



Markets Today

A daily outlook for Australia, key global economies and markets

25 May 2015

.007 proves Bond bearish (and USD bullish)

If US April core CPI had printed just .007% lower than the 0.256% it actually did, it would have been rounded down to 0.2% on the month not up to 0.3%, and arguably most of Friday's market price action wouldn't have occurred.

As it was, almost all the offshore price action in FX and rates came in the immediate aftermath of the CPI release, which kept the annual core rate at 1.8% against expectations for a fall back to 1.7%. Despite the exaggeration caused by the rounding effect, a lot is being made of the fact that core CPI has run at a 2.6% annualised rate in the last three months.

The biggest driver of CPI was 'owners' equivalent rent' and which makes up 31% of core CPI. This rose by 0.3%. There was also a big jump in medical services ((+0.9%) led by a 1.7% jump in hospital costs. Health insurance costs also rose quite strongly. The overall sense here is that the ongoing impact of lower oil prices on inflation in general, and of dollar strength on tradeable goods prices in particular, is no longer sufficient to prevent core inflation rising and led by services.

A few hours after CPI, Fed chair Yellen says she still expected to take a first step toward policy normalisation later this year. Her remarks appeared to underpin rather than exacerbate the earlier back-up in US yields and the significantly stronger dollar.

In FX, DXY added 0.8% to 96.01, its best level since 29 April, with EUR/USD -0.89% to 1.1013 (intraday low was 1.1004). News that German chancellor Merkel and other EU officials had told Greek PM Tsipras in Riga this week that there could be no bailout deal without IMF approval, came too late in the day to be a EUR-negative factor. Overnight, we've had the Greek interior minister Nikos Voutsis telling Greek TV station Mega that Greece will be unable to meet pension and wage bills in June and also reimburse money owed to the IMF without a bailout deal with creditors (Greece owes €1.2bn to the IMF in June, in four €300mn instalments between June 5 and June 19).

GBP was Friday's underperformer amongst the majors, down 1.1% to 1.5490, sentiment not helped by news, sent by email to the UK Guardian newspaper apparently in error, that the Bank of England was secretly researching the impact of a British exit from the EU (so called Brexit).

USD/JPY rose by 'only' 0.41% to Y121.54 but which marks a new cycle high for the Abe era. It doesn't look to have been directly impacted by a call from the IMF, in its latest 'Article IV' assessment of Japan published late Friday, for additional BOJ stimulus and stronger reforms.

AUD again underperformed NZD Friday amid some further paring of long AUD/NZD exposure (latter down to ~1.07 from 1.0850 earlier in the week). AUD/USD fell 0.92% to 0.7823 (its lowest close since 4 May), and has re-opened for the week barely changed. NZD was -0.54% to 0.7309.

In bonds, we witnessed a bear flattener, with 2s +4.1bps to 0.6142%, 5s +5bps to 1.5617%, 10s +1.9bps to 2.2092%. In commodities, iron ore jumped by \$2.05 to 59.96 but commodities in general, including oil, were weaker alongside a stronger dollar.

CoreLogic RP Data's preliminary weekend housing market auction/price stats. show a rise in auction clearance rates but falls in prices on the week in both Sydney and Melbourne, so more (still tentative) evidence prices may be peaking.

Sydney's auction clearance rate lifted to 86.9% from 85.5% but still down on two weeks ago, with prices -0.3% on the week – the first fall this year – and reducing the YTD rise to 6.6% from 6.9%. Melbourne cleared a very high 80% of auctions (from 74.3%) but prices fell by 0.8% so reducing the YTD gain to 3% from 3.8%. Nationally, the 7-cities clearance rate rose to 78.4% from 76.2%, with prices for the combined 5-capital cities -0.3% on the week and +3.1% YTD down from 3.4%.

Coming Up

It threatens to be a very quiet start to the week with US markets closed for Memorial Day and the UK for their Spring bank holiday. Today, we only have Japan trade data on the calendar.

Domestically, Thursday's Q1 Capex data and the revised (2nd) estimate for 2015/16 will be the undoubted highlight. There is nothing due today in Australia or New Zealand, save we are on the lookout for Fonterra's first forecast for 2012/15/16 milk prices – not that it will be bear much resemblance to the actual payout.

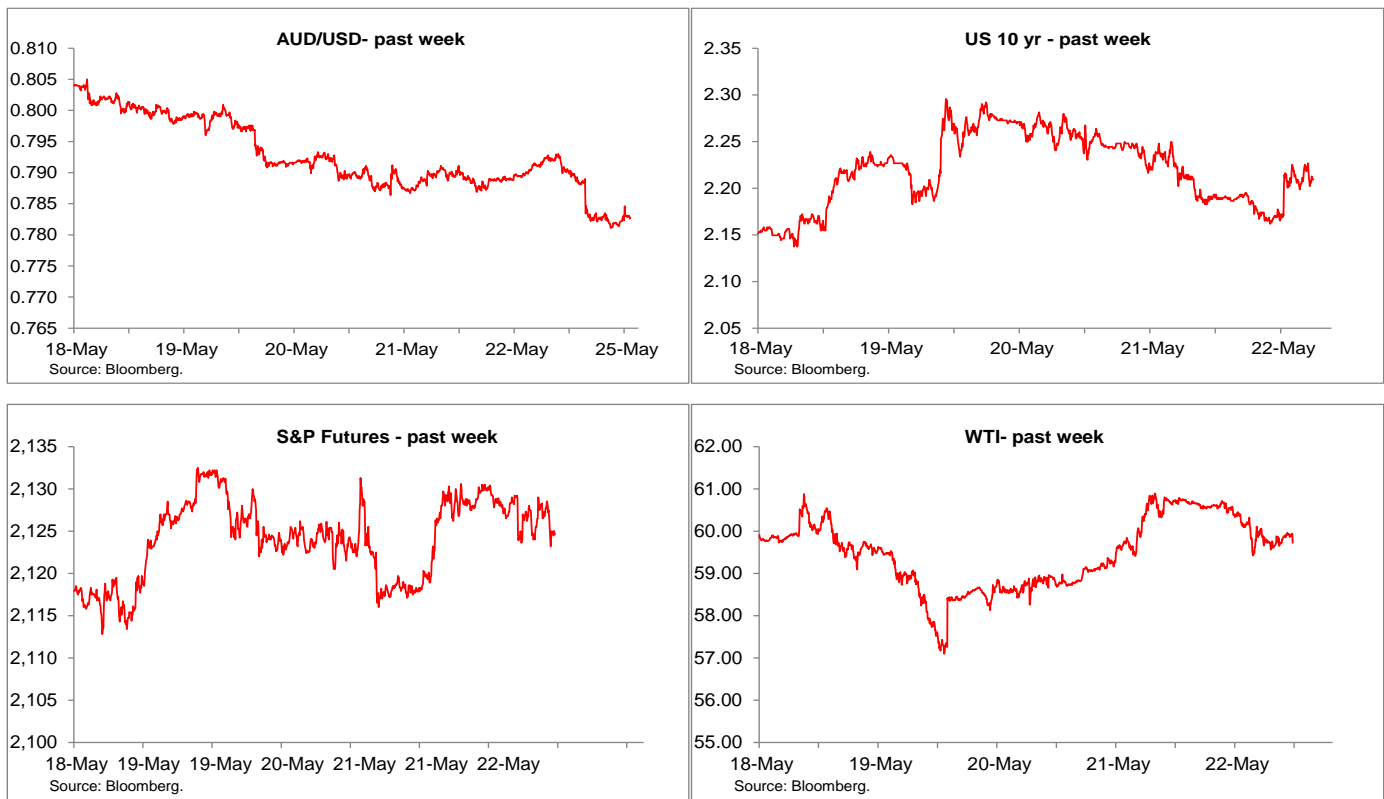
Internationally, it will be incoming US data that garners most attention, as well as the usual litany of Fed speakers. Data includes durable goods orders (tomorrow) consumer confidence and revised Q1 GDP.

Overnight

On global stock markets, the S&P 500 was -0.20%. Bond markets saw US 10-years +1.94bp to 2.21%. On commodity markets, Brent crude oil -1.76% to \$65.37, gold-0.0% to \$1,204, iron ore +3.5% to \$59.96. AUD is at 0.7826 and the range since Friday's local close has been 0.7811 to 0.7926. Indicative range today 0.7800 - 0.7850 (For more market prices, please see p.2 of the pdf).

Ray.attrill@nab.com.au

Markets



Foreign Exchange						Equities				Commodities*																																																																																								
<table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="4">Indicative 24hr ranges (**)</th> <th colspan="2">Other FX</th> </tr> <tr> <th>Last</th> <th>% chge</th> <th>Low</th> <th>High</th> <th>Last</th> <th>% chge</th> </tr> </thead> <tr> <td>AUD</td> <td>0.7826</td> <td>0.0</td> <td>0.7823</td> <td>0.7918</td> <td>HKD</td> <td>7.7518</td> <td>0.0</td> </tr> <tr> <td>NZD</td> <td>0.7317</td> <td>0.1</td> <td>0.7273</td> <td>0.7347</td> <td>CNY</td> <td>6.1974</td> <td>0.0</td> </tr> <tr> <td>EUR</td> <td>1.1003</td> <td>-0.1</td> <td>1.1000</td> <td>1.1008</td> <td>SGD</td> <td>1.3370</td> <td>0.0</td> </tr> <tr> <td>GBP</td> <td>1.5475</td> <td>-0.1</td> <td>1.5468</td> <td>1.5486</td> <td>IDR</td> <td>13,158</td> <td>0.3</td> </tr> <tr> <td>JPY</td> <td>121.53</td> <td>0.0</td> <td>121.49</td> <td>121.55</td> <td>THB</td> <td>33.48</td> <td>0.0</td> </tr> <tr> <td>CAD</td> <td>1.2288</td> <td>0.1</td> <td>1.2281</td> <td>1.2290</td> <td>KRW</td> <td>1,090</td> <td>-0.4</td> </tr> <tr> <td>AUD/EUR</td> <td>0.7113</td> <td>0.1</td> <td></td> <td></td> <td>TWD</td> <td>30.48</td> <td>-0.2</td> </tr> <tr> <td>AUD/JPY</td> <td>95.13</td> <td>0.0</td> <td></td> <td></td> <td>PHP</td> <td>44.55</td> <td>0.2</td> </tr> <tr> <td>AUD/GBP</td> <td>0.5057</td> <td>0.1</td> <td></td> <td></td> <td>CHF</td> <td>0.94</td> <td>0.0</td> </tr> <tr> <td>AUD/NZD</td> <td>1.0697</td> <td>-0.1</td> <td></td> <td></td> <td>SEK</td> <td>8.40</td> <td>0.1</td> </tr> </table>							Indicative 24hr ranges (**)				Other FX		Last	% chge	Low	High	Last	% chge	AUD	0.7826	0.0	0.7823	0.7918	HKD	7.7518	0.0	NZD	0.7317	0.1	0.7273	0.7347	CNY	6.1974	0.0	EUR	1.1003	-0.1	1.1000	1.1008	SGD	1.3370	0.0	GBP	1.5475	-0.1	1.5468	1.5486	IDR	13,158	0.3	JPY	121.53	0.0	121.49	121.55	THB	33.48	0.0	CAD	1.2288	0.1	1.2281	1.2290	KRW	1,090	-0.4	AUD/EUR	0.7113	0.1			TWD	30.48	-0.2	AUD/JPY	95.13	0.0			PHP	44.55	0.2	AUD/GBP	0.5057	0.1			CHF	0.94	0.0	AUD/NZD	1.0697	-0.1			SEK	8.40	0.1
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 | Major Indices | | | | |---------------|--------|-------|-------| | | Last | % day | % y/y | | Dow | 18,232 | -0.3 | 9.8 | | S&P 500 | 2,126 | -0.2 | 11.9 | | Nasdaq | 5,089 | 0.0 | 21.6 | | FTSE | 7,032 | +0.3 | 3.2 | | DAX | 11,815 | -0.4 | 21.0 | | CAC 40 | 5,143 | +0.3 | 14.5 | | Nikkei | 20,264 | +0.3 | 40.1 | | Shanghai | 4,658 | +2.8 | 128.9 | | Hang Seng | 27,993 | +1.7 | 21.9 | | ASX 200 | 5,665 | +0 | 3.1 | | | | | | | Last | % day | |-------------|---------|-------| | Oil (Brent) | 65.37 | -1.8 | | Oil (WTI) | 59.72 | -1.6 | | Oil (Tapis) | 67.76 | 0.7 | | Gold | 1204.00 | 0.0 | | CRB | 225.56 | -1.2 | | GS Metals | 317.3 | -1.1 | | Aluminium | 1742 | -0.3 | | Copper | 6162 | -1.5 | | Nickel | 12679 | -2.2 | | Zinc | 2173 | -0.6 | | Ch. steel | 2340 | -0.1 | | Iron ore | 60.0 | 3.5 | | St. coal | 61.8 | n.a. | | Wheat Chic. | 523.0 | -1.2 | | Sugar | 12.31 | -1.4 | | Cotton | 63.30 | -0.7 | | Coffee | 127.0 | -1.2 | | | || | Interest Rates | | | | | Benchmark 10 Year Bonds | | | Overnight Futures | | | |----------------|-----------------------|------|------|------|-------------------------|------|-------|-------------------|-------|-------| | | Indicative Swap Rates | | | | Last | chge | Sprd | | | | | | Cash | 3mth | 2Yr | 10Yr | | | | Last | Chge | | | USD | 0.25 | 0.28 | 0.88 | 2.28 | USD 10 | 2.21 | 0.02 | Australia | | | | AUD | 2.00 | 2.13 | 2.16 | 3.20 | AUD 10 | 2.92 | -0.03 | 3 mth bill | 97.86 | 0.00 | | NZD | 3.50 | 3.49 | 3.39 | 3.99 | NZD 10 | 3.77 | 0.02 | 3 Yr bond | 97.93 | -0.01 | | EUR | 0.05 | 0.06 | 0.11 | 0.95 | CAD 10 | 1.77 | 0.02 | 10 Yr bonc | 97.09 | 0.01 | | GBP | 0.50 | 0.57 | 1.02 | 2.02 | EUR 10 | 0.60 | -0.04 | 3/10 sprd | 0.84 | -0.02 | | JPY | 0.07 | 0.10 | 0.15 | 0.61 | GBP 10 | 1.93 | -0.05 | SPI | -9.0 | -0.2 | | CAD | 0.75 | 1.17 | 1.07 | 2.18 | JPY 10 | 0.42 | 0.01 | | | | | | | | | | | CO ₂ Emissions - Euros | | | |-----------------------------------|----------------|-------| | | Last | % day | | Mar-2015 | Did Not Appear | N/A | | Dec-2015 | 7.34 | 0.1 | | Dec-2016 | 7.42 | 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, 25 May 2015								
JN	Trade Balance (Seasonally Adjusted)	Apr		¥-391B		¥3.3B	23.50	9.50
US	Fed Vice Chair Fischer speaks on economy in Israel						15.00	1.00
US	Fed's Mester Speaks to Academic Conference in Reyjavik (Alt)						16.00	2.00
US, UK	US Memorial Day, UK Spring Bank holidays							
Tuesday, 26 May 2015								
NZ	Fonterra forecast for 2015/16 Milk Price (due this week; perhaps Wed/Thurs?)							
NZ	Trade Balance	Apr	66M	100M		631M	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May-24					23.30	9.30
JN	PPI Services YoY	Apr		0.60%		3.20%	23.50	9.50
NZ	LVR ratio	Apr				5.80%	3.00	13.00
JN	Small Business Confidence	May		48.0		47.4	5.00	15.00
JN	Cabinet Office Monthly Economic Report	May						
UK	CBI Reported Sales	May				12.00%	10.00	20.00
US	Durable Goods Orders	Apr		-0.50%		4.0%	12.30	22.30
US	FHFA House Price Index MoM	Mar		0.70%		0.7%	13.00	23.00
US	House Price Purchase Index QoQ	1Q				1.4%	13.00	23.00
US	S&P/CS 20 City MoM/YoY	Mar		0.9%/4.6%		0.93%/5.03%	13.00	23.00
US	Markit Services/Composite PMI	May P		57.0/..		57.4/57.0	13.45	23.45
US	New Home Sales	Apr		500K/4.0%		481K/-11.4%	14.00	0.00
US	Consumer Confidence Index	May		95.2		95.2	14.00	0.00
US	Richmond Fed Manufact. Index	May		0		-3	14.00	0.00
US	Dallas Fed Manf. Activity	May		-12.5		-16	14.30	0.30
US	Fed Vice Chair Fischer speaks on global economy in Israel						16.30	2.30
Wednesday, 27 May 2015								
JN	Bank of Japan April 30 meeting minutes						23.50	9.50
US	Fed's Lacker (v) speaks on Financial Stability						0.10	10.10
AU	Westpac Leading Index MoM	Apr				-0.3%	0.30	10.30
AU	RBA's Lowe speaks at Regulatory Summit						0.45	10.45
AU	Construction Work Done	1Q	-1.0%	-1.2%		-0.2%	1.30	11.30
CH	Industrial Profits YoY	Apr				-0.4%	1.30	11.30
CH	Westpac-MNI Consumer Sentiment	May				111.1	1.45	11.45
GE	GfK Consumer Confidence	Jun		10		10.1	6.00	16.00
US	MBA Mortgage Applications	May-22					11.00	21.00
US	Markit US Services PMI	May P					13.45	23.45
GE	Retail Sales MoM	Apr					14.00	0.00
CA	Bank of Canada Rate Decision	May-27		0.75%		0.75%	14.00	0.00
Thursday, 28 May 2015								
JN	Retail Sales MoM	Apr		1%/5.5%		-1.9%/9.7%	23.50	9.50
JN	Large Retailers' Sales	Apr					23.50	9.50
AU	Private Capital Expenditure	1Q	-2.50%	-2.40%		-2.2%	1.30	11.30
AU	Capex, 2nd estimate 2015/16	1Q	\$114B	\$115B (R: 100-120)		\$109B	1.30	11.30
US	Fed's Williams (v) speaks on Banking Supervision in Singapore						6.20	16.20
UK	BBA Loans for House Purchase	Apr				38751	8.30	18.30
EC	Business Climate Indicator	May					9.00	19.00
EC	Industrial/Services/Consumer Confidence	May//F					9.00	19.00
CA	Current Account Balance	1Q				-\$13.9B	12.30	22.30
US	Initial Jobless Claims	May-23				274K	12.30	22.30
AU	CBA/HIA House Affordability	1Q				96.2	14.00	0.00
US	Pending Home Sales MoM	Apr		0.70%		1.10%	14.00	0.00
US	Fed's Kocherlakota speaks on Monetary Policy						18.45	4.45
Friday, 29 May 2015								
NZ	Building Permits MoM	Apr				11.00%	22.45	8.45
UK	GfK Consumer Confidence	May		4		4	23.05	9.05
JN	Jobless Rate	Apr		3.40%		3.40%	23.30	9.30
JN	Overall Household Spending YoY	Apr		3.00%		-10.60%	23.30	9.30
JN	Natl CPI YoY	Apr		0.60%		2.30%	23.30	9.30
JN	Tokyo CPI YoY	May		0.50%		0.70%	23.30	9.30
JN	Industrial Production MoM	Apr P		0.8%/-0.1%		-0.8%/-1.7%	23.50	9.50
AU	HIA New Home Sales MoM	Apr				4.40%	1.00	11.00
NZ	ANZ Business Survey, Net Confidence	May				30.2	1.00	11.00
AU	Private Sector Credit MoM/YoY	Apr	0.6%/6.4%	0.5%/6.3%		0.5%/6.2%	1.30	11.30
NZ	Credit Aggregates, Household YoY	Apr				5.00%	3.00	13.00
EC	M3 YoY	Apr		4.90%		4.60%	8.00	18.00
UK	GDP QoQ/YoY	1Q P		0.4%/2.5%		0.3%/2.4%	8.30	18.30
UK	Index of Services	Mar				0.30%	8.30	18.30
CA	Quarterly GDP Annualized	1Q				2.4%	12.30	22.30
CA	GDP MoM/YoY	Mar					12.30	22.30
US	GDP Annualized QoQ, revision	1Q S		-0.90%		0.20%	12.30	22.30
US	Chicago Purchasing Manager	May		53.0		52.3	13.45	23.45
US	U. of Mich. Sentiment	May F		90.0		88.6	14.00	0.00
Upcoming Central Bank Interest Rate Announcements								
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%		
Japan, BoJ		19-Jun	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		

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

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia

Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Emma Lawson
Senior Currency Strategist
+61 2 9237 8154

Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Rodrigo Catril
Interest Rate Strategist
+61 2 9293 7109

Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 2 9237 1076

Distribution

Barbara Leong
Research Production Manager
+61 2 9237 8151

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Kymerly Martin
Senior Market Strategist
+64 4 924 7654

Raiko Shareef
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

Asia

Christy Tan
Head of Markets Strategy/Research, Asia
+852 2822 5350

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+44 207 710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 1588

Derek Allassani
Research Production Manager
+44 207 710 1532

James Glenn
Senior Economist – Australia
+61 3 9208 8129

Vyanne Lai
Economist – Australia
+61 3 8634 0198

Phin Ziebell
Economist – Agribusiness
+61 475 940 662

Amy Li
Economist – Australia
+61 3 8634 1563

Dean Pearson
Head of Industry Analysis
+61 3 8634 2331

Robert De Iure
Senior Economist – Industry Analysis
+61 3 8634 4611

Brien McDonald
Senior Economist – Industry Analysis
+61 3 8634 3837

Karla Bulauan
Economist – Industry Analysis
+61 3 8641 4028

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+61 3 9208 5049

Gerard Burg
Senior Economist – Asia
+61 3 8634 2788

John Sharma
Economist – Sovereign Risk
+61 3 8634 4514

Jacqui Brand
Personal Assistant
+61 3 8634 2181

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