



# Markets Today

A daily outlook for Australia, key global economies and markets

8 May 2015

## Snapping the Elastic Band

If you pull an elastic band hard enough, it will snap back and might hurt. It seems we are getting that in yields, but we know that the band runs out of energy at some point. We might have seen that last bit of energy last night. Yields are flat, US equities are a little higher. The USD was stronger.

While German bunds look relatively unchanged on the night, a look at the run up over the week and the intraday moves overnight are astonishing. There has been an extreme reaction to the almost zero yield (0.454%) earlier in the month. There has been a reassessment of the risks and half a percent for a 10 year bond was thought to have been too low; the longs have been rapidly unwound and yields have snapped back up. Last night there was a (perhaps) last hurrah – a rapid rise in yield and then a reversal later in the day. There was no specific news.

That suggests that the extreme move higher might have run out of steam. It is thought that perhaps this yield move is driven by a stabilisation in oil prices, some better European data and rising term premium. Add to this the electronic platforms were halted, given the volumes and sharp price moves, and it all adds to volatility.

If we get to extremes in price of assets, it doesn't take much to get reversals, particularly at economic turning points. What then matters is if you believe the reversals are warranted or sustainable. In the case of bunds, it depends if you believe the ECB will need to ease more or not, or if there is a recovery or not. What we can say is that there remains a lot of uncertainties ahead and these moves are unlikely to remain in a straight line.

At present, it is the bond market which is driving the news and other markets' direction. The reversal at the end of the day saw the USD recover some gains from the past week. But the moves were relatively small. This saw the EUR lower and the AUD underperformed the rest of the G10.

Yesterday, while Australia's labour market data headline came in a little worse than expected (-2.9kA, +4E) the previous month was revised higher (+48.1kA, 37.7P). The unemployment rate ticked up to 6.2% as expected.

## Coming Up

As we noted yesterday, this morning we are likely to get a succession of headlines regarding the UK election outcome. The newsflow is likely to have more of an influence on currency volatility (obviously more so in GBP and EUR) but general sentiment may weigh somewhat on the local currency.

More interesting (for local markets) is likely to be the RBA's statement on monetary policy (SoMP). With Tuesday's easing coming without much guidance, and subsequent pricing out of future interest rate easing, all eyes will be on the SoMP to see if a bias is indicated. The risks for a move in markets are skewed to some easing being re-priced.

China's trade data has historically been very important for local markets and we should have passed the lunar new year distortions. There is an expectation that the decline in domestic demand (via imports) has stabilised and that exports have started to pick up. That would be good news for Australia. Although, the volume of our exports being sent to China hasn't been the big worry- the price has been. News on that front in recent days has been good, with iron ore back to \$60.

But with all that going on, the US's monthly non-farm payrolls release remains king. After some poor US data, much hinges on an improvement in April. Estimates range from +175k to +327k; with a median of 230k. Last night's jobless claims were encouraging; with the four week moving average at a 15 year low.

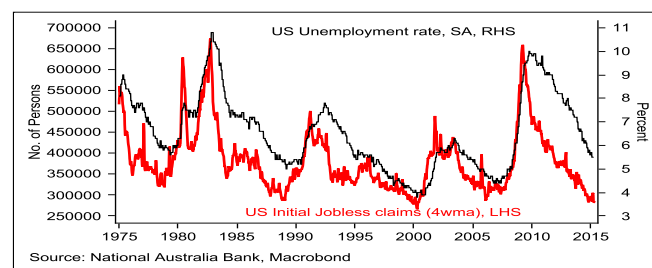
The recent rapid rise in bond yields has been large, far greater than warranted by the economic data or newsflow. In this, the FX markets have followed, but to a smaller and less consistent extent. As such, the greater risks lie to the bond market for a weaker payrolls outcome (yields lower) and to the FX markets on a stronger than expected employment outcome. On a stronger than expected outcome (the lower probability outcome), the USD should be afforded some additional catch-up.

## Overnight

On global stock markets, the S&P 500 was +0.40%. Bond markets saw US 10-years -6.31bp to 2.18%. On commodity markets, Brent crude oil -3.42% to \$65.45, gold-0.6% to \$1,183, iron ore -0.9% to \$60.36. AUD is at 0.7906 and the range was 0.789 to 0.8005. (For more market prices, please see p.2 of the pdf).

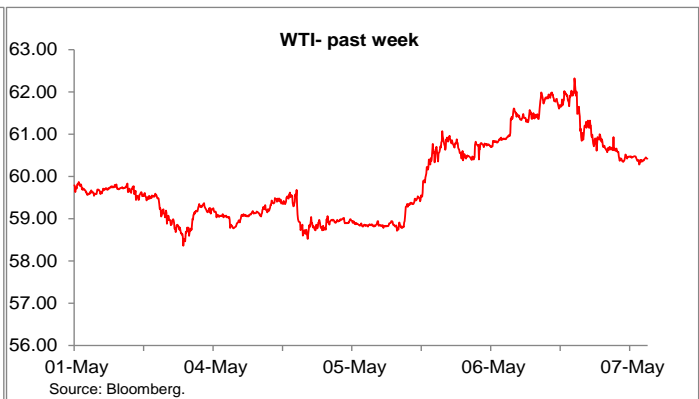
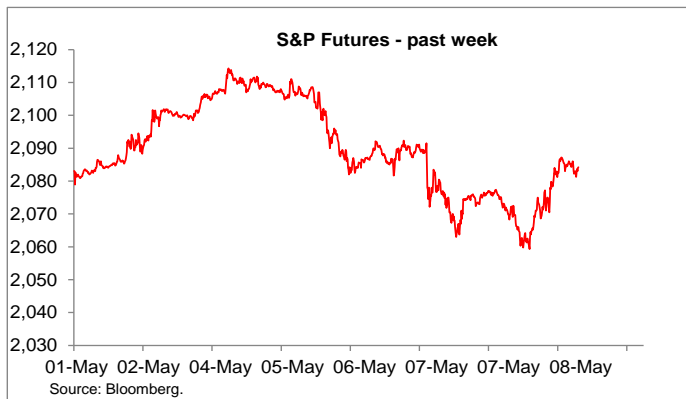
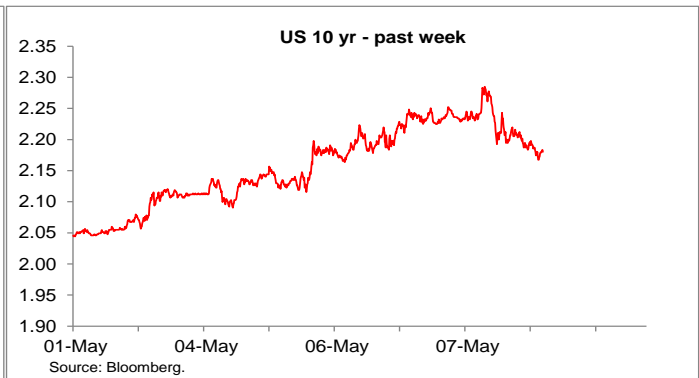
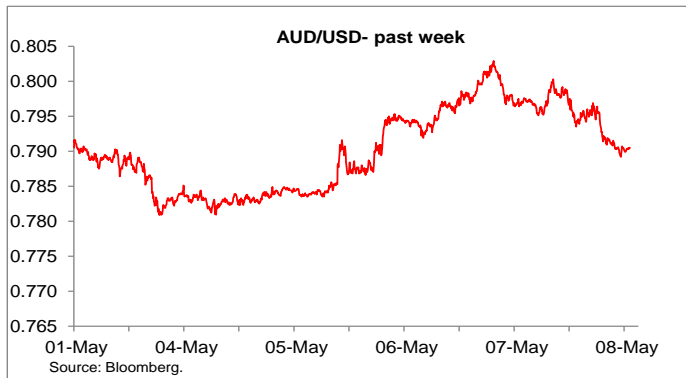
- US jobless claims 265kA, 262P

## Chart of the Day – US Employment Still Improving



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Markets



Foreign Exchange								Equities				Commodities*				
Indicative 24hr ranges (**)				Other FX				Major Indices				Last % day				
	Last	% chge	Low	High		Last	% chge		Last	% day	% y/y		Last	% day		
AUD	0.7906	-0.8	0.7890	0.8005	HKD	7.7539	0.0	Dow	17,924	+0.5	8.5	Oil (Brent)	65.45	-3.4		
NZD	0.7449	-0.6	0.7426	0.7528	CNY	6.2067	0.1	S&P 500	2,088	+0.4	11.2	Oil (WTI)	58.85	-3.4		
EUR	1.1268	-0.7	1.1237	1.1392	SGD	1.3324	0.7	Nasdaq	4,946	+0.5	21.6	Oil (Tapis)	69.26	-1.5		
GBP	1.5258	0.1	1.5164	1.5275	IDR	13,148	0.9	FTSE	6,887	-0.7	1.3	Gold	1183.00	-0.6		
JPY	119.78	0.3	119.06	119.86	THB	33.55	0.8	DAX	11,408	+0.5	19.8	CRB	226.83	-1.5		
CAD	1.2127	0.7	1.2034	1.2163	KRW	1,090	0.9	CAC 40	4,967	-0.5	11.7	GS Metals	336.6	-0.5		
AUD/EUR	0.7016	-0.1			TWD	30.74	0.4	Nikkei	19,292	-1.2	36.2	Aluminium	1900	-3.0		
AUD/JPY	94.69	-0.5			PHP	44.71	0.6	Shanghai	4,112	-2.8	104.1	Copper	6390	-1.4		
AUD/GBP	0.5181	-0.9			CHF	0.92	0.6	Hang Seng	27,290	-1.3	25.0	Nickel	13936	-2.3		
AUD/NZD	1.0612	-0.1			SEK	8.26	0.5	ASX 200	5,646	-0.8	3.1	Zinc	2374	-1.7		
												Ch. steel			2391	-1.0
												Iron ore			60.4	-0.9
												St. coal			61.8	n.a.
												Wheat Chic.			472.8	-1.4
												Sugar			12.96	0.7
												Cotton			65.53	-0.5
												Coffee			131.7	1.3
												<b>CO<sub>2</sub> Emissions - Euros</b>			Last % day	
												Mar-2015			7.47	-1.3
												Dec-2015			7.55	-1.3
												Dec-2016				

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
<b>Friday, 8 May 2015</b>								
JN	Bank of Japan April 7-8 meeting minutes						23.50	9.50
AU	RBA Statement on Monetary Policy						1.30	11.30
GE	Industrial Production SA MoM	Mar		0.4%		0.2%	6.00	16.00
GE	Trade Balance	Mar		+20.0B		19.2B	6.00	16.00
UK	Trade Balance	Mar		-£2300		-£2859	8.30	18.30
CA	Housing Starts	Apr				189.7K	12.15	22.15
US	Change in Nonfarm Payrolls	Apr		230K		126K	12.30	22.30
CA	Unemployment Rate	Apr				6.8%	12.30	22.30
CA	Net Change in Employment	Apr				28.7K	12.30	22.30
US	Unemployment Rate	Apr		5.4%		5.5%	12.30	22.30
US	Average Hourly Earnings MoM/YoY	Apr		0.2%/2.3%		0.3%/2.1%	12.30	22.30
CH	Trade Balance	Apr				\$3.08B	14.00	0.00
CH	Imports/Exports YoY	Apr		-9.8%/2.9%		-12.7%/-15.0%	14.00	0.00
<b>Saturday, 9 May 2015</b>								
CH	CPI YoY	Apr		1.6%		1.4%	1.30	11.30
CH	PPI YoY	Apr		-4.6%		-4.6%	1.30	11.30
PO	ECB's Costa, Monti Speak at Conference on Growth and Reform						7.30	17.30
<b>Monday, 11 May 2015</b>								
NZ	Card Spending Total MoM	Apr				1.3%	22.45	8.45
AU	NAB Business Conditions/Confidence	Apr				6/3	1.30	11.30
UK	BOE Asset Purchase Target	May				375B	11.00	21.00
UK	Bank of England Bank Rate	May-11		0.50%		0.50%	11.00	21.00
<b>Tuesday, 12 May 2015</b>								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May-10					23.30	9.30
AU	Home Loans MoM	Mar				1.2%	1.30	11.30
AU	Investment Lending	Mar				-3.4%	1.30	11.30
UK	Industrial Production MoM	Mar				0.1%	8.30	18.30
AU	Federal Budget	2015-16					14.00	0.00
US	NFIB Small Business Optimism	Apr				95.2	13.00	23.00
US	Fed's Williams Speaks at New York Association for Business Eco (V)						16.45	2.45
<b>Wednesday, 13 May 2015</b>								
NZ	Food Prices MoM	Apr				0.1%	22.45	8.45
JN	BoP Current Account Adjusted	Mar				¥603.5B	23.50	9.50
AU	Wage Price Index QoQ/YoY	1Q				0.6%/2.5%	1.30	11.30
CH	Retail Sales / YTD YoY	Apr				10.2%/10.6%	5.30	15.30
CH	Industrial Production / YTD YoY	Apr				5.6%/6.4%	5.30	15.30
CH	Fixed Assets Ex Rural YTD YoY	Apr				13.5%	5.30	15.30
CH	Bloomberg GDP Monthly Estimate YoY	Apr				6.4%	6.00	16.00
GE	CPI MoM/YoY	Apr F					6.00	16.00
GE	GDP SA QoQ	1Q P				0.7%/1.4%	6.00	16.00
GE	CPI YoY	Apr F					6.00	16.00
UK	Average Weekly Earnings 3M/YoY	Mar				1.7%	8.30	18.30
UK	Weekly Earnings ex Bonus 3M/YoY	Mar				1.8%	8.30	18.30
UK	ILO Unemployment Rate 3Mths	Mar				5.6%	8.30	18.30
EC	Industrial Production SA MoM	Mar				1.1%	9.00	19.00
EC	GDP SA QoQ/YoY	1Q A				0.3%/0.9%	9.00	19.00
UK	Bank of England Inflation Report						9.30	19.30
EC	ECB account of the monetary policy meeting						11.30	21.30
US	Retail Sales Advance MoM	Apr				0.9%	12.30	22.30
CA	Teranet/National Bank HPI MoM	Apr				0.3%	12.30	22.30
US	Retail Sales Ex Auto MoM	Apr				0.4%	12.30	22.30
<b>Thursday, 14 May 2015</b>								
NZ	BusinessNZ Manufacturing PMI	Apr				54.5	22.30	8.30
NZ	Retail Sales Ex Inflation QoQ	1Q				1.7%	22.45	8.45
UK	RICS House Price Balance	Apr				21%	23.01	9.01
CA	Teranet/National Bank HPI YoY	Apr				4.7%	12.30	22.30
CA	New Housing Price Index MoM	Mar				0.2%	12.30	22.30
CA	Teranet/National Bank HP Index	Apr				168.01	12.30	22.30
CA	New Housing Price Index YoY	Mar				1.4%	12.30	22.30
US	PPI Final Demand MoM	Apr				0.2%	12.30	22.30
US	Initial Jobless Claims	May-09					12.30	22.30
US	PPI Final Demand YoY	Apr				-0.8%	12.30	22.30
<b>Friday, 15 May 2015</b>								
CA	Manufacturing Sales MoM	Mar				-1.7%	12.30	22.30
US	Empire Manufacturing	May				-1.19	12.30	22.30
CA	Int'l Securities Transactions	Mar				9.27B	12.30	22.30
CA	Existing Home Sales MoM	Apr				4.1%	13.00	23.00
US	Industrial Production MoM	Apr				-0.6%	13.15	23.15
US	Capacity Utilization	Apr				78.4%	13.15	23.15
US	Manufacturing (SIC) Production	Apr				0.1%	13.15	23.15
US	U. of Mich. Sentiment	May P					14.00	0.00
US	Net Long-term TIC Flows	Mar				\$9.8B	20.00	6.00
US	Total Net TIC Flows	Mar				\$4.1B	20.00	6.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
UK BOE		11-May	0.50%	0.50%		0.50%		
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%		
Europe ECB		3-Jun	0.05%	0.05%		0.05%		
New Zealand, RBNZ		11-Jun	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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