

MARKETS TODAY

The end of May



Good morning

It has been a quiet end to the month of May, nevertheless the month has ended with a few themes raising question marks over the near term outlook for markets. US equities have managed to post positive returns for the month, but they have closed the day with small losses weighed down by financial and energy shares. The USD has also closed lower (DXY -0.29%), and has ended the month down between 1.5% and 2% in index terms amid US political uncertainty and question marks over the likelihood of further Fed hikes. Oil prices have also drifted lower as investors have become increasingly sceptical over the ability from OPEC and friends to reduce global crude output. Meanwhile uncertainty over the election outcome in the UK has also kept the pound under pressure as doubts begin to rise over PM May's ability to win the election.

US equity indices have been dragged lower by a selloff in financial and energy shares. Banks shares came under pressure after J.P. Morgan Chase and Bank of America reported a decline in Q2 revenues blaming tranquil markets for the decline in trading activity. Energy shares have also come under the pressure following the move lower in oil prices (+/-2%) as investors questioned the effectiveness of the production cuts amid reports of Libya increasing production and investment banks reducing their year-end price forecasts.

The fall in oil prices has seen commodity linked currencies underperform the USD with the AUD at the bottom of the G10 leader board. The Aussie's under performance was compounded by declines in iron ore (-2.5%) and Meth coal prices (-1.7%). The pair currently trades at 0.7430, close to the overnight low of 0.7425. Meanwhile NZD is marginally lower (-0.08%) and continues to find the air quite thin above the 71c mark. That said, relative to other commodity link currencies, NZD has not only been the best performer on the day, it has also been the outstanding outperformer for the whole of May, up 3.16%. NZD was due for an outperformance after a couple of months baffling weakness.

After yesterday's news of a YouGov/Times poll that suggested the Conservatives could lose 20 seats in the upcoming June general election in the UK, the pound traded to a low of 1.2776 around 7pm last night. Since then, however, it has staged an impressive recovery climbing to an overnight high of 1.2912 aided by two more polls reporting a convincing lead by the Conservatives in the order of 10-15 percentage points.

The Euro is back above 1.12 with much of the performance reflecting USD weakness on the back of lower UST yields (10y UST traded down to 2.19% and are currently at 2.2045%), softer US equity markets and news that former FBI director will say President Trump asked him to back off Flynn probe in his testimony to the

Senate committee next week. Earlier in the overnight session, the Euro zones May flash HICP came in at 1.4%, down from 1.9% and against the f/c of 1.5%. The Euro hardly moved on the news given expectations for a low print had been set a day earlier following softer than expected numbers from Germany and Spain.

Fed Kaplan said that he still sees 2 more hikes in 2017, however he did admit that "progress on inflation has been slow and uneven, I think it merits careful scrutiny in the months ahead".

Coming Up

We have a busy day of data releases and events starting with New Zealand's terms of trade ahead of Australia's Q1 Private CAPEX and April retail sales. Also this morning Fed Williams speaks in Seoul and China's CAIXIN Manufacturing PMI is due for release. Later in Europe ECB Villeroy speaks in Brussels, Germany and Europe get their final PMIs for May and the UK also gets its manufacturing and construction PMIs. The US gets its ADP employment report, weekly jobless claims, ISM manufacturing (May) and Construction Spending (Apr).

NAB's expectation for Australia's Q1 Private CAPEX is for a decline in the order of 1.5% q/q, which is weaker than the market consensus of +0.5% q/q. Along with the estimate of spending in the March quarter, Capex also contains an estimate of likely expenditure for 2017-18, polled in April-May when business Confidence was showing signs of rising. For the 2017 financial year, NAB's forecast is \$87.1 billion, marginally higher than in the previous survey, when expectations were for spending of \$80.6 billion. Most of this upward revision reflects the usual seasonal firming of plans, rather than a material uplift.

As for retail sales in April, we are in line with the market expecting a rebound to 0.3% from the negative 0.1% printed in March. Should sales again underperform; the market will be interested in whether any weakness was concentrated in Queensland and NSW where weather could well have curtailed spending further.

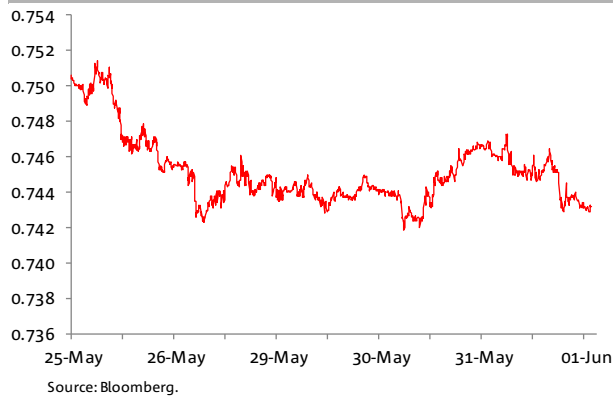
ADP employment in the US is expected to print at 180k, but many commentators are suggesting there is a chance for a stronger number. As for the ISM manufacturing reading for May, the market is looking for a 54.6 print, little changed from the previous month. However if the regional surveys are any guide, then the risk is that we get a number above the 55 mark.

Overnight

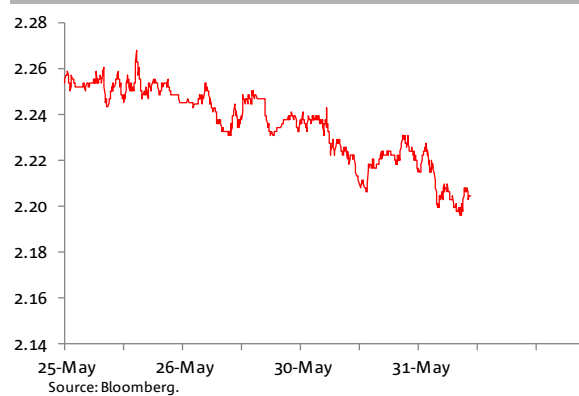
On global stock markets, the S&P 500 was -0.05%. Bond markets saw US 10-years -0.70bp to 2.20%. In commodities, Brent crude oil -2.30% to \$51.04, gold+0.5% to \$1,268, iron ore -2.5% to \$57.02, steam coal -0.9% to \$73.45, met. coal -1.7% to \$146.00. AUD is at 0.7432 and the range since yesterday 5pm Sydney time is 0.7425 to 0.7476.

Markets

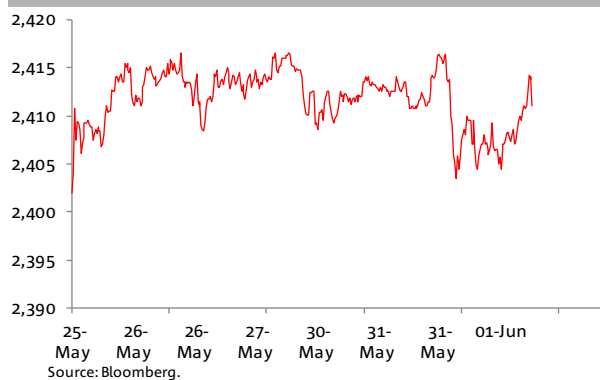
AUD/USD - past week



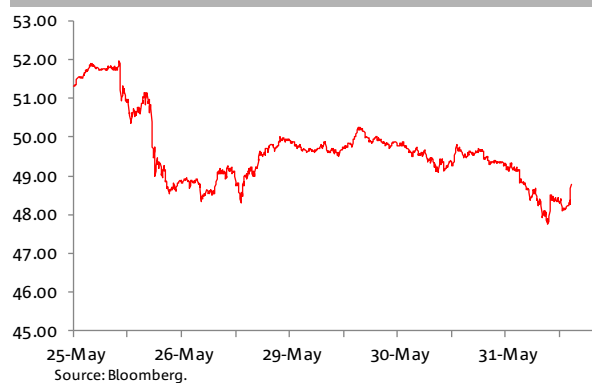
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

Indicative 24hr
ranges (**)

| | Last | % chge | Low | High | Other FX | Last | % chge |
|---------|--------|--------|--------|--------|----------|--------|--------|
| AUD | 0.7432 | -0.4 | 0.7425 | 0.7476 | HKD | 7.7922 | 0.0 |
| NZD | 0.7086 | -0.1 | 0.7078 | 0.7122 | CNY | 6.8180 | -0.5 |
| EUR | 1.1243 | 0.5 | 1.1165 | 1.1252 | SGD | 1.3833 | -0.1 |
| GBP | 1.2880 | 0.2 | 1.2769 | 1.2921 | IDR | 13,323 | 0.0 |
| JPY | 110.78 | -0.1 | 110.49 | 111.23 | THB | 34.05 | -0.2 |
| CAD | 1.3492 | 0.2 | 1.3437 | 1.3523 | KRW | 1,120 | -0.5 |
| AUD/EUR | 0.6611 | -0.9 | 0.6606 | 0.6691 | TWD | 30.12 | -0.3 |
| AUD/JPY | 82.34 | -0.5 | 82.11 | 82.95 | PHP | 49.82 | 0.1 |
| AUD/GBP | 0.5771 | -0.6 | 0.5758 | 0.5833 | CHF | 0.97 | -0.7 |
| AUD/NZD | 1.0488 | -0.3 | 1.0466 | 1.0539 | SEK | 8.69 | -0.4 |
| AUD/CNH | 5.0694 | -0.9 | 5.0102 | 5.1080 | | | |

Interest Rates

Indicative Swap Rates

| | Cash | 3mth | 2Yr | 10Yr | Benchmark 10 Year Bonds | Last | chge | Spnd |
|-----|-------|-------|-------|------|-------------------------|------|-------|-------|
| USD | 1.00 | 1.20 | 1.51 | 2.15 | USD 10 | 2.20 | -0.70 | |
| AUD | 1.50 | 1.74 | 1.75 | 2.67 | AUD 10 | 2.39 | -0.40 | 0.18 |
| NZD | 1.75 | 1.97 | 2.21 | 3.19 | NZD 10 | 2.77 | -5.20 | 0.56 |
| EUR | 0.00 | -0.33 | -0.16 | 0.78 | CAD 10 | 1.42 | 0.20 | -0.79 |
| GBP | 0.25 | 0.30 | 0.53 | 1.13 | EUR 10 | 0.30 | 1.20 | -1.90 |
| JPY | -0.05 | -0.02 | 0.04 | 0.24 | GBP 10 | 1.05 | 5.20 | -1.16 |
| CAD | 0.50 | 0.90 | 1.05 | 1.74 | JPY 10 | 0.05 | 0.60 | -2.15 |

Equities

Major Indices

| | Last | % day | % y/y |
|-----------|--------|-------|-------|
| Dow | 21,009 | -0.10 | 18.1 |
| S&P 500 | 2,412 | -0.05 | 15.0 |
| Nasdaq | 6,199 | -0.08 | 25.3 |
| VIX | 10.41 | 0.29 | -26.6 |
| FTSE | 7,520 | -0.1 | 20.7 |
| DAX | 12,615 | 0.1 | 22.9 |
| CAC 40 | 5,284 | -0.4 | 17.3 |
| Nikkei | 19,651 | -0.1 | 15.9 |
| Shanghai | 3,117 | 0.2 | 7.0 |
| Hang Seng | 25,661 | -0.2 | 23.6 |
| ASX 200 | 5,725 | 0.1 | 7.5 |

Overnight Futures

| | Last | Chge* |
|------------|--------|-------|
| Australia | | |
| 3 mth bill | 98.28 | 1.00 |
| 3 Yr bond | 97.8 | 3.00 |
| 10 Yr bond | 97.58 | 0.50 |
| 3/10 sprd | 0.22 | 2.50 |
| SPI | 5732.0 | -10.0 |

*Change in bps

Commodities*

| | Last | % day |
|-------------|---------|-------|
| Oil (Brent) | 51.04 | -2.3 |
| Oil (WTI) | 48.63 | -2.1 |
| Oil (Tapis) | 51.13 | -1.9 |
| Gold | 1267.90 | 0.5 |
| CRB | 179.77 | -0.9 |
| GS Metals | 316.9 | 0.1 |
| Aluminium | 1920.3 | 0.1 |
| Copper | 5665.8 | 0.5 |
| Nickel | 8931.0 | -1.6 |
| Zinc | 2590.0 | -1.0 |
| Ch. steel | 3105.0 | -3.3 |
| Iron ore | 57.0 | -2.5 |
| St. Coal | 73.5 | -0.9 |
| Met.coal | 146.0 | -1.7 |
| Wheat Chic. | 443.8 | -0.1 |
| Sugar | 14.9 | -1.0 |
| Cotton | 77.0 | -0.4 |
| Coffee | 129.4 | -2.1 |

Prob. of 25bps hike/cut at next meeting

| | bps | % |
|-----|------|-------|
| RBA | -1.0 | -4.0% |
| FED | 20 | 81.6% |

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 |
|--|--|------------|-----------|------------|--------|------------|-------|-------|
| 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 | | 50.1 | | 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 | | | | | | | 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 | Initial Jobless Claims | May 27 | | 238 | | 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 | | 16.9 | | 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 | | 1.15 | | 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 | | 180/4.4 | | 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 | | -46.1 | | -43.7 | 13.30 | 22.30 |
| EC | ECB's Visco Speaks at Trento Economic Festival | | | | | | 14.30 | 23.30 |
| Monday, 5 June 2017 | | | | | | | | |
| AU | AiG Perf of Services Index | May | | | | 53.0 | 0.30 | 9.30 |
| JN | Nikkei Japan PMI Services/Composite | May | | / | | 52.2/52.6 | 1.30 | 10.30 |
| AU | Melbourne Institute Inflation MoM/YoY | May | | / | | 0.5/2.6 | 2.00 | 11.00 |
| AU | Inventories SA QoQ | 1Q | | | | 0.3 | 2.30 | 11.30 |
| AU | Company Operating Profit QoQ | 1Q | | | | 20.1 | 2.30 | 11.30 |
| AU | ANZ Job Advertisements MoM | May | | | | 1.4 | 2.30 | 11.30 |
| CH | Caixin China PMI Services/Composite | May | | / | | 51.5/51.2 | 2.45 | 11.45 |
| UK | New Car Registrations YoY | May | | | | -19.8 | 9.00 | 18.00 |
| UK | Markit/CIPS UK Services/Composite PMI | May | | / | | 55.8/56.2 | 9.30 | 18.30 |
| US | Markit US Services/Composite PMI | May F | | / | | 54.0/53.9 | 14.45 | 23.45 |
| CA | Bloomberg Nanos Confidence | Jun 2 | | | | 58.5 | 15.00 | 0.00 |
| US | ISM Non-Manf. Composite | May | | 56.8 | | 57.5 | 15.00 | 0.00 |
| US | Factory Orders/ex-Trans | Apr | | -0.2/ | | 0.2/-0.3 | 15.00 | 0.00 |
| Tuesday, 6 June 2017 | | | | | | | | |
| NZ | Value of All Buildings SA QoQ | 1Q | | | | 1.9 | 23.45 | 8.45 |
| UK | BRC Sales Like-For-Like YoY | May | | | | 5.6 | 0.10 | 9.10 |
| AU | ANZ Roy Morgan Weekly Consumer Confidence Index | Jun 4 | | | | 112.2 | 0.30 | 9.30 |
| JN | Labor Cash/Real Earnings YoY | Apr | | 0.3/4.5 | | -0.3/3.9 | 1.00 | 10.00 |
| NZ | ANZ Commodity Price | May | | | | -0.2 | 2.00 | 11.00 |
| AU | BoP Current Account Balance/Net exports % of GDP | 1Q | | / | | -4.0/0.2 | 2.30 | 11.30 |
| AU | RBA Cash Rate Target | Jun 6 | | 1.5 | | 1.5 | 5.30 | 14.30 |
| GE | Markit Germany Services/Composite PMI | May F | | / | | 55.2/57.3 | 8.55 | 17.55 |
| EC | Markit Eurozone Services/Composite PMI | May F | | / | | 56.2/56.8 | 9.00 | 18.00 |
| EC | Sentix Investor Confidence | Jun | | | | 27.4 | 9.30 | 18.30 |
| EC | Retail Sales MoM/YoY | Apr | | 0.3/4.5 | | -0.3/3.9 | 10.00 | 19.00 |
| US | JOLTS Job Openings | Apr | | | | 5743.0 | 15.00 | 0.00 |
| CA | Ivey Purchasing Managers Index SA | May | | | | 62.4 | 15.00 | 0.00 |
| US | Labor Market Conditions Index Change | May | | | | 3.5 | | |
| Wednesday, 7 June 2017 | | | | | | | | |
| NZ | ANZ Job Advertisements MoM | May | | | | 2.8 | 23.00 | 8.00 |
| NZ | Mfg Activity Volume/sa QoQ | 1Q | | 0.3/4.5 | | -0.3/3.9 | 23.45 | 8.45 |
| AU | AiG Perf of Construction Index | May | | | | 51.9 | 0.30 | 9.30 |
| AU | GDP SA QoQ/YoY | 1Q | | 0.3/4.5 | | -0.3/3.9 | 2.30 | 11.30 |
| CH | Foreign Reserves | May | | | | 3029.5 | 3.30 | 12.30 |
| JN | Leading Index CI | Apr P | | | | 105.5 | 6.00 | 15.00 |
| GE | Factory Orders MoM/YoY | Apr | | 0.3/4.5 | | -0.3/3.9 | 7.00 | 16.00 |
| GE | Markit Germany Construction PMI | May | | | | 54.6 | 8.30 | 17.30 |
| UK | Halifax House Prices MoM | May | | | | -0.1 | 8.30 | 17.30 |
| UK | Halifax House Price 3Mths/Year | May | | | | 3.8 | 8.30 | 17.30 |
| EC | OECD Economic Outlook | | | | | | 10.00 | 19.00 |
| EC | GDP SA QoQ/YoY | 1Q F | | 0.3/4.5 | | -0.3/3.9 | 10.00 | 19.00 |
| CA | Building Permits MoM | Apr | | | | -5.8 | 13.30 | 22.30 |
| US | Consumer Credit | Apr | | 15 | | 16.4 | 20.00 | 5.00 |
| 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

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