

MARKETS TODAY

Janet



Good morning

The Fed this morning announced a hike in the Fed funds rate by $\frac{1}{4}\%$, as entirely expected, lifting the Federal funds rate to 1.00-1.25%. But we walk in this morning with the big dollar having been pressured and the US Treasury curve lower. Another case of the usual “buy the rumour, sell the fact”?

The explanation comes only in part from a dovish Fed hike/as expected result, also with the Fed’s own rate projections in their “dot plot” rate forecasts hardly moved. The 2017 Fed median forecast still embodies one more rate hike this year, three more next year (again, as before), with the Fed funds by the end of 2019 getting to 2.9%, still effectively at the 3% still-expected (You can see their rate and economic forecasts [here](#).)

Selling of the USD (and lower Treasury yields) came after yet another downside surprise from the CPI that did the trick. Headline US CPI for May eased 0.1% (flat expected) with core inflation also under-clubbing expectations at just +0.1%, bringing annual core CPI down to 1.7% y/y from 1.9% that was also the expectation. As if the top line undershoot wasn’t telling enough, the detail of the low CPI looked to have more breadth in this report with more than just low cell phone charges at play (a reason why Yellen was at pains to point out the idiosyncratic factors at work in recent CPIs) but an array of soft price categories. Apparel, owner occupied rent, autos, medical care, airfares, recreation and education were mentioned. Pause for thought again.

Also released last night was the May US Retail Sales that was also lower than expected in May (partly low prices), but the sour taste from that neutralised by upward revisions to March and April. That report, plus the low CPI saw the Atlanta Fed tweak up its Q2 *GDPNow* estimate to 3.2% from 3.0%. (Higher nominal spending on net over recent months and lower CPI both help support *real* consumer spending and hence GDP.)

The Fed also outlined a plan under which it would begin to wind down the size of its balance sheet later this year, subject to the economy. There would be a monthly cap on selling of US Treasuries and agency securities, a cap that would be progressively increased to an envisioned maximum. The cap would start at \$6bn/month for Treasuries and thereafter rise by \$6bn/month until \$30bn/m is reached. The initial cap would be \$4bn/m for agency/mortgage-backed securities, then by \$4bn/m until \$20bn/m is reached and continued.

Janet Yellen and the FOMC were unspecific on the timing of when this rundown would commence. When asked in the presser, she initially stuck to her lines saying that it would be once normalization of fed funds is well under way but acknowledged it could be “relatively soon”. So that time seems to be approaching, perhaps at the September 21 meeting when the next set of Fed forecasts will be unveiled.

David de Garis, Director, Economics

Market reaction saw the USD take a bath after the CPI but rallied after the Fed, though it looks to be again eking lower. It was a not dissimilar intra-day saw tooth pattern for Treasuries, though yields remain measurably lower for the day, the USD less so. AUD this morning trades just below 0.76, having tested above the figure on earlier USD weakness. It will all play out with the numbers. Oil had a bad night, WTI now with a 44 handle, also playing to the low inflation story, the CAD also an under-performer for the session.

Coming Up

Two key releases this morning, first, at 8.45 AEST is NZ’s Q1 GDP, followed by Aussie employment. Last week, our colleagues at BNZ toned down their estimate for the quarter to 0.5% (2.4% y/y). BNZ says “big-picture” it feels like Q1 GDP growth should be nearer 1.0%, with strong expansion in population and jobs, and robust business survey indicators in substantive support. However, the technical picture, including from the recent run of “partials”, is struggling to net much growth at all. Yesterday’s Q1 BoP report also added a degree of downside risk reservation over the GDP number. The consensus as at the end of last week was 0.7%.

Then it’s all eyes on the Aussie jobs report at 11.30. Leading indicators continue to point to good employment gains (ABS catching up to other labour demand indicators such as the NAB employment index and SEEK Job Ads). That trend analysis suggests to us the tilt toward an above average just over 20K gain in employment and likely coming with an unchanged unemployment rate of 5.7%. (Sometime a good employment outcome comes with a rise in participation rate, neutralising the short term impact on the unemployment rate.) Of course, this is all subject to sampling variability, so we’ll see when the numbers are released at 11.30. The consensus is for a rise of 10K.

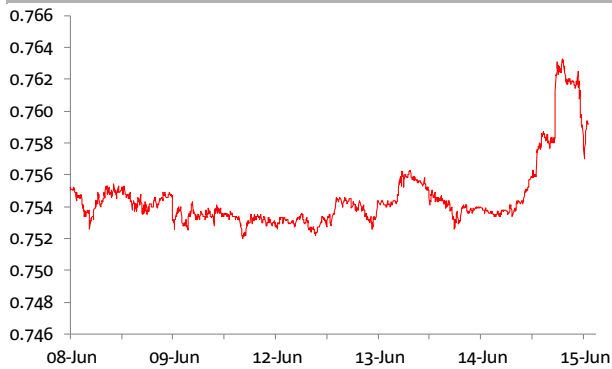
BoJ Kuroda is speaking this afternoon at 16.30 AEST. Another speech is one from RBA Deputy Governor Guy Debelle, speaking this evening at 5.40. There’s no speech title as yet available. It’s at a Thomson Reuters industry event. Some other data and events on the cards to watch out for include UK Retail Sales, the BoE meeting, a smattering of US releases and, late in the session for Sterling watchers and a Mansion House speech from BoE Governor Mark Carney; it’s a private dinner but the text is being released.

Overnight

On global stock markets, the S&P 500 was -0.10%. Bond markets saw US 10-years -8.53bp to 2.13%. In commodities, Brent crude oil -3.76% to \$46.89, gold+0.6% to \$1,273, iron ore +2.0% to \$54.43, steam coal -0.4% to \$80.50, met. coal +0.7% to \$144.50. AUD is at 0.7591 and the range since yesterday 5pm Sydney time is 0.7533 to 0.7636.

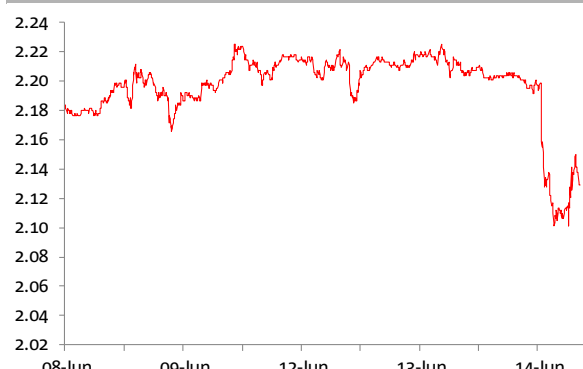
Markets

AUD/USD - past week



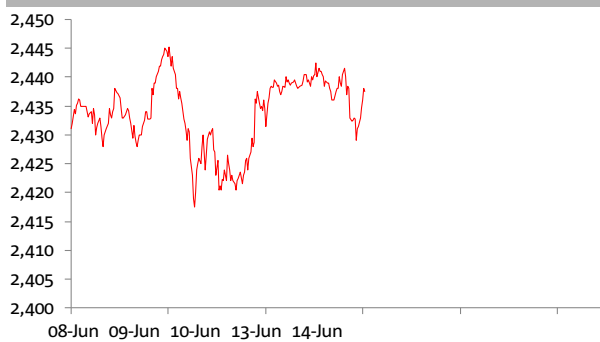
Source: Bloomberg.

US 10yr - past week



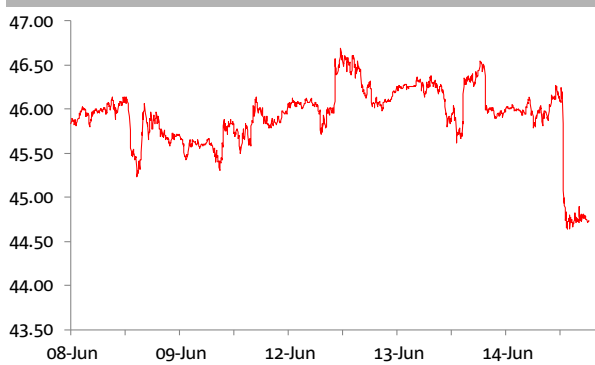
Source: Bloomberg.

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	0.7591	0.7	0.7533	0.7636	HKD	7.7979 0.0
NZD	0.7268	0.6	0.7199	0.7333	CNY	6.7930 -0.1
EUR	1.1218	0.1	1.1191	1.1299	SGD	1.3759 -0.5
GBP	1.2749	0.2	1.2709	1.2831	IDR	13,290 0.0
JPY	109.60	-0.5	108.68	110.36	THB	33.90 -0.1
CAD	1.3245	-0.1	1.3165	1.3288	KRW	1,120 -0.8
AUD/EUR	0.6767	0.5	0.6712	0.6775	TWD	30.18 -0.2
AUD/JPY	83.21	0.2	82.85	83.67	PHP	49.50 0.0
AUD/GBP	0.5955	0.5	0.5903	0.5978	CHF	0.97 0.3
AUD/NZD	1.0444	0.0	1.0414	1.0471	SEK	8.70 0.1
AUD/CNH	5.1600	0.7	5.1092	5.1531		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprid
USD	1.25	1.25	1.52	2.11	USD 10	2.13	-8.53
AUD	1.50	1.72	1.78	2.61	AUD 10	2.40	0.50 0.28
NZD	1.75	1.94	2.18	3.12	NZD 10	2.73	-5.10 0.61
EUR	0.00	-0.33	-0.19	0.72	CAD 10	1.49	-7.40 -0.64
GBP	0.25	0.29	0.45	1.01	EUR 10	0.23	-4.00 -1.90
JPY	-0.05	-0.01	0.05	0.24	GBP 10	0.93	-10.60 -1.20
CAD	questing	0.90	equesting	1.82	JPY 10	0.07	0.60 -2.06

Equities

Major Indices				
	Last	% day	% y/y	
Dow	21,375	0.22	20.9	
S&P 500	2,438	-0.10	17.5	
Nasdaq	6,195	-0.41	27.9	
VIX	10.64	2.11	-48.1	
FTSE	7,474	-0.3	26.2	
DAX	12,806	0.3	34.5	
CAC 40	5,243	-0.4	26.9	
Nikkei	19,884	-0.1	24.9	
Shanghai	3,131	-0.7	8.4	
Hang Seng	25,876	0.1	26.4	
ASX 200	5,834	1.1	13.3	

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.29	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.63	8.00
3/10 sprd	0.17	-5.00
SPI	5755.0	-30.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	46.89	-3.8
Oil (WTI)	44.68	-3.8
Oil (Tapis)	48.07	-0.9
Gold	1272.80	0.6
CRB	173.02	-1.6
GS Metals	312.7	0.0
Aluminium	1870.0	-0.3
Copper	5672.3	-0.3
Nickel	8888.0	1.7
Zinc	2477.0	0.9
Ch. steel	3037.0	1.4
Iron ore	54.4	2.0
St. Coal	80.5	-0.4
Met.coal	144.5	0.7
Wheat Chic.	457.3	-0.4
Sugar	13.6	-1.2
Cotton	73.5	-1.3
Coffee	127.8	-0.7
Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-0.5	-2.0%
FED	-2	-6.4%

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, 15 June 2017								
NZ	GDP SA QoQ/YoY	1Q	0.5	0.7		0.4	23.45	8.45
AU	Consumer Inflation Expectation	Jun				4.0	2.00	11.00
AU	RBA FX Transactions Market	May				441.0	2.30	11.30
AU	Employment Change/Unemployment rate	May	21.3/5.7	10		37.4	2.30	11.30
AU	Participation Rate	May	64.8	64.8		64.8	2.30	11.30
JN	BOJ Kuroda speaks at press conference after MPM						7.30	16.30
AU	RBA's Debelle Speech at Thomson Reuters industry event in Sydney						8.40	17.40
UK	Retail Sales Ex Auto Fuel MoM/YoY	May		-1/1.9		2.0/4.5	9.30	18.30
UK	Retail Sales Inc Auto Fuel MoM/YoY	May		-0.8/1.6		2.3/4.0	9.30	18.30
EC	Trade Balance SA	Apr		22		23.1	10.00	19.00
UK	Bank of England Bank Rate	Jun 15		0.25		0.3	12.00	21.00
UK	BOE Asset Purchase/Corporate Bond Target	Jun		435/10		435.0/10.0	12.00	21.00
US	Import Price Index MoM	May		-0.1		0.5	13.30	22.30
US	Empire Manufacturing	Jun		5		-1.0	13.30	22.30
US	Initial Jobless Claims	Jun 10		241		245.0	13.30	22.30
US	Philadelphia Fed Business Outlook	Jun		25		38.8	13.30	22.30
CA	Manufacturing Sales MoM	Apr		1		1.0	13.30	22.30
CA	Existing Home Sales MoM	May		-1.7		-1.7	14.00	23.00
US	Industrial Production MoM	May		0.2		1.0	14.15	23.15
US	Bloomberg Consumer Comfort	Jun 11				49.9	14.45	23.45
US	NAHB Housing Market Index	Jun		70		70.0	15.00	0.00
US	Total Net/Long term TIC Flows	Apr		/		-0.7/59.8	21.00	6.00
Friday, 16 June 2017								
NZ	BusinessNZ Manufacturing PMI	May				56.8	23.30	8.30
NZ	ANZ Consumer Confidence Index/MoM	Jun		/		123.9/1.8	2.00	11.00
NZ	Non Resident Bond Holdings	May				61.5	4.00	13.00
EC	Labour Costs YoY	1Q				1.6	10.00	19.00
EC	CPI MoM/YoY	May		-0.1/1.4		0.4/1.9	10.00	19.00
EC	CPI Core YoY	May F		0.9		0.9	10.00	19.00
CA	Int'l Securities Transactions	Apr				15.1	13.30	22.30
US	Housing Starts/MoM	May		1218/3.9		1172.0/-2.6	13.30	22.30
US	Building Permits/MoM	May		1249/1.7		1229.0/-2.5	13.30	22.30
CH	FX Net Settlement - Clients CNY	May				-88.1		
JN	BOJ Policy Balance Rate	Jun 16		-0.1		-0.1	4.15	13.15
JN	BOJ 10-Yr Yield Target	Jun 16		0		0.0	4.15	13.15
US	U. of Mich. Sentiment/5-10yr Inflation expectations	Jun P		97		97.1	15.00	0.00
US	Fed's Kaplan (voter) speaks in Dallas						17.45	2.45
Monday, 19 June 2017								
NZ	Performance Services Index	May				52.8	23.30	8.30
UK	Rightmove House Prices MoM/YoY	Jun		/		1.2/3.0	0.10	9.10
AU	RBA's Lowe Participates in Panel at 2017 Crawford Australian Leadership Forum in Canberra						0.30	9.30
JN	Trade Balance Adjusted	May				97.6	0.50	9.50
AU	New Motor Vehicle Sales MoM/YoY	May		/		0.3/0.1	2.30	11.30
CH	Property Prices	May					2.30	11.30
EC	Construction Output MoM/YoY	Apr		/		-1.1/3.6	10.00	19.00
US	Fed's Dudley Holds Business Roundtable in Plattsburgh, NY						13.00	22.00
NZ	Westpac Consumer Confidence	2Q				111.9	19-23 Jun release	
CA	Bloomberg Nanos Confidence	Jun 16				57.8	15.00	0.00
Tuesday, 20 June 2017								
US	Fed's Evans Speaks in New York						0.00	9.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jun 11				112.9	0.30	9.30
NZ	ANZ Consumer Confidence Index/MoM	Jun		/		123.9/1.8	2.00	11.00
AU	House Price Index QoQ/YoY	1Q		/		4.1/7.7	2.30	11.30
AU	RBA June Rate Meeting Minutes						2.30	11.30
EC	ECB Current Account SA	Apr				34.1	9.00	18.00
US	Fed's Fischer Speaks in Amsterdam						13.00	22.00
CA	Wholesale Trade Sales MoM	Apr				0.9	13.30	22.30
US	Current Account Balance (incl. revisions)	1Q		-124.9		-112.4	13.30	22.30
CH	Conference Board Leading Economic Index	May					14.00	23.00
US	Fed's Kaplan Speaks in San Francisco						20.00	5.00
Wednesday, 21 June 2017								
JN	BOJ Minutes of April 26-27 Meeting						0.50	9.50
AU	Westpac Leading Index MoM	May				-0.1	1.30	10.30
AU	Skilled Vacancies MoM	May				0.1	2.00	11.00
JN	All Industry Activity Index MoM	Apr				-0.6	5.30	14.30
JN	Machine Tool Orders YoY	May F				24.4	7.00	16.00
JN	BOJ Kuroda speaks in Tokyo						7.36	16.36
UK	Public Sector Net Borrowing	May				9.6	9.30	18.30
US	Existing Home Sales, #/MoM	May		5.55/-0.36		5.6/-2.3	15.00	0.00
Upcoming Central Bank Interest Rate Announcements								
UK BOE		15-Jun	0.25%	0.25%		0.25%		
US Federal Reserve		27-Jul				1.00-1.25%		
Japan, BoJ		16-Jun	-0.1%	-0.1%		-0.1%		
New Zealand, RBNZ		22-Jun	1.75%	1.75%		1.75%		
Australia, RBA		4-Jul	1.50%	1.50%		1.50%		
Canada, BoC		13-Jul	0.5%	0.5%		0.5%		
Europe ECB		20-Jul	-0.4%	-0.4%		-0.4%		
US Federal Reserve		27-Jul				1.00-1.25%		

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

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