

MARKETS TODAY

Playing with fire



Good morning

The RBNZ made its policy rate announcement a few minutes ago and while the OCR was left unchanged at 1.75% as expected, the Bank failed to deliver a tightening bias. Not only has the OCR tracker been left unchanged, the Bank also sees the recent spike in inflation as transitory and indeed it has lowered its year ahead inflation forecast. A big call from the Bank, considering inflation has been higher than its forecast for each of the past 3 quarters (and the Q1 miss along being 0.7%). Our BNZ colleagues believe the RBNZ is playing with fire and retain their view that an earlier tightening will be needed. Meanwhile the market has clearly been disappointed by the Bank's outlook. Overnight NZD made decent gains against all major crosses reflecting a bit of short covering action, trading to 0.6941 against the USD just before the announcement. Now NZD/USD is almost one big figure lower, trading at 0.6847.

Looking at the overnight price action, on paper, ECB President Draghi Dutch Parliament appearance had the potential of being the big event, but with Draghi sticking to his dovish bias the big move came from oil following an EIA report that showed the biggest draw in nationwide crude inventory since December while gasoline stockpiles fell by 150k bbl to 241.1m bbl against expectations of a 300k rise. US equities had a mixed day, DJ was -0.16%, S&P500 0.11% and NASDAQ 0.14%.

The EIA news triggered a rally in oil prices helping WTI oil climb over \$1 to 47.34 while Brent moved above the \$50 mark (both up over 3%). Unsurprisingly, in G10 oil linked currencies have been the biggest winners with NOK up 0.74% and CAD up 0.40%. The AUD was also another outperformer, up 0.15% over the past 24hrs and although the move in oil gave the aussie a small uplift, the intraday chart shows steady gains throughout the overnight session with the RBNZ decision dragging the AUD a few pips lower early this morning. AUD is currently trading at 0.7358, after trading to an overnight high of 0.7389.

US treasury yields have climbed a few bps in the overnight session. The move higher in oil was an initial catalyst, but a softer 10y bond auction was the biggest factor. The \$23bn 10y refunding auction cleared with a 2bp tail and the lowest indirect bidding interest since December. The move in oil pushed 10y UST from 2.37% to 2.385% and the auction boosted yields to 2.41%. Higher USDT yields and an unchanged gold has seen USD/JPY make a decisive move above ¥114. USD/JPY traded to a low of ¥112.41 on Monday and now it trades at ¥114.33.

ECB President Draghi presented to Dutch Parliament and he gave a cautious tone regarding the inflation and policy outlook. Draghi said that changes to the ECB's policy guidance and rates will only come when inflation

is solid enough to continue without the support of monetary stimulus. "Is it time to exit or time to think about exit or not? This time hasn't come yet".

Coming Up

Now that the RBNZ rate announcement is behind us, our APAC session has a pretty light calendar with Australia's consumer inflation expectations (May) and Japan's current account (Mar) the two highlights. Later in the day, the European commission publishes its economic forecasts and it is a busy day in the UK with industrial production, construction output and trade balance all due for release ahead of the Bank of England policy rate announcement and inflation report. Weekly jobless claims and PPI figures are the data highlights in the US and Fed Dudley speaks on Globalisation in Mumbai (20:25 pm Sydney time).

Australia's consumer inflation expectations had a decent jump at the start of the year and since then the weighted mean of responses in the 0-5% range (the preferred RBA measure) has drifted a little to just below the 2.50% mark. Nevertheless the relative steadiness in inflation expectations over the past few months has been an encouraging factor for the RBA's inflation outlook which sees the core measure getting back to the target band by mid-2018. More recently market measures of inflation expectations have started to drift a bit lower following the decline in oil prices. As such it will be interesting to see if Australia's consumer inflation expectations have managed to remain steady in May.

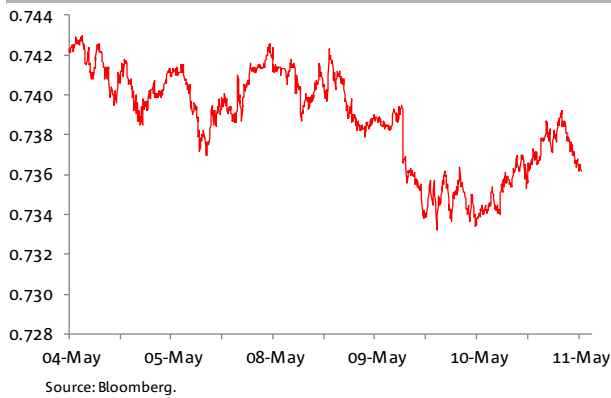
While no policy rate surprises are expected by the BoE with market participants and economists unanimously expecting the Bank to stand pat, the market is likely to focus on the Bank's new set of forecasts which are also due for release. The preliminary Q1 GDP reading revealed the economy grew at 0.3% well below the Bank's expectations of 0.6%. As such it will be interesting to see if the Bank expects the economy to rebound or decelerate further over the coming quarters and the role consumption is likely to play given the decline in real wages in recent months. The inflation outlook will also be important, inflation is currently running a little bit above the Bank's February forecast (2.3% vs 2.1%), driven by a faster than expected pass-through from the decline in the Pound. Finally the Minutes should also garner some attention particularly if there is still some appetite for a "withdrawal of monetary stimulus over the course of the forecast period".

Overnight

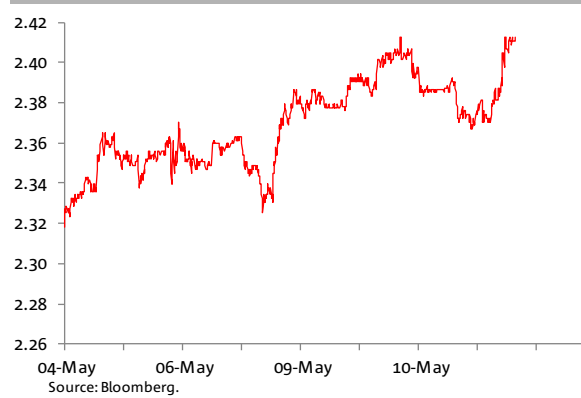
On global stock markets, the S&P 500 was +0.11%. Bond markets saw US 10-years +1.64bp to 2.41%. In commodities, Brent crude oil +3.26% to \$50.32, gold +0.2% to \$1,219, iron ore +0.0% to \$60.75, steam coal +0.3% to \$74.10, met.coal +0.0% to \$177.00. AUD is at 0.7358 and the range since yesterday 5pm Sydney time is 0.7336 to 0.7394.

Markets

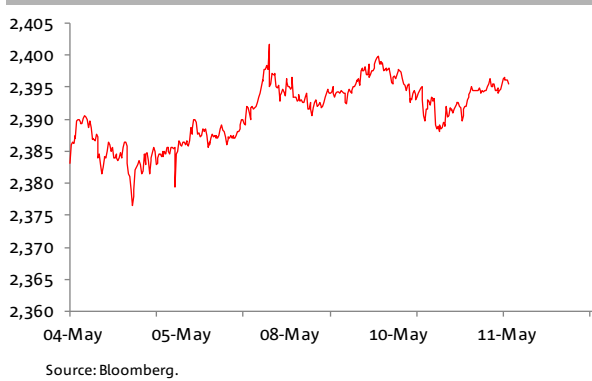
AUD/USD - past week



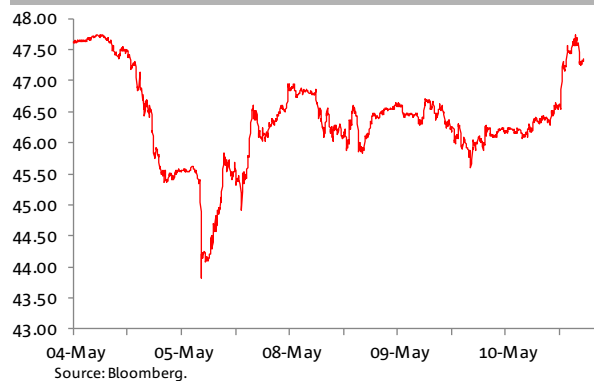
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

	Indicative 24hr ranges (**)				Other FX		
	Last	% chge	Low	High	Last	% chge	
AUD	0.7358	0.2	0.7336	0.7394	HKD	7.7865	0.0
NZD	0.6845	-0.7	0.6834	0.6951	CNY	6.9032	-0.1
EUR	1.0868	-0.1	1.0853	1.0898	SGD	1.4110	0.0
GBP	1.2933	0.0	1.2928	1.2988	IDR	13,359	0.1
JPY	114.31	0.3	113.63	114.37	THB	34.76	-0.1
CAD	1.3669	-0.4	1.3648	1.3733	KRW	1,136	-0.3
AUD/EUR	0.677	0.2	0.6742	0.6805	TWD	30.26	0.0
AUD/JPY	84.10	0.5	83.45	84.34	PHP	49.96	0.0
AUD/GBP	0.5690	0.2	0.5665	0.5716	CHF	1.01	0.1
AUD/NZD	1.0749	0.9	1.0611	1.0757	SEK	8.92	0.4
AUD/CNH	questin#####		5.0734	5.1106			

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spnd
USD	1.00	1.18	1.60	2.33	USD 10	2.41	1.64
AUD	1.50	1.74	1.85	2.90	AUD 10	2.66	-2.60
NZD	1.75	1.99	2.29	3.42	NZD 10	3.05	-4.60
EUR	0.00	-0.33	-0.13	0.85	CAD 10	1.64	1.90
GBP	0.25	0.32	0.59	1.24	EUR 10	0.42	-0.80
JPY	-0.05	0.01	0.04	0.24	GBP 10	1.17	-3.60
CAD	0.50	0.89	1.03	1.88	JPY 10	0.04	0.20

Equities

Major Indices	Last	% day	% y/y
	Dow	20,943	-0.16
S&P 500	2,400	0.11	15.1
Nasdaq	6,129	0.14	27.4
VIX	10	2.51	-25.1
FTSE	7,385	0.6	20.0
DAX	12,757	0.1	27.0
CAC 40	5,400	0.0	24.5
Nikkei	19,900	0.3	20.0
Shanghai	3,053	-0.9	7.6
Hang Seng	25,015	0.5	24.7
ASX 200	5,875	0.6	9.4

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.28	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.30	3.00
3/10 sprd	0.50	0.00
SPI	5883.0	-57.0

* Change in bps

Commodities*

	Last	% day
Oil (Brent)	50.32	3.3
Oil (WTI)	47.33	3.2
Oil (Tapis)	49.29	0.0
Gold	1218.90	0.2
CRB	179.51	1.2
GS Metals	310.6	-0.2
Aluminium	1859.3	-0.3
Copper	5478.3	-0.2
Nickel	9071.5	-1.1
Zinc	2586.0	-0.6
Ch. steel	3055.0	1.8
Iron ore	60.8	0.0
St. Coal	74.1	0.3
Met.coal	177.0	0.0
Wheat Chic.	431.8	0.5
Sugar	15.8	2.6
Cotton	76.5	-1.2
Coffee	136.7	1.1

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-0.5	-2.0%
FED	20	78.0%

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
Tuesday, 9 May 2017								
UK	BRC Sales Like-For-Like YoY	Apr		0.5		-1.0	0.10	9.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May 7				111.3	0.30	9.30
JN	Labor Cash/Real Cash Earnings YoY	Mar		0.5/		0.4/0.0	1.00	10.00
AU	Retail Sales MoM/Ex Inflation QoQ	Mar	0.3/0.4	0.3/0.5		-0.1/0.9	2.30	11.30
NZ	Credit Aggregates (new format)	Mar					4.00	13.00
GE	Industrial Production SA MoM/YoY	Mar		-0.7/2.6		2.2/2.5	7.00	16.00
GE	Current Account Balance	Mar		26.5		20.4	7.00	16.00
AU	Federal Budget, UCB 17-18 \$Abn		-23	-28		-28.7 (MYEFO)	10.30	19.30
US	NFIB Small Business Optimism	Apr		104		104.7	11.00	20.00
CA	Building Permits MoM	Mar		2.8		-2.5	13.30	22.30
US	Fed's Kashkari to speak to Minnesota High Tech Conference						14.00	23.00
US	JOLTS Job Openings	Mar				5743.0	15.00	0.00
US	Wholesale Trade Sales/Inventories MoM	Mar				0.6/-0.1	15.00	0.00
US	Fed's Rosengren Speaks at NYU Conference on Risk Management						18.00	3.00
US	Fed's Kaplan speaks to Dallas Regional Chamber						21.15	6.15
Wednesday, 10 May 2017								
NZ	ANZ Truckometer Heavy MoM	Apr				1.7	23.00	8.00
NZ	Crown Financial Accounts	Mar					23.00	8.00
NZ	Card Spending Retail MoM/YoY	Apr		0.6		-0.3	23.45	8.45
JN	BOJ Summary of Opinions at April 26-27 Meeting						0.50	9.50
AU	Westpac Consumer Conf Index/MoM%	May				99.0/-0.7	1.30	10.30
CH	CPI/PPI YoY	Apr		1.1/6.7		0.9/7.6	2.30	11.30
JN	Leading/Coincident Index CI	Mar P		105.5/114.7		104.8/115.3	6.00	15.00
EC	ECB's Draghi Speaks in Dutch Parliament						12.00	21.00
US	Import Price Index MoM/YoY	Apr		0.2/3.6		-0.2/4.2	13.30	22.30
US	Export Price Index MoM/YoY	Apr		0.2/		0.2/3.6	13.30	22.30
CH	New Yuan Loans/Aggregate Financing CNY	Apr		815/1150		1020/2120	10-15 May release	
US	Fed's Rosengren to Speak on Economy at Vermont Business Group						17.00	2.00
US	Monthly Budget Statement	Apr		177		-176.2	19.00	4.00
Thursday, 11 May 2017								
NZ	RBNZ Official Cash Rate	May 11	1.75	1.75		1.75	22.00	7.00
NZ	Food Prices MoM	Apr				-0.3	23.45	8.45
UK	RICS House Price Balance	Apr		20		22.0	0.10	9.10
JN	BoP Current Account Adjusted	Mar		1735		2210.9	0.50	9.50
AU	Consumer Inflation Expectation	May				4.1	2.00	11.00
JN	Bankruptcies YoY	Apr				5.4	5.30	14.30
EC	ECB Publishes Economic Bulletin						9.00	18.00
UK	Industrial Production MoM/YoY	Mar		-0.4/2		-0.7/2.8	9.30	18.30
UK	Construction Output SA MoM/YoY	Mar		0.3		-1.7	9.30	18.30
UK	Trade Balance	Mar		-3000		-3663.0	9.30	18.30
EC	European Commission Economic Forecasts						10.00	19.00
US/IN	Fed's Dudley speaks on Globalisation in Mumbai						11.25	20.25
UK	Bank of England Bank Rate	May 11		0.25		0.3	12.00	21.00
UK	BOE Asset Purchase Target/Corporate Bond Target	May		435/10		435.0/10.0	12.00	21.00
UK	Bank of England Inflation Report						12.00	21.00
UK	NIESR GDP Estimate	Apr		0.4		0.5	13.00	22.00
CA	New Housing Price Index MoM/YoY	Mar		0.2/		0.4/3.3	13.30	22.30
US	PPI Final Demand/Ex Food & Energy MoM	Apr		0.2/0.2		-0.1/0.0	13.30	22.30
US	Initial Jobless Claims	May 6		245		238.0	13.30	22.30
US	Bloomberg Consumer Comfort	May 7				50.9	14.45	23.45
Friday, 12 May 2017								
NZ	BusinessNZ Manufacturing PMI	Apr				57.8	23.30	8.30
NZ	Non Resident Bond Holdings	Apr				61.5	4.00	13.00
NZ	2Yr Inflation Expectation	3Q				2.2	4.00	13.00
JN	BOJ Harada speaks as panelist in Tokyo						5.15	14.15
GE	GDP SA QoQ/YoY	1Q P		0.6/1.7		0.4/1.7	7.00	16.00
GE	CPI MoM/YoY	Apr F		0/2		0.0/2.0	7.00	16.00
GE	CPI EU Harmonized MoM/YoY	Apr F		0/2		0.0/2.0	7.00	16.00
EC	Industrial Production SA MoM/YoY	Mar		0.3/2.3		-0.3/1.2	10.00	19.00
US	CPI MoM/YoY	Apr		0.2/2.3		-0.3/2.4	13.30	22.30
US	CPI Ex Food and Energy MoM/YoY	Apr		0.2/2		-0.1/2.0	13.30	22.30
US	Retail Sales Advance/Ex Autos and Gas MoM	Apr		0.6/0.4		-0.2/0.1	13.30	22.30
US	Retail Sales Control Group	Apr		0.4		0.5	13.30	22.30
CA	Teranet/National Bank HPI MoM/YoY	Apr		/		0.9/13.5	13.30	22.30
US/EC	Fed's Evans Speaks in Dublin						14.00	23.00
US	U. of Mich. Sentiment	May P		97/		97.0/2.4	15.00	0.00
US	Business Inventories	Mar		0.1		0.3	15.00	0.00
Saturday, 13 May 2017								
Sunday, 14 May 2017								
Monday, 15 May 2017								
CH	Foreign Direct Investment YoY CNY	Apr				6.7	May 8-18 release	
CH	New Yuan Loans CNY	Apr		815		1020.0	May 10-15 release	
CH	Aggregate Financing CNY	Apr		1150		2120.0	May 10-15 release	
NZ	Performance Services Index	Apr				59.0	23.30	8.30
NZ	Retail Sales Ex Inflation QoQ	1Q				0.8	23.45	8.45
UK	Rightmove House Prices MoM/YoY	May		/		1.1/2.2	0.10	9.10
AU	Home Loans MoM	Mar				-0.5	2.30	11.30
AU	Investment Lending	Mar				-5.9	2.30	11.30
CH	Industrial Production YoY/YTD YoY	Apr		7/6.9		7.6/6.8	3.00	12.00
CH	Retail Sales YoY/YTD YoY	Apr		10.9/10.2		10.9/10.0	3.00	12.00
CH	Fixed Assets Ex Rural YTD YoY	Apr		9.1		9.2	3.00	12.00
JN	Machine Tool Orders YoY	Apr P				22.8	7.00	16.00
US	Empire Manufacturing	May		6		5.2	13.30	22.30
CA	Existing Home Sales MoM	Apr				1.1	14.00	23.00
CA	Bloomberg Nanos Confidence	May 5				59.4	15.00	0.00
US	NAHB Housing Market Index	May				68.0	15.00	0.00
US	Total Net TIC Flows	Mar				19.3	21.00	6.00
US	Net Long-term TIC Flows	Mar				53.4	21.00	6.00
Upcoming Central Bank Interest Rate Announcements								
New Zealand, RBNZ		11-May	1.75%	1.75%		1.75%		
UK BOE		11-May	0.25%	0.25%		0.25%		
Canada, BoC		25-May	0.5%	0.5%		0.5%		
Australia, RBA		6-Jun	1.50%	1.50%		1.50%		
Europe ECB		8-Jun	-0.4%	-0.4%		-0.4%		
US Federal Reserve		15-Jun	0.75-1.00%	0.75-1.00%		0.75-1.00%		
Japan, BoJ		16-Jun	-0.1%	-0.1%		-0.1%		

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

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