299
NZD	0.6819	1.3	0.6789	0.6830
EUR	1.1190	0.3	1.1147	1.1196
GBP	1.4412	-1.4	1.4386	1.4456
JPY	109.57	-1.4	109.05	109.71
CAD	1.3072	0.2	1.3043	1.3124
AUD/EUR	0.6485	-0.2	0.6473	0.6514
AUD/JPY	79.52	-1.2	79.03	79.56
AUD/GBP	0.5035	1.6	0.5012	0.5044
AUD/NZD	1.0641	-1.1	1.0626	1.0673
AUD/CNH	4.7717	0.1	4.7623	4.7921

Other FX	Last	% chge
HKD	7.7713	0.0
CNY	6.5754	-0.1
SGD	1.3774	-0.1
IDR	13,660	0.2
THB	35.70	0.0
KRW	1,192	0.2
TWD	32.60	0.0
PHP	46.62	-0.3
CHF	0.99	-0.2
SEK	8.30	-0.5

Equities

Major Indices	Last	% day	% y/y
Dow	17,790	0.0	-1.4
S&P 500	2,099	0.1	-0.6
Nasdaq	4,952	0.1	-2.6
VIX	14	0.1	1.7
FTSE	6,192	-0.6	-11.0
DAX	10,204	-0.6	-10.8
CAC 40	4,475	-0.7	-10.9
Nikkei	16,956	-1.6	-17.5
Shanghai	2,914	-0.1	-40.7
Hang Seng	20,761	-0.3	-24.4
ASX 200	5,323	-1.0	-5.6

Commodities*

	Last	% day
Oil (Brent)	49.89	0.0
Oil (WTI)	49.16	0.1
Oil (Tapis)	49.72	-1.6
Gold	1215.10	-0.2
CRB	186.82	0.4
GS Metals	257.8	0.2
Aluminium	1559.5	0.9
Copper	4625.0	-1.2
Nickel	8439.8	0.5
Zinc	1968.3	2.5
Ch. steel	1949.0	-2.5
Iron ore	48.4	-3.5
Coal	53.3	-0.2
Wheat Chic.	485.0	2.0
Sugar	17.4	-0.5
Cotton	63.2	-1.2
Coffee	121.9	0.3

Interest Rates

Indicative Swap Rates	Cash	3mth	2Yr	10Yr
USD	0.50	0.69	1.05	1.71
AUD	1.75	1.99	1.85	2.44
NZD	2.25	2.43	2.30	2.94
EUR	0.00	-0.26	-0.16	0.55
GBP	0.50	0.59	0.81	1.44
JPY	-0.05	-0.02	-0.13	0.08
CAD	0.50	0.91	0.97	1.57

Benchmark 10 Year Bonds	Last	chge	Sprd
USD 10	1.84	-0.34	
AUD 10	2.29	-1.10	0.45
NZD 10	2.63	2.50	0.79
CAD 10	1.31	-1.20	-0.54
EUR 10	0.14	-0.30	-1.71
GBP 10	1.37	-5.60	-0.47
JPY 10	-0.11	-0.70	-1.95

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.00	1.00
3 Yr bond	97.8	-3.00
10 Yr bond	97.72	1.50
3/10 sprd	0.08	-4.50
SPI	5332.0	50.0

*Change in bps

CO_2 Emissions - Euros

	Last	% day
Jun-2016	5.96	Clsd
Dec-2016	5.96	-2.3
Jun-2017	6.00	-2.1

* 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
Thursday, 2 June 2016								
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	BoJ's Sato speaks in Kushiro						1.30	11.30
JN	Consumer Confidence Index	May		40.1		40.8	5.00	15.00
EC	OPEC meeting, Vienna							
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		174		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
UK	ECB's Carney speaks to unveiling a new UK Five-pound note						13.00	23.00
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
Friday, 3 June 2016								
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		0.9		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		0.4		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		55.3		55.7	14.00	0.00
US	Factory Orders MoM/YoY	Apr		1.9/		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
Monday, 6 June 2016								
AU	Melbourne Institute Inflation MoM/YoY	May				0.1/1.5	1.00	11.00
AU	ANZ Job Advertisements MoM	May				-0.8	1.30	11.30
GE	Factory Orders MoM/YoY	Apr				1.9/1.7	6.00	16.00
us	Fed's Rosengran Gives Keynote at Helsinki Central Banking Conf						6.00	16.00
GE	Markit Germany Construction PMI	May				53.4	7.30	17.30
EC	Sentix Investor Confidence	Jun				6.2	8.30	18.30
CA	Bloomberg Nanos Confidence	Jun 3				57.5	14.00	0.00
US	Labor Market Conditions Index Change	May				-0.9	14.00	0.00
US	Fed Chair Yellen to Speak in Philadelphia						16.30	2.30
Tuesday, 7 June 2016								
NZ	ANZ Truckometer Heavy MoM	May				-2.4	22.00	8.00
UK	BRC Sales Like-For-Like YoY	May				-0.9	23.10	9.10
AU	AiG Perf of Construction Index	May				50.8	23.30	9.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jun 5				113.2	23.30	9.30
CH	Foreign Reserves	May		3200		3219.0	2.45	12.45
AU	RBA Cash Rate Target	Jun 7		1.75		1.8	4.30	14.30
JN	Leading Index CI	Apr P				99.3	5.00	15.00
GE	Industrial Production SA MoM/YoY	Apr				-1.3/0.3	6.00	16.00
EC	GDP SA QoQ/YoY	1Q F				0.5/1.5	9.00	19.00
US	Nonfarm Productivity	1Q F		-0.6		-1.0	12.30	22.30
US	Unit Labor Costs	1Q F		4		4.1	12.30	22.30
CA	Ivey Purchasing Managers Index SA	May				53.1	14.00	0.00
US	IBD/TIPP Economic Optimism	Jun				0.0	14.00	0.00
US	Consumer Credit	Apr		19		29.7	19.00	5.00
Wednesday, 8 June 2016								
NZ	Mfg Activity SA QoQ	1Q				-1.9	22.45	8.45
JN	BoP Current Account Adjusted	Apr				1893.6	23.50	9.50
JN	GDP SA QoQ	1Q F				0.4	23.50	9.50
JN	GDP Annualized SA QoQ	1Q F				1.7	23.50	9.50
AU	Home Loans MoM	Apr				-0.9	1.30	11.30
AU	Investment Lending	Apr				1.5	1.30	11.30
CH	Trade Balance	May		51		45.6	2.00	12.00
CH	Exports/Imports YoY	May		-4.2		-1.8/-10.9	2.00	12.00
CH	Foreign Direct Investment YoY CNY	May				6.0	8-12 June release	
JN	Bankruptcies YoY	May				-7.1	4.30	14.30
UK	Industrial Production MoM/YoY	Apr				0.3/-0.2	8.30	18.30
CA	Housing Starts	May				191.5	12.15	22.15
CA	Building Permits MoM	Apr				-7.0	12.30	22.30
UK	NIESR GDP Estimate	May				0.3	14.00	0.00
US	JOLTS Job Openings	Apr				5757.0	14.00	0.00

Upcoming Central Bank Interest Rate Announcements				
Europe ECB	2-Jun			0.00%
Australia, RBA	7-Jun	1.75%	1.75%	2.00%
New Zealand, RBNZ	9-Jun	2.00%	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

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

Tapas Strickland
Economist
+61 2 9237 1980
tapas.strickland@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