

MARKETS TODAY

When Doves Cry



Good morning

Not a big night for markets. US equities have just closed with small losses and where higher oil prices have assisted an afternoon recovery via the energy sector, after earlier weakness followed disappointing (some say dismal) results for both Macy's and Kohl's which dragged the broader retail sector lower. We'll get US retail sales data tonight, where the focus will be whether the on-going disconnect between what US consumers say (reflected in buoyant consumer confidence readings) and what they do (weak retail spending) has continued through April, or otherwise (see Coming Up).

In bonds, US yields are about 2bps lower out to 10-years, notwithstanding incoming economic data showing another very low level of weekly jobless benefit claims and producer price data that sprung an upside surprise on the headline 'PPI Final Demand' reading of 0.5% (0.2% expected) and on the core ex-food and energy measure (0.4% against 0.2% expected). We'd note though that on a month-to-month basis there's only a weak correlation between PPI and what that might mean for tonight's all-important CPI data (see Coming Up).

In currencies and looking at the last 24 hours, it's very much a case of where central banks have spoken, their currency is weaker. This is of course most evident in the NZD which has barely picked itself up off the floor after the hit from RBNZ-speak this time yesterday. The floor is also the place where a fair few analysts' jaws – including our own - dropped after the assertion of the central bank that it sees none of the inflation pressures that many in the market claimed beforehand as evidence in support of at least a nod in the direction of a 2018 tightening bias. In context though, the fall in the NZD only puts it back to where it was a week ago.

Sterling was the other victims of central bank speak, after the Bank of England repeated the 7-1 vote count for unchanged policy against some expectation that more than just the resident (and soon departing) MPC hawk Kristin Forbes might dissent in favour of immediate policy tightening. There were a few hawkish tones in the accompanying BoE narrative from Mr Carney, to the effect that rates could rise sooner than markets expect, but that this would be very dependent on both a smooth glide path into Brexit and a significant pick up in wages growth – two assumptions that look particularly heroic at this juncture. To be fair, though Sterling dipped on news of the 7-1 vote, the majority of the overnight drop in (almost 1% against the Aussie dollar) came after much weaker than expected data on industrial production (manufacturing output -0.6%) and construction output (-0.7%).

The AUD has ground out a small recovery overnight to sit at 0.7380 currently. Why? With the exception of iron ore (little changed) the metal complex is higher (both industrial and precious metals) along with oil.

Ray Attrill, Head of FX Strategy

Coming Up

Slim pickings from the economic calendar in the APAC time zone. The BNZ-Business NZ Manufacturing PMI is the highlight, last at a strong 57.8.

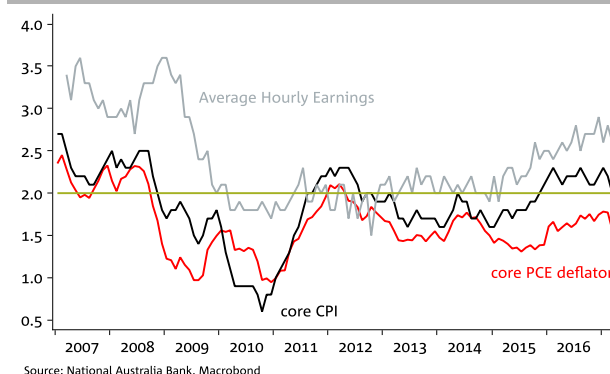
It's a different story on the other side of the world, where a heavyweight US economic calendar includes latest CPI and retail sales numbers and the preliminary University of Michigan consumer sentiment index. These all come in the wake of a plunge in the likes of Citi's US Economic Surprises index (from 60- in March to -20 currently). Retail sales were soft in March (-0.2% in headline terms and flat excluding autos) and are forecast to have bounced back quite smartly in April (0.5% and 0.6% for headline and ex-autos respectively). The industry data for auto sales in April was, we already know, weak. Of late there has been a disconnect between buoyant consume confidence reading and hard spending data and we get the first May reading on consumer confidence from the University of Michigan 90 minutes after retail sales.

CPI will be especially interesting, after the unexpected weakness in March that saw negative prints for both headline and core measures, the annual core rate of inflation dropping from 2.2% to 2.0%. We've also seen the Fed's preferred core PCE deflator measure drop from 1.8% to 1.6% in March and average hourly earnings growth back to 2.5% from 2.9% at the end of 2016. Another significant downside CPI surprise tonight is one of the few economic releases with the potential to challenge current high expectations for the Fed lifting rates next month. The consensus expectation is for an unchanged 2.0% core rate.

Overnight

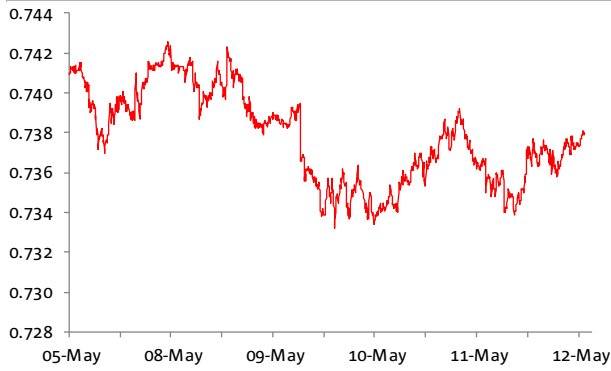
On global stock markets, the S&P 500 was -0.22%. Bond markets saw US 10-years -2.67bp to 2.39%. In commodities, Brent crude oil +1.08% to \$50.76, gold+0.5% to \$1,225, iron ore -0.6% to \$60.38, steam coal -1.1% to \$73.30, met.coal -0.6% to \$176.00. AUD is at 0.7379 and the range since yesterday 5pm Sydney time is 0.7336 to 0.7383.

Chart of the Day: US inflation measures



Markets

AUD/USD - past week



Source: Bloomberg.

US 10yr - past week



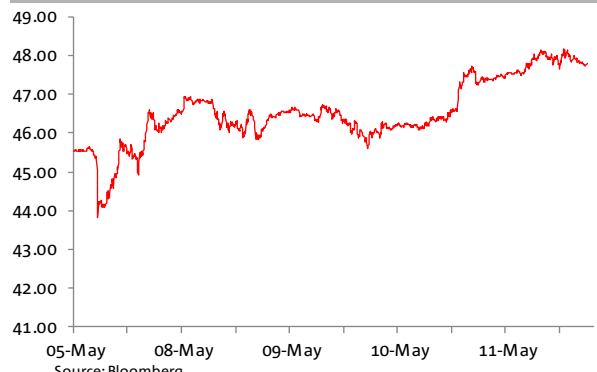
Source: Bloomberg.

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	0.7379	0.2	0.7336	0.7383	HKD	7.7892 0.0
NZD	0.6848	-1.3	0.6818	0.6941	CNY	6.9037 0.0
EUR	1.0862	-0.1	1.0839	1.0893	SGD	1.4074 -0.2
GBP	1.2886	-0.4	1.2850	1.2949	IDR	13,346 -0.1
JPY	113.85	-0.4	113.46	114.37	THB	34.72 -0.1
CAD	1.3696	0.3	1.3654	1.3770	KRW	1,128 -0.7
AUD/EUR	0.6793	0.2	0.6749	0.6800	TWD	30.19 -0.2
AUD/JPY	84.00	-0.2	83.53	84.25	PHP	49.87 -0.2
AUD/GBP	0.5726	0.6	0.5670	0.5735	CHF	1.01 -0.1
AUD/NZD	1.0774	1.5	1.0612	1.0781	SEK	8.88 -0.4
AUD/CNH	5.0883	-0.2	5.0711	5.0972		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.00	1.18	1.59	2.31	USD 10	2.39	-2.67
AUD	1.50	1.74	1.84	2.87	AUD 10	2.65	-0.40 0.26
NZD	1.75	1.99	2.25	3.38	NZD 10	3.01	-5.50 0.62
EUR	0.00	-0.33	-0.13	0.83	CAD 10	1.60	-3.50 -0.78
GBP	0.25	0.31	0.57	1.22	EUR 10	0.43	1.00 -1.96
JPY	-0.04	0.00	0.04	0.26	GBP 10	1.16	-0.70 -1.23
CAD	0.50	0.89	1.02	1.84	JPY 10	0.05	1.20 -2.33

Equities

Major Indices			
	Last	% day	% y/y
Dow	20,919	-0.11	18.1
S&P 500	2,394	-0.22	16.0
Nasdaq	6,116	-0.22	28.5
VIX	11	3.82	-27.8
FTSE	7,387	0.0	19.9
DAX	12,711	-0.4	27.4
CAC 40	5,383	-0.3	24.7
Nikkei	19,962	0.3	19.9
Shanghai	3,062	0.3	8.0
Hang Seng	25,126	0.4	26.2
ASX 200	5,878	0.0	9.7

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.28	2.00
3 Yr bond	97.8	3.00
10 Yr bond	97.33	4.00
3/10 sprd	0.47	-1.00
SPI	5856.0	15.0

* Change in bps

Commodities*

	Last	% day
Oil (Brent)	50.76	1.1
Oil (WTI)	47.81	1.0
Oil (Tapis)	51.02	3.5
Gold	1224.80	0.5
CRB	180.44	0.5
GS Metals	312.3	0.6
Aluminium	1869.5	0.6
Copper	5521.8	0.8
Nickel	9267.0	2.2
Zinc	2580.0	-0.2
Ch. steel	3004.0	-1.7
Iron ore	60.4	-0.6
St. Coal	73.3	-1.1
Met.coal	176.0	-0.6
Wheat Chic.	433.8	0.5
Sugar	15.6	-1.3
Cotton	79.2	3.5
Coffee	134.3	-1.8

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-0.5	-2.0%
FED	19	75.6%

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
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
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 12				59.0	15.00	0.00
US	NAHB Housing Market Index	May		68		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
Tuesday, 16 May 2017								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May 14				112.3	0.30	9.30
AU	New Motor Vehicle Sales MoM/YoY	Apr		/		1.9/-3.0	2.30	11.30
AU	RBA May Rate Meeting Minutes						2.30	11.30
JN	Tertiary Industry Index MoM	Mar				0.2	5.30	14.30
UK	CPI MoM/YoY	Apr		/		0.4/2.3	9.30	18.30
UK	CPI Core YoY	Apr				1.8	9.30	18.30
UK	PPI Input NSA MoM/YoY	Apr		/		0.4/17.9	9.30	18.30
UK	PPI Output NSA MoM/YoY	Apr		/		0.4/3.6	9.30	18.30
UK	PPI Output Core NSA MoM/YoY	Apr		/		0.3/2.5	9.30	18.30
UK	House Price Index YoY	Mar				5.8	9.30	18.30
EC	Trade Balance SA	Mar				19.2	10.00	19.00
GE	ZEW Survey Current Situation/Expectations	May				80.1	10.00	19.00
EC	ZEW Survey Expectations	May				26.3	10.00	19.00
EC	GDP SA QoQ/YoY	1Q P		/		0.5/1.7	10.00	19.00
US	Housing Starts, #/MoM	Apr		1250/2.9		1215.0/-6.8	13.30	22.30
US	Building Permits, #/MoM	Apr		1273/0.4		1260.0/3.6	13.30	22.30
US	Industrial Production MoM/Capacity utilisation	Apr		0.4/76.3		0.5/76.1	14.15	23.15
US	Manufacturing (SIC) Production	Apr				-0.4	14.15	23.15
US	ECB's Nowotny Speaks in Vienna						16.30	1.30
Wednesday, 17 May 2017								
NZ	PPI Input/Output QoQ	1Q		/		1.0/1.5	23.45	8.45
JN	Machine Orders MoM/YoY	Mar		/		1.5/5.6	0.50	9.50
AU	Westpac Consumer Conf Index/MoM	May		/		99.0/-0.7	1.30	10.30
AU	Wage Price Index QoQ/YoY	1Q		/		0.5/1.9	2.30	11.30
JN	Industrial Production MoM/YoY	Mar F		/		-2.1/3.3	5.30	14.30
UK	Jobless Claims Change	Apr				25.5	9.30	18.30
UK	Average Weekly Earnings/ex bonus 3M/YoY	Mar		/		2.3/2.2	9.30	18.30
UK	Employment Change 3M/3M/Unemployment rate 3M	Mar		/		39.0/4.7	9.30	18.30
EC	Construction Output MoM/YoY	Mar		/		6.9/7.1	10.00	19.00
EC	CPI MoM/YoY	Apr		/		0.8/1.5	10.00	19.00
EC	CPI Core YoY	Apr F				1.2	10.00	19.00
US	MBA Mortgage Applications	May 5				-0.1	12.00	21.00
CA	Manufacturing Sales MoM	Mar				-0.2	13.30	22.30
CH	FX Net Settlement - Clients CNY	Apr				-48.3		
Thursday, 18 May 2017								
JN	GDP SA QoQ/saar QoQ	1Q P		0.4/1.8		0.3/1.2	0.50	9.50
JN	GDP Nominal SA QoQ	1Q P		0.1		0.4	0.50	9.50
JN	GDP Deflator YoY	1Q P		-0.7		-0.1	0.50	9.50
NZ	ANZ Consumer Confidence Index/MoM	May		/		121.7/-2.8	2.00	11.00
AU	Consumer Inflation Expectation	May				4.1	2.00	11.00
AU	RBA FX Transactions Market	Apr				1248.0	2.30	11.30
CH	China April Property Prices						2.30	11.30
AU	Employment Change/Unemployment Rate	Apr				60.9	2.30	11.30
AU	Participation Rate	Apr				64.8	2.30	11.30
JN	Tokyo Condominium Sales YoY	Apr				26.6	5.00	14.00
US	Fed's Bullard to Brief Press With Bank of England's Forbes						5.00	14.00
UK	Retail Sales Ex/Incl Auto Fuel MoM	Apr		/		-1.5/2.6	9.30	18.30
UK	Retail Sales Inc Auto Fuel MoM	Apr		/		-1.8/1.7	9.30	18.30
CA	Int'l Securities Transactions	Mar				38.8	13.30	22.30
US	Initial Jobless Claims	May 6		245		238.0	13.30	22.30
US	Philadelphia Fed Business Outlook	May		18.8		22.0	13.30	22.30
US	Leading Index	Apr		0.4		0.4	15.00	0.00
US	Fed's Mester Speaks on Economy and Monetary Policy						18.15	3.15
Upcoming Central Bank Interest Rate Announcements								
New Zealand, RBNZ		22-Jun	1.75%	1.75%		1.75%		
UK BOE		15-Jun	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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