

MARKETS TODAY

FOMC looking for inflation



Good Morning

The biggest news overnight was the FOMC Minutes, which were interpreted cautiously by the market as confirming the likelihood of a June rate hike, but casting some uncertainty over the trajectory for rates thereafter. The US dollar fell on the news, while bond yields declined.

Overall the US Fed seems content to hike rates again in June, noting “most participants judged that if economic information came in about in line with their expectations, it would **soon** be appropriate [to hike rates]”. Markets agree with market pricing for June sitting at around a 76% chance while around 1.4 rate hikes are priced by the years end.

However, the trajectory for rates thereafter seems slightly more uncertain after today’s Minutes - the key source of uncertainty coming from the inflation outlook. One camp (called the “couple”) is becoming concerned that the unemployment rate is running below the full-employment level which could pose upside risks to inflation – their case reinforced by “several Districts reported a pickup in wage increases, shortages of workers in selected occupations, or pressures to train workers”. Another camp in contrast (“several others”) continued to see downside risks to the inflation outlook, particularly given the low inflation print and still-low measures of inflation expectations. They also view the possibility the labour market could tighten further without giving rise to inflationary pressures. Against such a backdrop it was deemed “**prudent** to await additional evidence indicating that the recent slowing in the pace of economic activity had been transitory”. The one point of agreement was that “most” saw the weak Q1 GDP data as “transitory” and likely to rebound.

Moves to unwind the balance sheet are likely to occur “this year” and The FOMC broadly supported a staff proposal for a gradual approach. “Under the proposed approach, the Committee would announce a set of gradually increasing caps, or limits, on the dollar amounts of Treasury and agency securities that would be allowed to run off each month, and only the amounts of securities repayments that exceed the caps would be reinvested each month. As the caps increased, reinvestment would decline” “The caps would initially be set at low levels and then be raised every three months, over a set period of time, to their fully phased-in levels.”

Markets emphasised slightly cautious tone and with the US dollar (DXY) falling 0.3% across the board overnight. Correspondingly, most currency pairs were higher against the US dollar: EUR (+0.3%); JPY (+0.2%); AUD (+0.3%).

The Canadian dollar was the outperformer, up 0.7% following the Bank of Canada Meeting. Although rates were unchanged, the Statement was less dovish with an assessment that the “economy’s adjustment to lower oil

prices is largely complete” and optimism on the global economy which will also help domestic growth.

The Australian dollar was a tale of two halves. The currency had fallen 0.5% by the time your scribe left the office yesterday following China’s credit rating downgrade, soft Aussie construction data and weakness in commodity prices (iron ore -2.4% to \$60.5 a tonne). This was entirely reversed overnight, partly on the back of US dollar weakness, to end the day up 0.3%.

While the Aussie construction data did not have an enduring impact on the currency (-0.7% q/q v expectations of -0.5%), the sharp fall in residential construction (-4.7% q/q) has led many to wonder whether residential construction is topping out at high levels, and on this note the level of construction has been broadly unchanged since mid-2016. The data also feeds into Q1 GDP (out June 7) and combined with other partial data to date is suggestive of a real risk of a flat or even a small negative GDP outcome.

China’s credit rating downgrade by Moody’s to A1 from Aa3 did not ruffle too many feathers. The move reflects concerns over leverage, debt and shadow banking and a view that growth could suffer as China seeks to rein in these risks. Unsurprisingly, the Chinese authorities defended their reform policies and criticised Moody’s methodology and misunderstanding of the situation.

Finally the ECB released its latest Financial Stability report along with a speech by the ECB’s Draghi who downplayed the side effects from negative rates and that “there is no reason to deviate from the indications we have been consistently providing in our introductory statement”. All eyes will be on the June ECB meeting for any changes in policy guidance.

Coming Up

It’s a very quiet day ahead with little to trouble the scorers. Domestically the RBA Deputy Governor Debelle is launching the Global FX Code (6.00pm AEST), though this is unlikely to contain much in the way of comment on the domestic or international economies.

In the US we get the Advanced Goods Trade Balance for April where the market consensus sits at a \$64.5bn deficit, while Thursday also brings Weekly Jobless Claims. The UK has the more detailed Q1 GDP result following the flash estimate earlier – markets expecting a 0.3% q/q and 2.1% y/y.

Overnight

On global stock markets, the S&P 500 was +0.24%. Bond markets saw US 10-years -2.45bp to 2.25%. In commodities, Brent crude oil -0.35% to \$53.96, gold +0.1% to \$1,257, iron ore -2.4% to \$60.52, steam coal +0.1% to \$74.45, met. coal +0.0% to \$174.00. AUD is at 0.7499 and the range since yesterday 5pm Sydney time is 0.7455 to 0.7508.

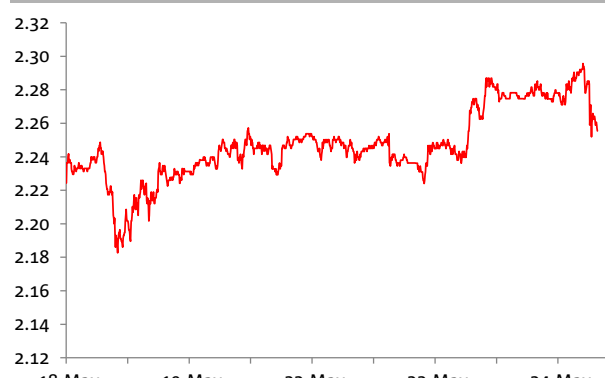
Markets

AUD/USD - past week



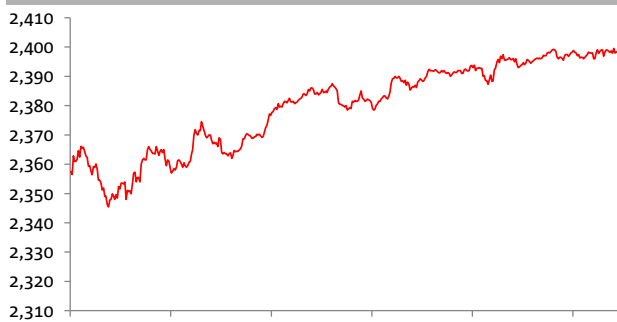
Source: Bloomberg.

US 10yr - past week



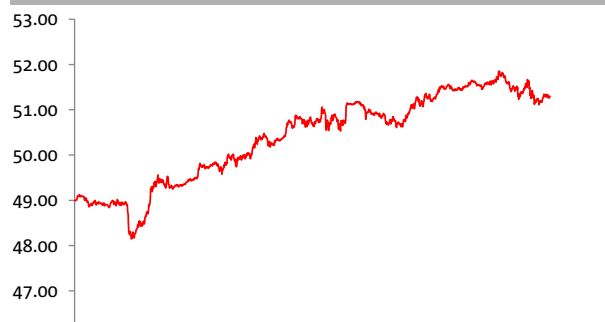
Source: Bloomberg.

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	0.7499	0.3	0.7443	0.7499	HKD	7.7882	0.0
NZD	0.7049	0.5	0.6989	0.7055	CNY	6.8901	0.1
EUR	1.1215	0.3	1.1169	1.1217	SGD	1.3849	-0.4
GBP	1.2963	0.0	1.2927	1.2999	IDR	13,311	0.1
JPY	111.58	-0.2	111.55	112.13	THB	34.34	-0.3
CAD	1.3416	-0.7	1.3416	1.3540	KRW	1,126	0.2
AUD/EUR	0.6687	0.0	0.6657	0.6693	TWD	30.17	0.0
AUD/JPY	83.68	0.1	83.24	83.73	PHP	49.95	0.3
AUD/GBP	0.5785	0.3	0.5736	0.5787	CHF	0.97	-0.3
AUD/NZD	1.0638	-0.3	1.0625	1.0677	SEK	8.67	-0.4
AUD/CNH	5.1452	-0.4	5.1228	5.1726			

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spred
USD	1.00	1.19	1.52	2.19	USD 10	2.25	-2.97
AUD	1.50	1.74	1.77	2.70	AUD 10	2.48	4.00
NZD	1.75	1.97	2.24	3.27	NZD 10	2.84	1.70
EUR	0.00	-0.33	-0.14	0.82	CAD 10	1.48	-2.90
GBP	0.25	0.30	0.55	1.16	EUR 10	0.40	-0.70
JPY	-0.05	-0.01	0.04	0.24	GBP 10	1.07	-1.00
CAD	0.50	0.89	1.04	1.75	JPY 10	0.05	0.40

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,012	0.36	18.7
S&P 500	2,404	0.24	15.8
Nasdaq	6,163	0.40	26.8
VIX	9.98	-6.90	-30.8
FTSE	7,515	0.4	20.8
DAX	12,643	-0.1	25.7
CAC 40	5,341	-0.1	20.5
Nikkei	19,743	0.7	17.8
Shanghai	3,064	0.1	8.8
Hang Seng	25,429	0.1	24.8
ASX 200	5,769	0.2	7.4

Overnight Futures

Australia		
	Last	Chge*
3 mth bill	98.28	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.52	3.50
3/10 sprd	0.28	-0.50
SPI	5785.0	-14.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	53.96	-0.4
Oil (WTI)	51.33	-0.3
Oil (Tapis)	54.53	1.8
Gold	1257.30	0.1
CRB	183.92	-0.6
GS Metals	318.4	-0.5
Aluminium	1939.0	0.1
Copper	5673.0	-0.6
Nickel	9063.5	-2.6
Zinc	2629.5	-0.9
Ch. steel	3247.0	-2.2
Iron ore	60.5	-2.4
St. Coal	74.5	0.1
Met.coal	174.0	0.0
Wheat Chic.	446.0	0.5
Sugar	15.7	-1.3
Cotton	77.5	0.4
Coffee	128.6	-1.3

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-0.5	-2.0%
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	AEST
Wednesday, 24 May 2017								
NZ	Trade Balance NZD/YTD	Apr		266.5		332	23.45	8.45
NZ	RBNZ Governor Wheeler Speaks in Hamilton (Not Public)						1.00	10.00
JN	BOJ Kuroda speaks in Tokyo						1.00	10.00
AU	Westpac Leading Index MoM	Apr				0.1	1.30	10.30
AU	Skilled Vacancies MoM	Apr				-0.6	2.00	11.00
AU	Construction Work Done	1Q	-0.5	-0.5		-0.2	2.30	11.30
AU	NAB Consumer Behaviour Survey (Cons. Anxiety Index)	1Q				58.7	2.30	11.30
NZ	New Residential Lending YoY	Apr				-8.9	4.00	13.00
GE	GfK Consumer Confidence	Jun		10.2		10.2	7.00	16.00
EC	ECB's Praet (Chf Economist) speaks in Sofia						9.30	18.30
EC	ECB's Draghi speaks in Madrid						13.45	22.45
US	FHFA House Price Index MoM	Mar		0.5		0.8	14.00	23.00
US	House Price Purchase Index QoQ	1Q				1.5	14.00	23.00
CA	Bank of Canada Rate Decision	May 24		0.5		0.5	15.00	0.00
US	Existing Home Sales, #/MoM	Apr		5.65/-1.05		5.7/4.4	15.00	0.00
US	FOMC Meeting Minutes	May 3					19.00	4.00
Thursday, 25 May 2017								
US	Fed's Kaplan speaks in Toronto						23.00	8.00
US	Fed's Kashkari speaks in Wisconsin						23.30	8.30
CN	Swift Global Payments CNY	Apr				1.8	2.00	11.00
NZ	Government Budget						3.00	12.00
AU	RBA's Debelle Remarks in London at the launch of the FX Global Code, FX Week						9.00	18.00
UK	BBA Loans for House Purchase	Apr		40800		41061.0	9.30	18.30
UK	GDP QoQ/YoY (revision)	1Q P	0.3/2.1			0.3/2.1	9.30	18.30
UK	Index of Services MoM/ 3m/3M	Mar		0/0.3		0.2/0.5	9.30	18.30
UK	Total Business Investment QoQ/YoY	1Q P		0.3/		-0.9/-0.9	9.30	18.30
US	Advance Goods Trade Balance	Apr		-64.65		-64.2	13.30	22.30
US	Wholesale/Retail Inventories MoM	Apr P		0.2		0.2	13.30	22.30
US	Initial Jobless Claims	May 20		238		232	13.30	22.30
US	Bloomberg Consumer Comfort	May 21				50.2	14.45	23.45
US	Fed's Brainard Panel Discussion on Global Economy						15.00	0.00
US	Kansas City Fed Manf. Activity	May		8.5		7.0	16.00	1.00
EC	ECB's Constancio speaks in Lisbon						18.00	3.00
CA	Bank of Canada Deputy Governor Sylvain Leduc Speech						22.20	7.20
Friday, 26 May 2017								
JN	Natl CPI YoY	Apr		0.4		0.2	0.30	9.30
JN	Natl CPI Ex Fresh Food/Ex Fresh Food, Energy YoY	Apr		0.4/0		0.2/-0.1	0.30	9.30
JN	Tokyo CPI YoY	May		0		-0.1	0.30	9.30
JN	Tokyo CPI Ex-Fresh Food/Ex-Fresh Food, Energy YoY	May		0/-0.1		-0.1/-0.1	0.30	9.30
JN	PPI Services YoY	Apr		0.9		0.8	0.50	9.50
US	Fed's Bullard Speaks on U.S. economy in Tokyo						3.00	12.00
AU	RBA's Richards (Head of Payments Policy) Panel Participation at Australian Retail Banking Summit						5.30	14.30
US	GDP Annualized/Core PCE QoQ	1Q S		0.9/2		0.7/2.0	13.30	22.30
US	Durable Goods Orders/Core Orders	Apr P		-1.5/0.5		0.9/0.5	13.30	22.30
US	U. of Mich. Sentiment/5-10Yr Inflation	May F		97.5/		97.7/2.3	15.00	0.00
Saturday, 27 May 2017								
CH	Industrial Profits YoY	Apr				23.8	2.30	11.30
Sunday, 28 May 2017								
Monday, 29 May 2017								
US	Fed's Williams Speaks in Singapore						23.15	8.15
EC	ECB's Nowotny speaks at Austrian c.bank conference						8.15	17.15
Tuesday, 30 May 2017								
NZ	Building Permits MoM	Apr				-1.8	23.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May 21				109.4	0.30	9.30
JN	Jobless Rate/Job-to-applicant ratio	Apr		/		2.8/1.5	0.30	9.30
JN	Overall Household Spending YoY	Apr				-1.3	0.30	9.30
JN	Retail Sales MoM/YoY	Apr		/		0.2/2.1	0.50	9.50
AU	Building Approvals MoM/YoY	Apr		/		-13.4/-19.9	2.30	11.30
EC	Business Climate Indicator	May				1.1	10.00	19.00
EC	ECB's Liikanen speaks at Austrian c.bank conference						11.15	20.15
GE	CPI MoM/YoY	May P		/		0.0/2.0	13.00	22.00
GE	CPI EU Harmonized MoM/YoY	May P		/		0.0/2.0	13.00	22.00
CA	Current Account Balance	1Q				-10.7	13.30	22.30
US	Personal Income/Spending	Apr		0.4/0.4		0.2/0.0	13.30	22.30
US	Real Personal Spending	Apr				0.3	13.30	22.30
US	PCE Deflator MoM/YoY	Apr		0.2/1.7		-0.2/1.8	13.30	22.30
US	PCE Core MoM/YoY	Apr		0.1/1.5		-0.1/1.6	13.30	22.30
CA	Industrial Product Price/Raw Materials Price MoM	Apr		/		0.8/-1.6	13.30	22.30
US	S&P CoreLogic CS 20-City MoM/YoY	Mar		/		0.7/5.9	14.00	23.00
US	Conf. Board Consumer Confidence	May		120		120.3	15.00	0.00
US	Dallas Fed Manf. Activity	May				16.8	15.30	0.30
Upcoming Central Bank Interest Rate Announcements								
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%		
UK BOE		15-Jun	0.25%	0.25%		0.25%		
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%		
New Zealand, RBNZ		22-Jun	1.75%	1.75%		1.75%		

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

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