

Markets Today

A daily outlook for Australia, key global economies and markets

18 May 2015

ASIC warns of bubble trouble as NZ acts on tax cheats

Friday was a case of another day, another set of disappointing US economic release. The latest was a trifecta encompassing industrial production (-0.3% vs. 0.0% expected, Michigan consumer sentiment (81.5 down from 88.8) and the Empire Manufacturing survey (+3.09 up from -1.19 but below the 5.0 consensus). The positive, if there was one, was the recorded rise in inflation expectations.

The data kept the US dollar soft, DXY was -0.34% to 93.14 thanks largely to the 0.36% rise in EUR/USD to 1.1451, its best level early February and despite a renewed public commitment by ECB president Draghi – speaking at the IMF – on Friday - to complete the EUR1.1tn QE programme, but while also warnings central banks against ‘blind risk taking’.

AUD and NZD were exceptions to the softer dollar rule, AUD -0.58% to 0.8034 and NZD -0.31% to 0.7474. USD/JPY actually rose fractionally (+0.06%) on a Bloomberg story saying that the BoJ is said to view a cut in the Reserve Rate (i.e. the interest on excess reserves or IOER) as a potential future option, something BoJ governor Kuroda appeared to rule it out in comments earlier in the week.

In bonds, we witnessed a bull flattening of the curve, with 2s off just 0.8bps to 0.5365% and 10s -8.8bps to 2.1424%. US equities weren't as enamoured of the data as they were the previous Friday's payrolls report, the S&P500 nevertheless closed +0.08% at 2122.73 (so +0.3% on the week)

Locally, the housing market will be a particularly hot topic of conversation at the start of the week, with the head of ASIC telling the *AFR* that house prices across Sydney and Melbourne have all the hallmarks of a bubble and warned investors ‘against borrowing to invest in the heated sector’. His warnings come as CoreLogic RP Data's preliminary Australian weekend housing market auction/price stats. show some very tentative sign of a slight cooling in the Sydney market, with its Saturday auction clearance rate down to (a still very high) 85.5% from 88.7% and prices flat on the week keeping the YTD change at 6.9%. Melbourne's clearance rate was 74.3% down from 77.5% with prices -0.4% on the week do YTD gains easing to 3.8% from 4.2%.

The ASIC warning also comes as the NZ Government announces it will impose capital gains tax on residential investment properties sold within two years. A seller's "main home" is exempt. This markedly tightens an existing law, where tax was paid if Inland Revenue believed there was an intention to make a capital gain on a property. In addition, the Government will from now require that any seller, resident or non-resident, declares his/her Inland Revenue number. This is expected to assist Inland Revenue in applying the tax to

foreign investors. The government is also investigating an additional withholding tax on non-resident property investors.

NZD has opened the week lower with the announcement seen as further lowering the hurdle to near-term RBNZ rate cuts. Our BNZ economists' view is that the changes at the margin will dent some of the current foreign speculator behaviour but won't impact the overall supply/demand dynamic. Rather, they argue, it's more a case of trying to ensure that tax cheats (and potential money launderers) are brought to heel. Markets have nevertheless employed their preferred technique of ‘shoot first, ask questions later’.

Coming Up

It's not a big week domestically, with RBA Minutes on Tuesday already somewhat pre-empted by the 8 May *Statement on Monetary Policy* and its attendant slight downgrades to the RBA's growth and inflation forecasts. While these mean an implicit easing bias should still exist in Martin Place, confirmation – or otherwise - of this in the Minutes will be noteworthy. Data wise, they'll be keener than usual interest in both the weekly (Tuesday) and monthly (Wednesday) consumer confidence surveys, the weekly one in particular for its ‘pure’ read on households' take on last Tuesday's Budget. Judging from the Fairfax/Ipsos poll published in this morning's *AFR*, the verdict is positive, providing a significant boost to the Coalition and sharp contrast to last year's budget. The poll has the Coalition and Labor tied at 50% on a two-party preferred basis, vs. 54/46 Labor/Coalition a month ago.

Today, RBA Deputy Governor Phil Lowe speaks at the Corporate Finance Forum in Sydney, starting at 09:30 AEST.

Internationally, the minutes from the 28/29 April FOMC meeting will be scrutinised closely, coming after the soft March employment report but before the better if not spectacular, April one. Data that will probably garner the most attention will be Friday's CPI (and where the core rate ticked up to 1.8% in March). A bunch of housing related numbers and the Philly Fed survey (Friday) will also be relevant for markets.

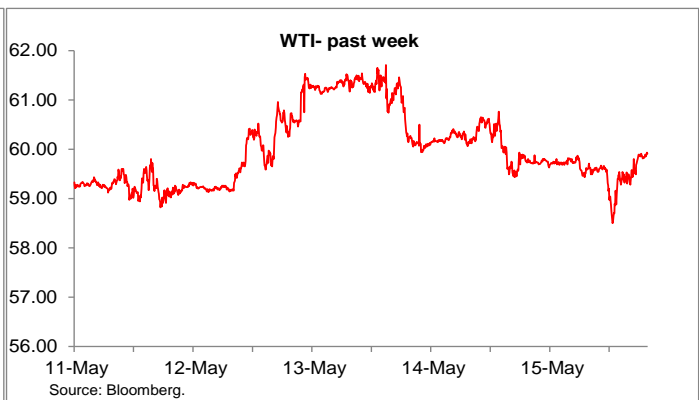
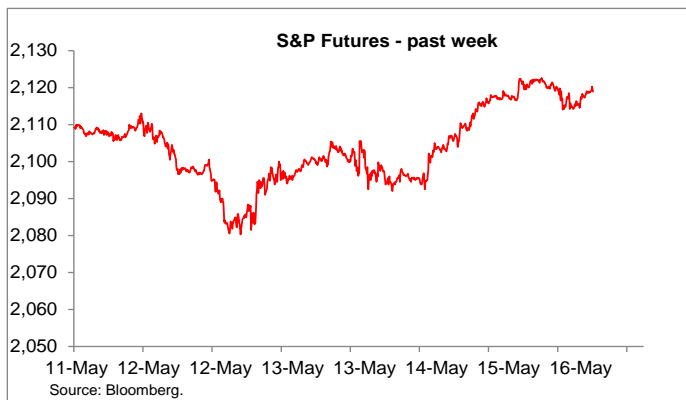
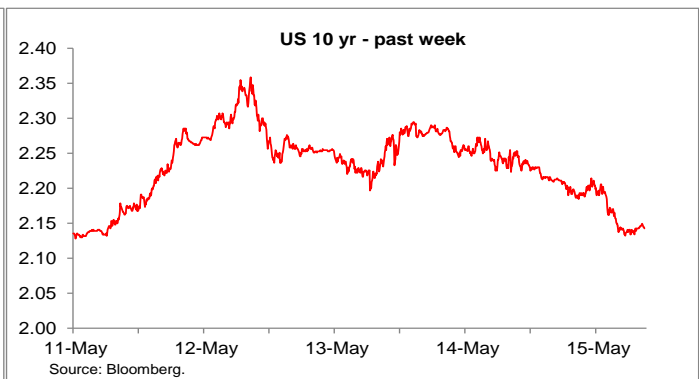
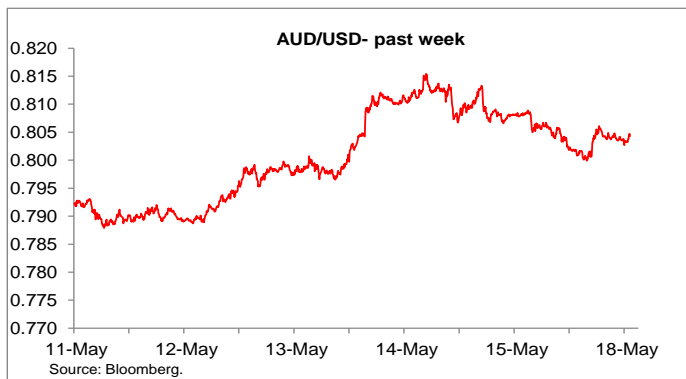
The only thing of note today is the US NAHB housing index.

Overnight

On global stock markets, the S&P 500 was +0.10%. Bond markets saw US 10-years -8.77bp to 2.14%. On commodity markets, Brent crude oil +0.16% to \$66.81, gold+0.0% to \$1,225, iron ore -1.6% to \$61.31. AUD is at 0.8044 and the range since Friday's local close has been 0.7997 to 0.8062. Indicative range today 0.8015 -0.8075 (For more market prices, please see p.2 of the pdf).

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Markets



Foreign Exchange						
Indicative 24hr ranges (**)				Other FX		
	Last	% chge	Low	High	Last	% chge
AUD	0.8044	0.1	0.8024	0.8047	HKD	7.7512 0.0
NZD	0.7449	-0.3	0.7426	0.7455	CNY	6.2065 0.1
EUR	1.1438	-0.1	1.1432	1.1453	SGD	1.3209 0.0
GBP	1.5740	0.1	1.5721	1.5742	IDR	13,084 0.2
JPY	119.29	0.0	119.25	119.32	THB	33.48 0.0
CAD	1.2006	-0.1	1.2005	1.2020	KRW	1,086 -0.4
AUD/EUR	0.7034	0.1			TWD	30.45 -0.3
AUD/JPY	95.96	0.1			PHP	44.47 -0.3
AUD/GBP	0.5112	0.0			CHF	0.92 0.0
AUD/NZD	1.0819	0.4			SEK	8.20 0.1

Equities			
Major Indices			
	Last	% day	% y/y
Dow	18,273	+0.1	10.8
S&P 500	2,123	+0.1	13.0
Nasdaq	5,048	0.0	23.4
FTSE	6,960	-0.2	1.5
DAX	11,447	-1.0	18.9
CAC 40	4,994	+0.1	12.1
Nikkei	19,733	+0.8	40.0
Shanghai	4,309	-1.6	112.6
Hang Seng	27,822	+2	22.5
ASX 200	5,735	+0.7	4.7

Commodities*		
	Last	% day
Oil (Brent)	66.81	0.2
Oil (WTI)	59.69	-0.3
Oil (Tapis)	68.00	-1.5
Gold	1225.30	0.0
CRB	231.46	-0.1
GS Metals	332.5	-0.1
Aluminium	1818	-0.9
Copper	6415	0.1
Nickel	13942	1.5
Zinc	2290	-0.9
Ch. steel	2367	0.3
Iron ore	61.3	-1.6
St. coal	61.8	n.a.
Wheat Chic.	517.5	-0.7
Sugar	12.89	0.4
Cotton	66.84	0.5
Coffee	138.3	0.5

CO ₂ Emissions - Euros		
	Last	% day
Mar-2015	Did Not Appear	N/A N/A
Dec-2015	7.62	0.4
Dec-2016	7.70	0.4

Interest Rates							
Indicative Swap Rates				Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.25	0.28	0.80	2.20	USD 10	2.14	-0.09
AUD	2.00	2.14	2.12	3.13	AUD 10	2.89	-0.10 0.75
NZD	3.50	3.52	3.38	3.99	NZD 10	3.69	-0.05 1.55
EUR	0.05	0.06	0.11	0.93	CAD 10	1.71	-0.09 -0.43
GBP	0.50	0.57	0.98	1.94	EUR 10	0.62	-0.08 -1.52
JPY	0.09	0.10	0.15	0.59	GBP 10	1.88	-0.10 -0.26
CAD	0.75	1.17	1.04	2.13	JPY 10	0.40	-0.05 -1.74

Overnight Futures		
	Last	Chge
Australia		
3 mth bill	97.87	0.00
3 Yr bond	97.97	0.04
10 Yr bonc	97.18	0.10
3/10 sprd	0.80	-0.06
SPI	2.0	0.0

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	Time Period	NAB Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 18 May 2015								
NZ	Fonterra forecast for 2015/16 Milk Price (pending)							
NZ	BNZ-BusinessNZ Performance Services Index	Apr				57.6	22.30	8.30
UK	Rightmove House Prices MoM/YoY	May				1.6%/4.7%	23.01	9.01
AU	RBA's Lowe Gives Speech in Sydney						23.30	9.30
JN	Machine Orders MoM/YoY	Mar		1.5%/-6.0%		-0.4%/5.9%	23.50	9.50
CH	China April Property Prices						1.30	11.30
AU	New Motor Vehicle Sales MoM	Apr				0.5%	1.30	11.30
JN	Industrial Production MoM	Mar F				-0.3%	4.30	14.30
US	Fed's Evans Speaks on Economy and Monetary Policy in Stockholm						6.00	16.00
US	NAHB Housing Market Index	May		57		56	14.00	0.00
Tuesday, 19 May 2015								
NZ	PPI Input/Output QoQ	1Q	-1.5%			-0.4%/-0.1%	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May-17					23.30	9.30
UK	ONS House Price YoY	Mar				7.2%	23.30	9.30
AU	RBA May Meeting Minutes						1.30	11.30
NZ	RBNZ Survey of Expectations (2yr-ahead annual CPI inflation)	May				1.8%	3.00	13.00
UK	CPI MoM/YoY	Apr		0.4%/0.0%		0.2%/0.0%	8.30	18.30
UK	PPI Output NSA MoM/YoY	Apr				0.2%/-1.7%		
EC	Trade Balance SA	Mar				22.0B	9.00	19.00
GE	ZEW Survey Current Situation/Expectations	May		69/50		70.2/53.3	9.00	19.00
EC	ZEW Survey Expectations	May				64.8	9.00	19.00
EC	CPI MoM/YoY	Apr/F		0.2%/0.0%		1.1%/0.0%	9.00	19.00
EC	CPI Core YoY	Apr F		0.6%		0.6%	9.00	19.00
US	Housing Starts / MoM	Apr		1020K/10.2%		926K/2.0%	12.30	22.30
US	Building Permits / MoM	Apr		1070K/2.7%		1039K/-5.7%	12.30	22.30
CA	BoC's Poloz speaks in Charlottetown						15.30	1.30
Wednesday, 20 May 2015								
NZ	Dairy Auction					-3.5%		early AM
AU	RBA's Lowe is a moderator at The Future of International Gov and G20						23.15	9.15
JN	GDP SA QoQ	1Q P		0.4%		0.4%	23.50	9.50
AU	Westpac Consumer Conf SA MoM	May				-3.2%	0.30	10.30
AU	Skilled Vacancies MoM	Apr				0.4%	1.00	11.00
US	Fed's Evans Speaks on Economy and Monetary Policy in Munich						7.00	17.00
UK	Bank of England Minutes						8.30	18.30
US	U.S. Fed Releases Minutes from April 28-29 FOMC Meeting						18.00	4.00
Thursday, 21 May 2015								
NZ	ANZ Job Advertisements MoM	Apr				-0.8%	22.00	8.00
NZ	Net Migration SA	Apr				4990	22.45	8.45
AU	RBA's Edey speaks at Annual Cards and Payments Conference						22.50	8.50
AU	Consumer Inflation Expectation	May				3.4%	1.00	11.00
AU	RBA FX Transactions Market	Apr				1355M	1.30	11.30
JN	Markit/JMMA Japan Manufacturing PMI	May P					1.35	11.35
CH	HSBC China Manufacturing PMI	May P					1.45	11.45
CH	MNI May Business Indicator						1.45	11.45
NZ	Government Budget					+0.6b	2.00	12.00
NZ	Credit Card Spending YoY	Apr				0.60%	3.00	13.00
GE	Markit/BME Germany Manufacturing PMI	May P		51.9		52.1	7.30	17.30
EC	Markit Eurozone Manufacturing PMI	May P		51.7		52	8.00	18.00
EC	ECB Current Account SA	Mar				26.4B	8.00	18.00
EC	Current Account NSA	Mar				13.8B	8.00	18.00
UK	Retail Sales Incl. Auto MoM/YoY	Apr		0.2%/3.5%		-0.5%/4.2%	8.30	18.30
EC	ECB minutes						11.30	21.30
US	Initial Jobless Claims	May-16				264K	12.30	22.30
US	Markit US Manufacturing PMI	May P		54.5		54.1	13.45	23.45
US	Philadelphia Fed Business Outlook	May		8.2		7.5	14.00	0.00
EC	Consumer Confidence	May A		-4.8		-4.6	14.00	0.00
US	Existing Home Sales / MoM	Apr		5.22M/0.6%		5.19M/6.1%	14.00	0.00
US	Fed's Vice Chair Fischer Speaks at ECB Conference in Portugal						17.30	3.30
US	Fed's Williams Speaks on Central Bank Governance in Stanford						23.00	9.00
Friday, 22 May 2015								
AU	RBA Payment System Board Meeting							
NZ	ANZ Consumer Confidence MoM	May				3.4%	1.00	11.00
JN	Bank of Japan Policy Statement/Kuroda Press Conference						3.00	13.00
GE	GDP SA QoQ / NSA YoY	1Q F		0.3%/		0.3%/1.1%	6.00	16.00
GE	IFO Business Climate	May		108		108.6	8.00	18.00
GE	IFO Current Assessment	May		113.5		113.9	8.00	18.00
GE	IFO Expectations	May		102.8		103.5	8.00	18.00
US	CPI MoM/YoY	Apr		0.1%/-0.2%		0.2%/-0.1%	12.30	22.30
CA	CPI NSA MoM / CPI YoY	Apr		0.1%/1.0%		0.7%/1.2%	12.30	22.30
CA	Retail Sales	Mar				1.7%	12.30	22.30
US	CPI YoY	Apr				-0.1%	12.30	22.30
US	Markit US Manufacturing PMI	May P					13.45	23.45
US	Fed's Yellen Speaks in Providence						17.00	3.00
Upcoming Central Bank Interest Rate Announcements								
Japan, BoJ		22-May	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
Canada, BoC		27-May				0.75%		
Australia, RBA		2-Jun	2.00%	2.00%		2.00%		
Europe ECB		3-Jun	0.05%	0.05%		0.05%		
UK BOE		4-Jun	0.50%	0.50%		0.50%		
New Zealand, RBNZ		11-Jun	3.50%	3.50%		3.50%		
US Federal Reserve		18-Jun				0%-0.25%		

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

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