

MARKETS TODAY

Pressure down



Good morning

There was little in the way of significant market moves overnight. Instead focus returned to the economic data where eyes were on the inflation figures for both the US and Germany – German CPI was slightly weaker than expected while the US PCE was in line with expectations – with neither showing any lift in the underlying pace of inflation despite the labour market in both countries having tightened significantly over the past year. Pressure it seems is down when it comes to inflation, also the title of John Farnham's 1986 hit from his [Whispering Jack](#) album.

While the US PCE was a touch stronger than expected in the month, up 0.15% m/m against expectations of a 0.1% rise, the rise wasn't enough to lift the annual rate. Core PCE is now running at 1.5% y/y, a 16-month low. If the monthly pace of inflation persists, that would only be enough to lift core PCE to 1.7% by years end – still below the Fed's 2% target.

Against that background, the USD dollar (DXY) fell 0.2% across the board overnight, while US Treasury yields fell 3.84 bps to be at 2.21%. Despite those moves, markets still think the Fed will hike in June – ascribing a 83% probability, and 1.4 rate hikes are priced for the rest of the year.

The Fed's Brainard (voter, dove) expanded on the inflation puzzle confronting the Fed. In sum the unemployment rate at 4.4% is quite low relative to recent decades and previously has been associated with an outbreak of inflation, while at the same time inflation and wages haven't really lifted and if anything have disappointed. While Governor Brainard seems content to hike in June, she is cautious on the outlook for inflation, stating "if soft inflation data persist, that would be concerning and, ultimately, could lead me to reassess the appropriate path of policy". These comments are broadly in line with the FOMC Minutes last week.

Other US data was mixed. Consumer Confidence was slightly below expectations at 117.9, but the index remains at very high levels and is broadly suggestive of positive consumer spending in the period ahead. Reinforcing this, US consumption data was positive; nominal spending rose 0.4% m/m while real spending rose 0.2% and this should make Q2 GDP stronger than Q1. For Payrolls on Friday, the "jobs plentiful" less "hard to get" series out of the Consumer Confidence report rose to 11.7 from 10.9 and continues to signal a tightening in the labour market (Chart 1).

German inflation data was slightly weaker than expected at 1.5% y/y against expectations of 1.5%. The Euro did fall on the news but recovered to be 0.2% higher overnight at 1.1187. A report that ECB policymakers could upgrade their economic risk assessment at next week's June meeting kept alive the possibility of a

change in forward guidance despite Draghi's softish tones yesterday.

Topping the currency leader board today was the NZ Dollar (+0.6%), followed by the Yen (+0.4%) and the Aussie (+0.3%). The Yen was supported by strong economic data yesterday, though there is little evidence to date that inflation is picking up in Japan.

As we go to print the Pound has fallen sharply (-0.5% since 7.00am) with a YouGov/Times poll showing the Tories could lose 20 seats at the upcoming June 8 election.

Commodities were mixed overnight. The oil price did fall with Brent -1.0% to \$51.78 a barrel and dragged on equities with the S&P500 Energy sub-index falling 1.3%, though overall equities were down by less with the S&P500 -0.1% and Eurostoxx -0.5%.

Coming Up

It's a quiet day domestically to end autumn with only April Credit Statistics (11.30am AEST). NAB is in line with the consensus in expecting credit growth to remain subdued at 0.4% m/m, up marginally from March's 0.3% increase. Your scribe's eye will be on the pace of business credit growth which has slowed sharply over the past three months.

Across the Ditch the RBNZ publishes its Financial Stability Report, along with a press conference by Governor Wheeler (9.00am AEST). The report is likely to highlight improvement prospects for the dairy industry and continuing concerns around the housing market.

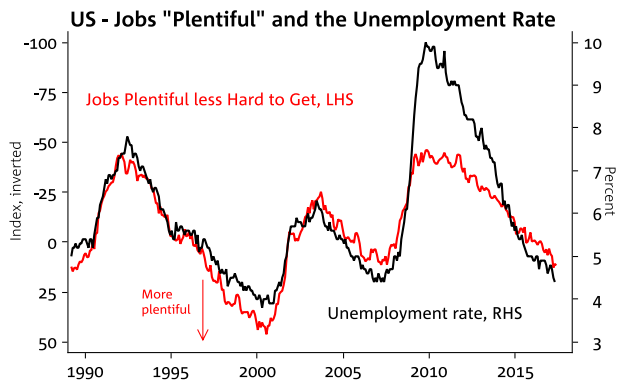
International focus will be on the Chinese PMIs (11.00am AEST) and on European inflation data (19.00am AEST). Other data out includes Japanese Industrial Production and the US Beige Book and Chicago PMI – a potential herald for the more important Manufacturing ISM on Thursday.

For the Chinese PMIs, the market expects the Manufacturing PMI to be 51.0, a touch lower than last month's 51.2. The Eurozone inflation data is expected to be 1.5% y/y for the Headline and Core is expected to be 1.0% y/y.

Overnight

On global stock markets, the S&P 500 was -0.12%. Bond markets saw US 10-years -3.84bp to 2.21%. In commodities, Brent crude oil -0.98% to \$51.78, gold -0.5% to \$1,262, iron ore +0.0% to \$58.50, steam coal +0.3% to \$74.10, met. coal -1.0% to \$172.00. AUD is at 0.7465 and the range since yesterday 5pm Sydney time is 0.7443 to 0.7470.

Chart: US Jobs "plentiful" suggests tight labour market



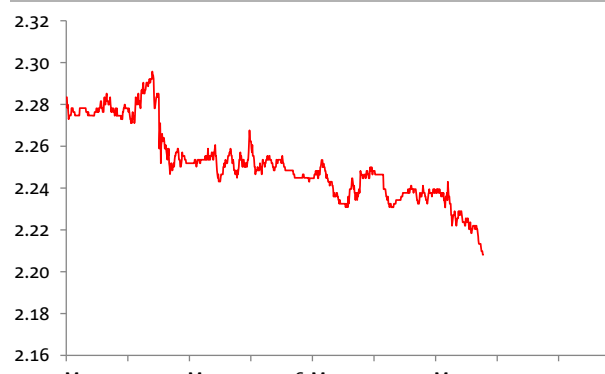
Markets

AUD/USD - past week



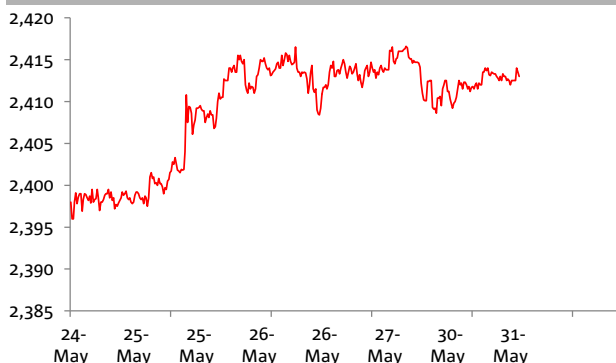
Source: Bloomberg.

US 10yr - past week



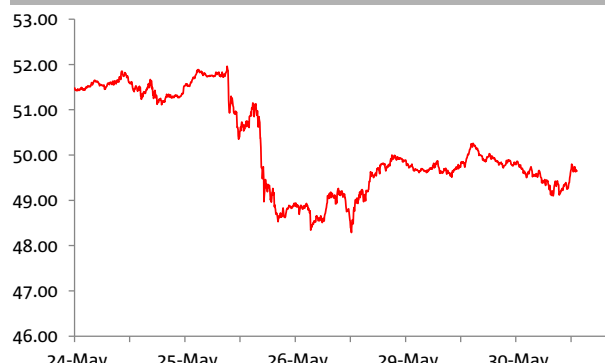
Source: Bloomberg.

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	0.7465	0.3	0.7416	0.7469	HKD	7.7929 0.0
NZD	0.7097	0.6	0.7035	0.7102	CNY	6.8555 0.0
EUR	1.1187	0.2	1.1110	1.1205	SGD	1.3847 -0.1
GBP	1.2859	0.1	1.2795	1.2888	IDR	13,323 0.0
JPY	110.84	-0.4	110.67	111.32	THB	34.11 0.0
CAD	1.3461	0.1	1.3451	1.3506	KRW	1,125 0.3
AUD/EUR	0.6673	0.1	0.6659	0.6698	TWD	30.21 0.0
AUD/JPY	82.75	0.0	82.24	82.93	PHP	49.78 0.0
AUD/GBP	0.5806	0.2	0.5784	0.5814	CHF	0.97 -0.3
AUD/NZD	1.0518	-0.2	1.0514	1.0561	SEK	8.72 0.2
AUD/CNH	5.1156	0.2	5.0623	5.0822		

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,029	-0.24	17.7
S&P 500	2,413	-0.12	15.0
Nasdaq	6,203	-0.11	25.7
VIX	10.38	5.81	-20.9
FTSE	7,527	-0.3	20.0
DAX	12,599	-0.2	21.9
CAC 40	5,306	-0.5	17.1
Nikkei	19,678	0.0	14.2
Shanghai	3,110	0.0	10.2
Hang Seng	25,702	0.0	24.6
ASX 200	5,718	0.2	6.3

Commodities*

	Last	% day
Oil (Brent)	51.78	-1.0
Oil (WTI)	49.56	-0.5
Oil (Tapis)	52.10	-0.3
Gold	1262.00	-0.5
CRB	181.33	-0.4
GS Metals	316.7	-0.6
Aluminium	1918.0	-1.4
Copper	5640.3	-0.1
Nickel	9075.0	0.4
Zinc	2616.5	-0.6
Ch. steel	3212.0	0.0
Iron ore	58.5	0.0
St. Coal	74.1	0.3
Met. coal	172.0	-1.0
Wheat Chic.	444.0	-1.6
Sugar	15.0	-0.2
Cotton	77.3	0.2
Coffee	132.1	0.7

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spnd
USD	1.00	1.20	1.51	2.15	USD 10	2.21	-3.84
AUD	1.50	1.74	1.74	2.65	AUD 10	2.39	-2.40 0.18
NZD	1.75	1.97	2.23	3.21	NZD 10	2.81	-2.50 0.60
EUR	0.00	-0.33	-0.16	0.77	CAD 10	1.42	0.40 -0.79
GBP	0.25	0.30	0.51	1.08	EUR 10	0.29	-0.60 -1.92
JPY	-0.06	-0.02	0.04	0.23	GBP 10	0.99	-1.80 -1.21
CAD	0.50	0.89	1.04	1.74	JPY 10	0.04	0.40 -2.17

Overnight Futures

Australia		
	Last	Chge*
3 mth bill	98.27	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.59	1.00
3/10 sprd	0.21	2.00
SPI	5719.0	-6.0

*Change in bps

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
Tuesday, 30 May 2017								
CH	<i>Markets in China and Taiwan closed for Dragon Boat Festival holidays</i>							
NZ	Building Permits MoM	Apr				-1.8	23.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May 28				110.5	0.30	9.30
JN	Jobless Rate/Job-to-applicant ratio	Apr		2.8/1.46		2.8/1.5	0.30	9.30
JN	Overall Household Spending YoY	Apr		-0.9		-1.3	0.30	9.30
JN	Retail Sales MoM/YoY	Apr		-0.2/2.3		0.2/2.1	0.50	9.50
AU	Building Approvals MoM/YoY	Apr	3/-18.6	3/-18.1		-13.4/-19.9	2.30	11.30
EC	Business Climate Indicator	May		1.11		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		-0.1/1.6		0.0/2.0	13.00	22.00
GE	CPI EU Harmonized MoM/YoY	May P		-0.1/1.5		0.0/2.0	13.00	22.00
CA	Current Account Balance	1Q		-12		-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		0.2		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		0.9/5.61		0.7/5.9	14.00	23.00
US	Conf. Board Consumer Confidence	May		119.8		120.3	15.00	0.00
US	Dallas Fed Manf. Activity	May		15		16.8	15.30	0.30
US	Fed's Brainard speaks on Economy and Monetary Policy in New York						18.00	3.00
Wednesday, 31 May 2017								
NZ	RBNZ Financial Stability Report						22.00	7.00
AU	PM Turnbull speaks to CEDA State of the Nation Conference (Wednesday-Thursday event with an array of MPs/others speaking)						22.55	7.55
UK	GfK Consumer Confidence	May		-8		-7.0	0.10	9.10
UK	Lloyds Business Barometer	May				47.0	0.10	9.10
UK	BRC Shop Price Index YoY	May		-0.3		-0.5	0.10	9.10
JN	Industrial Production MoM/YoY	Apr P		4.2/6.1		-1.9/3.5	0.50	9.50
NZ	ANZ Activity Outlook/Business Confidence	May		/		37.7/11.0	2.00	11.00
CH	Manufacturing/Non-manufacturing PMI	May		51/		51.2/54.0	2.00	11.00
AU	Private Sector Credit MoM/YoY	Apr	0.4/4.9	0.4/4.9		0.3/5.0	2.30	11.30
JN	Small Business Confidence	May				48.6	6.00	15.00
GE	Unemployment Change (000's)/Claims Rate SA	May		-14.5/5.7		-15.0/5.8	8.55	17.55
UK	Mortgage Approvals	Apr		66		66.8	9.30	18.30
EC	Unemployment Rate	Apr		9.4		9.5	10.00	19.00
EC	CPI Estimate/Core YoY	May		1.5/1		1.9/1.2	10.00	19.00
US	Fed's Kaplan speaks in New York						13.00	22.00
EC	Merkel, Lautenschlaeger Address German Credit-Union Conference						13.30	22.30
CA	Quarterly GDP Annualized	1Q		4.2		2.6	13.30	22.30
CA	GDP MoM/YoY	Mar		0.2/2.9		0.0/2.5	13.30	22.30
US	Chicago Purchasing Manager	May		57		58.3	14.45	23.45
US	Pending Home Sales MoM/YoY	Apr		0.4/		-0.8/0.5	15.00	0.00
US	U.S. Federal Reserve Releases Beige Book						19.00	4.00
Thursday, 1 June 2017								
NZ	QVNZ Housing Report YoY	May				11.1	22.00	7.00
NZ	Terms of Trade Index QoQ	1Q	3.9	3.9		5.7	23.45	8.45
AU	AiG Perf of Mfg Index	May				59.2	0.30	9.30
AU	CoreLogic House Px MoM	May				1.4	1.00	10.00
US	Fed's Williams speaks in Seoul						1.10	10.10
JN	Nikkei Japan PMI Mfg	May F				52.0	1.30	10.30
AU	Treasurer Morrison speaks to CEDA State of the National Conference						2.00	11.00
AU	Private Capex QoQ/Expectations, 17-18 2nd estimate	1Q	-1.5/87.1	0.5/		-2.1/80.6	2.30	11.30
AU	Retail Sales MoM	Apr	0.3	0.3		-0.1	2.30	11.30
JN	BOJ Harada speaks in Gifu						2.30	11.30
CH	Caixin China PMI Mfg	May		50.2		50.3	2.45	11.45
AU	Commodity Index AUD/SDR YoY	May		/		132.7/38.6	7.30	16.30
EC	ECB's Villeroy Speaks at Brussels Economic Forum						8.15	17.15
GE	Markit/BME Germany Manufacturing PMI	May F		59.4		59.4	8.55	17.55
EC	Markit Eurozone Manufacturing PMI	May F		57		57.0	9.00	18.00
UK	Markit UK PMI Manufacturing SA	May		56.5		57.3	9.30	18.30
EC	EU's Dombrovskis Speaks at Brussels Economic Forum						10.00	19.00
EC	ECB's Hakkarainen, Costa, EBA's Enria Speak in Lisbon						10.00	19.00
CA	MLI Leading Indicator MoM	Apr				0.5	12.00	21.00
US	Challenger Job Cuts YoY	May				-42.9	12.30	21.30
US	Fed's Powell speaks on Normalisation of Monetary Policy						13.00	22.00
EC	EU's Moscovici Speaks at Brussels Economic Forum						13.00	22.00
US	ADP Employment Change	May		180		177	13.15	22.15
US	Nonfarm Productivity/Unit Labour Costs	1Q F		-0.5/2.9		-0.6/3.0	13.30	22.30
US	Initial Jobless Claims	May 27		238.5		234	13.30	22.30
CA	Markit Canada Manufacturing PMI	May				55.9	14.30	23.30
US	Markit US Manufacturing PMI	May F		52.5		52.5	14.45	23.45
US	Wards Total Vehicle Sales	May		16.95		16.8		
US	ISM Manufacturing	May		54.6		54.8	15.00	0.00
US	Construction Spending MoM	Apr		0.5		-0.2	15.00	0.00
Friday, 2 June 2017								
AU	HIA New Home Sales MoM	Apr				-1.1	2.00	11.00
NZ	Credit Aggregates	Apr					4.00	13.00
JN	Consumer Confidence Index	May		43.5		43.2	6.00	15.00
CA	Labor Productivity QoQ	1Q		1.1		0.4	13.30	22.30
CA	Int'l Merchandise Trade	Apr		-0.015		-0.1	13.30	22.30
US	Change in Nonfarm Payrolls/Unemployment rate	May		185/4.4		211/4.4	13.30	22.30
US	Average Hourly Earnings MoM/YoY	May		0.2/2.6		0.3/2.5	13.30	22.30
US	Trade Balance	Apr		-45.95		-43.7	13.30	22.30
EC	ECB's Visco Speaks at Trento Economic Festival						14.30	23.30
Upcoming Central Bank Interest Rate Announcements								
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%		
Canada, BoC		13-Jul	0.5%	0.5%		0.5%		

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

CONTACT DETAILS

Authors

David de Garis
Director, Economics
+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

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.