

MARKETS TODAY

Fed balance sheet in focus



Good Morning

It was a busy overnight session packed full of data that led to some intraday moves. ADP payrolls (better than expected) and the Non-manufacturing ISM (worse than expected) gave contrasting reads on the labour market, while the FOMC Minutes confirmed that a change to the reinvestment policy was likely later this year. Equities initially rose then fell along with US Treasury yields, while the US dollar was broadly unchanged.

On the FOMC Minutes, the US Treasury market focused in on the balance sheet comments with yields down 2.5 bps to 2.34%. The Fed said it was considering ending or slowing reinvestment of Treasuries and mortgages 'later this year' and there was no suggestion of actively selling assets. These comments were seemingly interpreted as implying less need for Fed rate hikes given a phasing down of the reinvestment policy could act as a defacto tightening, while the path of tightening could also be delayed as the Fed would want to assess the impact of the phasing down on the market (also conveyed by the Fed's Dudley last week).

For your scribe, comments on the uncertainty over the inflation outlook are also worth noting. "Several" participants noted inflation had not picked up despite a strengthening in the labour market, while "Other[s]" were concerned that if the labour market ran above its full-employment level then it "posed a significant upside risk to inflation". How these camps interpret the improving labour market will thus be key for rates. The OIS market currently prices a 55% chance of a June hike, while 1.4 rate hikes are priced in for the rest of this year.

ADP Payrolls again shot the lights out, up 264k against expectations of a 185k rise. The correlation with Friday's official Non-farm Payrolls has improved over the past year (see Chart) and is suggestive of upside risk. One caveat to this is a snowstorm in the northeast of the US in the week that payrolls were surveyed, so it is possible official payrolls are affected. The Atlanta Fed's jobs calculator suggests it only takes 120k payrolls a month to keep the unemployment rate steady and anything north of this will still be viewed positively by the Fed.

The Non-manufacturing ISM disappointed falling to 55.2, below the consensus of a rise to 57.0. Under the hood, the employment sub-index was weak and registered a seven-month low of 51.6. At first glance that could be suggestive of payrolls growth slowing in the coming months. However, seasonal adjustment issues around Easter could have impacted. The commentary was also less positive with some noting gridlock in Washington over healthcare reform. Speaker of the House Paul Ryan seemingly reinforced this point overnight stating tax reform could take longer than health (which isn't resolved yet).

In FX, the UK Pound was the clear outperformer up 0.4% to 1.2481 and within a hairs breadth of punching

through 1.25. A better than expected Services PMI contributed with the PMI rising to 55 against expectations of 53.4. The US dollar was broadly unchanged overnight, while the Euro fell (-0.1%), and the Aussie rose (+0.1%).

Comments by ECB governing council member Weidmann are worth noting ahead of today's ECB Minutes even if they did not have a lasting impact on markets (German Bund yields ended the day up 0.1 bps to 0.26%). Weidmann advocated for tapering in the next year "not have the foot pressed down on the gas pedal, but to lift it slightly" and a full stop to purchases within a year.

Equity markets were lower on the day, with the S&P500 down 0.3% on the day (Eurostoxx also down by 0.3%). The price of Australia's key commodities rose overnight, coking coal futures climbed 9.8% and hit \$236 a tonne – well up on the \$150 a tonne level it had been a few weeks early. Spot iron ore also rose 2.6% to \$81.5 a tonne.

Coming Up

A busy day ahead on the international calendar with the ECB Minutes (9.30pm AEST), a number of central bank speakers (including Draghi), and the much hyped first meeting of President Xi and Trump.

Domestically, it is very quiet with only one item on the agenda being a speech by the RBA Deputy Governor Debelle (8.40am AEST) on 'Recent Trends in Australian Capital Flows'. It will be interesting to see what Martin Place thinks of Australia's narrowing current account deficit and whether this has any implications for the currency or longer-term interest rates.

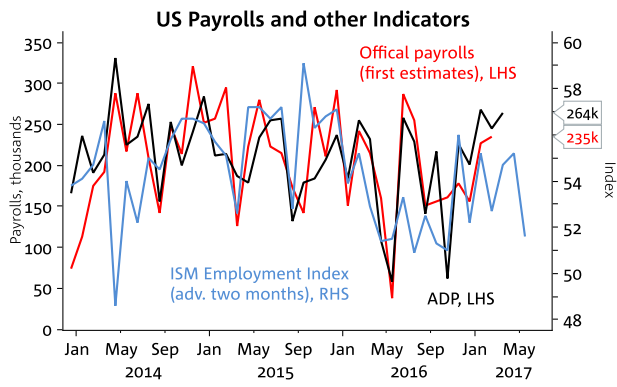
The ECB Minutes will be closely watched for any discussion of tapering or of increasing the deposit rate. Weidmann overnight advocated for tapering and then a full stop to purchases within a year.

On the President Xi-Trump meeting, it is uncertain what outcomes will result. Geopolitically, it is encouraging they are meeting in the first place and if Trump's weekend FT interview is to go by it could be more conciliatory than Trump's recent rhetoric: "I would not at all be surprised if we did something that would be very dramatic and good for both countries and I hope so." and "I don't want to talk about tariffs yet, perhaps the next time we meet." North Korea is likely to get a mention – especially after yesterday's missile test.

Overnight

On global stock markets, the S&P 500 was -0.31%. Bond markets saw US 10-years -2.86bp to 2.34%. In commodities, Brent crude oil -0.20% to \$54.06, gold-0.8% to \$1,245, iron ore +2.6% to \$81.54, steam coal -0.3% to \$89.45, met.coal +9.8% to \$236.00. AUD is at 0.7569 and the range since yesterday 5pm Sydney time is 0.7558 to 0.7586.

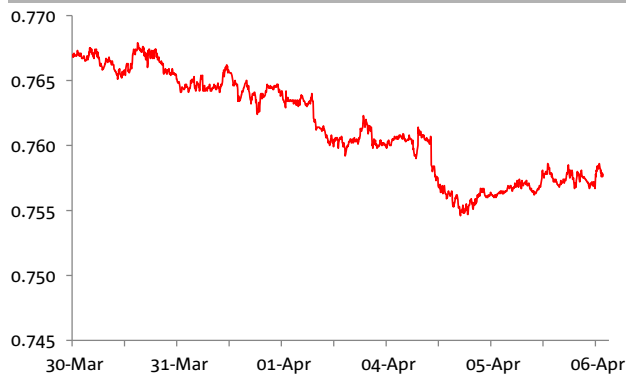
Chart 1: Payrolls – near term upside, but ISM weakening



Source: National Australia Bank, Bloomberg

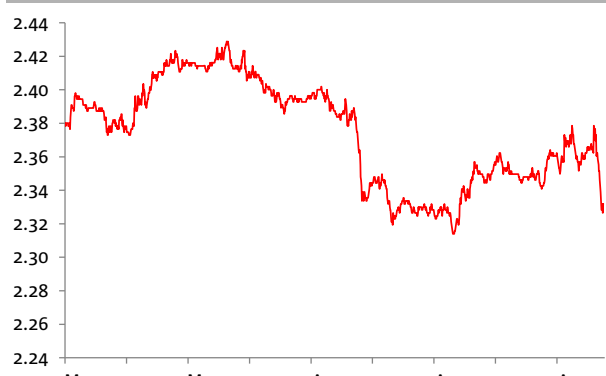
Markets

AUD/USD - past week



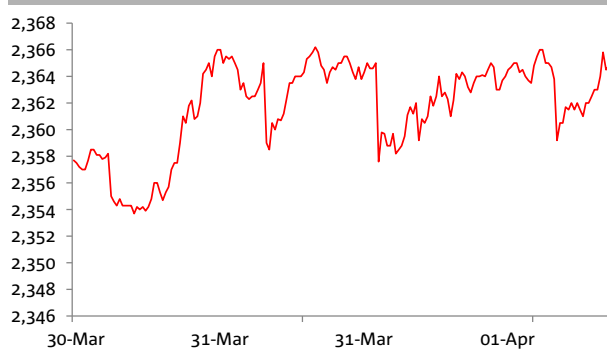
Source: Bloomberg.

US 10yr - past week



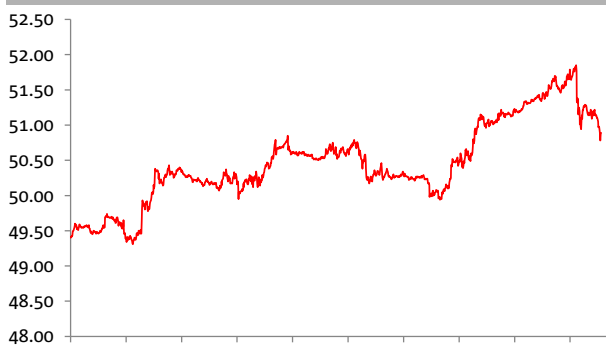
Source: Bloomberg.

S&P Future - past week



Source: Bloomberg.

WTI - past week



Source: Bloomberg.

Foreign Exchange

	Indicative 24hr ranges (**)				Other FX		
	Last	% chge	Low	High	Last	% chge	
AUD	0.7569	0.1	0.7560	0.7587	HKD	7.7689	0.0
NZD	0.6964	-0.1	0.6941	0.6984	CNY	6.8948	0.1
EUR	1.0665	-0.1	1.0635	1.0689	SGD	1.4011	0.2
GBP	1.2480	0.3	1.2423	1.2498	IDR	13,320	-0.1
JPY	110.70	0.0	110.54	111.45	THB	34.54	0.2
CAD	1.3436	0.3	1.3379	1.3440	KRW	1,124	0.2
AUD/EUR	0.7097	0.1	0.7082	0.7119	TWD	30.40	-0.3
AUD/JPY	83.79	0.0	83.58	84.42	PHP	50.17	0.0
AUD/GBP	0.6065	-0.3	0.6056	0.6100	CHF	1.00	0.3
AUD/NZD	1.0869	0.2	1.0841	1.0900	SEK	8.99	-0.2
AUD/CNH	5.2228	0.3	5.1982	5.2222			

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.00	1.15	1.57	2.31	USD 10	2.34	-2.51
AUD	1.50	1.79	1.88	2.86	AUD 10	2.61	0.00
NZD	1.75	2.00	2.28	3.35	NZD 10	3.09	0.50
EUR	0.00	-0.33	-0.15	0.73	CAD 10	1.56	-2.30
GBP	0.25	0.34	0.58	1.15	EUR 10	0.26	0.10
JPY	-0.04	0.04	0.05	0.25	GBP 10	1.09	2.50
CAD	0.50	0.94	1.10	1.85	JPY 10	0.07	0.00

Equities

Major Indices			
	Last	% day	% y/y
Dow	20,648	-0.20	17.3
S&P 500	2,353	-0.31	15.0
Nasdaq	5,864	-0.58	21.1
VIX	13	9.16	-16.5
FTSE	7,332	0.1	20.4
DAX	12,218	-0.5	27.8
CAC 40	5,092	-0.2	19.8
Nikkei	18,861	0.3	20.0
Shanghai	3,270	1.5	7.2
Hang Seng	24,401	0.6	20.8
ASX 200	5,876	0.3	18.8

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.23	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.39	2.50
3/10 sprd	0.41	0.50
SPI	5844.0	0.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	54.06	-0.2
Oil (WTI)	50.83	-0.4
Oil (Tapis)	55.61	3.3
Gold	1245.40	-0.8
CRB	186.15	0.3
GS Metals	330.8	1.6
Aluminium	1950.0	1.2
Copper	5875.3	2.0
Nickel	10245.3	3.2
Zinc	2756.3	1.5
Ch. steel	3215.0	1.5
Iron ore	81.5	2.6
St. Coal	89.5	-0.3
Met.coal	236.0	9.8
Wheat Chic.	442.5	0.6
Sugar	16.1	-0.4
Cotton	74.9	0.0
Coffee	137.3	-0.3

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-1.0	-4.0%
FED	#N/A	#N/A

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/AEST
Wednesday, 5 April 2017								
NZ	ANZ Job Advertisements MoM	Apr				0.4	23.00	8.00
UK	BRC Shop Price Index YoY	Mar		-0.8		-1.0	0.10	9.10
AU	AiG Perf of Services Index	Apr				49.0	0.30	9.30
JN	Nikkei Japan PMI Services/Composite	Apr		/		51.3/52.2	1.30	10.30
NZ	ANZ Commodity Price	Apr				2.0	2.00	11.00
AU	RBA's Heath at Bloomberg Voices Event						8.30	17.30
GE	Markit Germany Services/Composite PMI	Mar F		55.6/57		55.6/57.0	8.55	17.55
EC	Markit Eurozone Services/Composite PMI	Mar F		56.5/56.7		56.5/56.7	9.00	18.00
UK	Markit/CIPS UK Services/Composite PMI	Mar		53.4/53.8		53.3/53.8	9.30	18.30
UK	Unit Labor Costs YoY	4Q		2		2.3	9.30	18.30
US	ADP Employment Change	Mar		185		298.0	13.15	22.15
US	Markit US Services PMI	Mar F		53.1		52.9	14.45	23.45
US	ISM Non-Manf. Composite	Mar		57		57.6	15.00	0.00
US	FOMC Meeting Minutes	Mar 15					19.00	4.00
Thursday, 6 April 2017								
AU	RBA Deputy Gov Debelle speaking on "Receipt Trends in Australian Capital Flows"						23.40	8.40
CH	Caixin China PMI Services/Composite	Mar		/		52.6/52.6	2.45	11.45
JN	Consumer Confidence Index	Mar		43.4		43.1	6.00	15.00
GE	Factory Orders MoM/YoY	Feb		4/3.9		-7.4/-0.8	7.00	16.00
EC	ECB's Draghi speaks in Frankfurt						8.00	17.00
EC	ECB account of the monetary policy meeting						12.30	21.30
CA	Building Permits MoM	Feb		1.3		5.4	13.30	22.30
US	Initial Jobless Claims	Apr 1		250		258.0	13.30	22.30
US	Fed's Williams Speaks on a Panel in Frankfurt						14.30	23.30
US	Bloomberg Consumer Comfort	Apr 2				49.7	14.45	23.45
Friday, 7 April 2017								
AU	AiG Perf of Construction Index	Mar				53.1	0.30	9.30
JN	Labor Cash Earnings YoY	Feb		0.5		0.5	1.00	10.00
JN	Leading Index CI	Feb P		104.6		104.9	6.00	15.00
GE	Industrial Production SA MoM/YoY	Feb		-0.2/0.5		2.8/0.0	7.00	16.00
GE	Current Account Balance	Feb		19.1		12.8	7.00	16.00
UK	Halifax House Prices MoM/3M YoY	Mar		0.2/4		0.1/5.1	8.30	17.30
UK	Industrial Production MoM/YoY	Feb		0.2/3.7		-0.4/3.2	9.30	18.30
UK	Manufacturing Production MoM/YoY	Feb		0.3/3.9		-0.9/2.7	9.30	18.30
UK	Construction Output SA MoM/YoY	Feb		0.1/1.9		-0.4/2.0	9.30	18.30
UK	Trade Balance	Feb		-2200		-1966.0	9.30	18.30
UK	NIESR GDP Estimate	Mar		0.6		0.6	13.00	22.00
CA	Net Change in Employment	Mar		5.7		15.3	13.30	22.30
CA	Unemployment Rate	Mar		6.7		6.6	13.30	22.30
US	Change in Nonfarm Payrolls/Unemployment Rate	Mar		180/4.7		235.0/4.7	13.30	22.30
US	Average Hourly Earnings MoM/YoY	Mar		0.2/2.7		0.2/2.8	13.30	22.30
CH	Foreign Reserves	Mar		3011		3005.1		
CA	Ivey Purchasing Managers Index SA	Mar		56		55.0	15.00	0.00
US	Wholesale Inventories MoM	Feb F		0.4		0.4	15.00	0.00
US	Consumer Credit	Feb		15		8.8	20.00	5.00
CH	Foreign Direct Investment YoY CNY	Mar				9.2		
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		4-Apr	1.50%	1.50%		1.50%		
Canada, BoC		12-Apr	0.5%	0.5%		0.5%		
Europe ECB		17-Apr	-0.4%	-0.4%		-0.4%		
Japan, BoJ		27-Apr	-0.1%	-0.1%		-0.1%		
US Federal Reserve		4-May	0.75-1.00%	0.75-1.00%		0.75-1.00%		
New Zealand, RBNZ		11-May	1.75%	1.75%		1.75%		
UK BOE		11-May	0.25%	0.25%		0.25%		

GMT: Greenwich Mean Time; AEDT: Australian Daylight Savings Time

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