

Markets Today

A daily outlook for Australia, key global economies and markets

11 June 2015

Wheeler Dealer

To the evident delight of a section of the offshore hedge fund community, the RBNZ has just delivered on its recently instated easing bias, with a 25-point cut to the OCR to 3.25% and accompanied by a statement that further easing may be appropriate. This virtually assures a follow-up 25-point cut to 3% next month (23 July) and according to our BNZ economist, quite possibly another in September. The RBNZ's revised '90-day-bill track' indicates a terminal OCR somewhere between 2.75% and 3%. Immediate market reaction to the cut is to see the AUD/NZD cross above 1.10, and NZD/USD lose 150 points to below 0.7050.

Ahead of the RBNZ, the main market development overnight has been the further back-up in bonds yields, led by Germany where the 10 year Bund pierced the 1% barrier for the first time since last September (high of 1.06%). This had the effect of propelling EUR/USD to its highest level since 18 May (1.1386). A subsequent pull back to 0.98% saw the single currency ease back to around 1.1325. US Treasury yields have also pushed higher, by another 5bps to 2.49% at 10 years (currently 2.48%). It's notable that the ongoing back up in yields is not hurting equity market sentiment, where the S&P 500 has closed with a 1.2% gain and following even stronger gains in Europe. Asset reallocation underway?

Our view of yesterday's sharp reversal in the fortunes of USD/JPY, following remarks from BoJ Governor Kuroda that the Yen's real (so inflation adjusted) effective exchange rate is quite low and shouldn't fall further, is that since the key driver of the move from below ¥120 to above ¥125 was higher Treasury yields, then this latest back up augers well for an eventual return to above ¥125.

Background noise on Greece meanwhile remains both deafening and contradictory, to the point where it is largely being ignored. This includes news that Standard & Poors had further downgraded Greece's sovereign rating deeper into junk territory, to CCC from CCC+, reflecting a view Greece may default in the next 12-months. The ratings agency suggests Greece could impose capital controls to staunch ongoing bank deposit outflows and may be forced to issue a parallel currency if the withdrawals continue. Overnight we've learned that the ECB has raised the amount of liquidity assistance it is providing to the Greek banking system, (the 'ELA') to €83bn from €80.7bn.

After the yen, the best performing G10 currency overnight has been Sterling. Not because of anything BoE Governor Mark Carney said in his annual Mansion House address to the City of London – entirely focused on banker conduct not monetary policy and suggesting stiffer penal sentences for

market rigging offences – but an upside surprise on UK industrial production. At +0.4%, headline production exceeded the expected 0.1% gain, though ignored by markets was that the rise was driven by a sharp run-up in utilities output. Manufacturing production actual fell by 0.4%.

Coming Up

If central bank policies speak and incoming economic data are going to remain catalysts for moves in FX and rates markets - even if the subsequent volatility goes well beyond what policy makers would prefer to see - then there should be no let up in the price action today after a frenetic last 24 hours.

We will doubtless be hearing from RBNZ Governor Wheeler through the day as he hits the media circuit to explain this morning's decisions. Data wise, it's a session of top-drawer releases, headed by our local employment data, the slug of Chian activity readings on production, retail sales and fixed asset investment (15:30 AEST), and in the US tonight, May retail sales (we're also still awaiting the May China lending and money supply figures). Markets are expecting the China numbers to print steady to higher in Y/Y terms and for US retail sales to record a strong rebound after disappointingly soft April numbers. Risk for market then if is that doesn't happen.

Note that In front of the China data, the FT is currently leading with a report on the latest European Chamber of Commerce in China of 541 European business, 40 per cent of whom said they were planning to cut cost in China, with two thirds saying they are contemplating employee lay-offs.

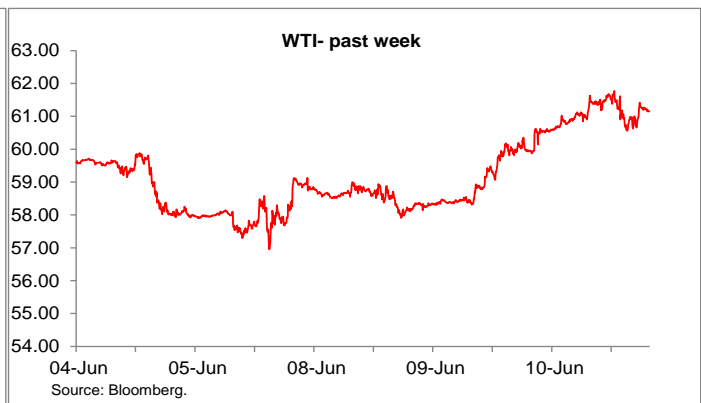
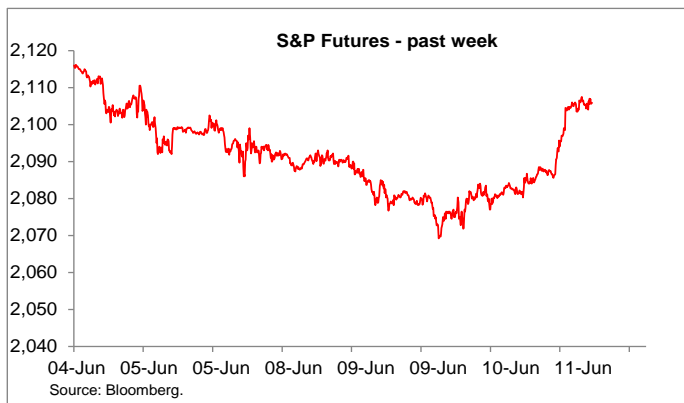
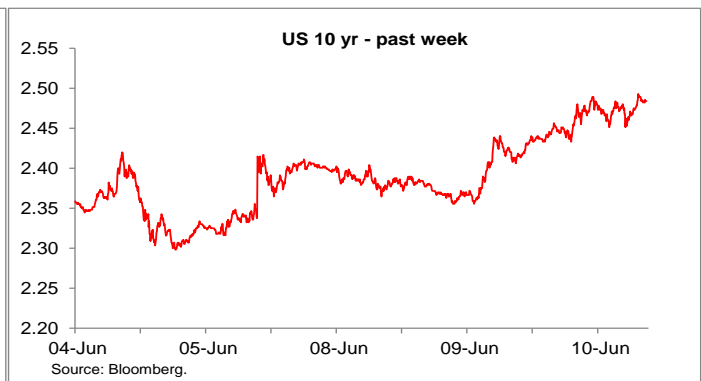
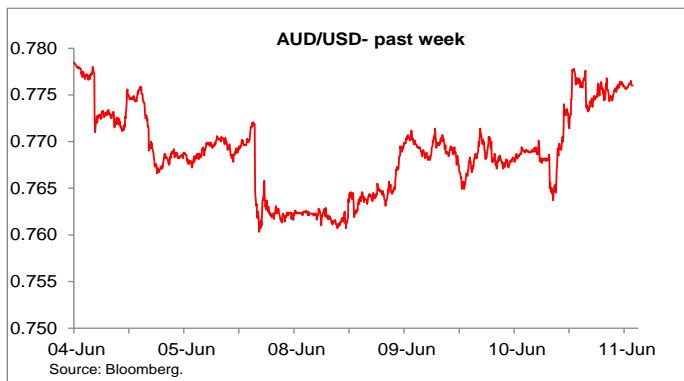
As for the Labour Force report for May, our economists note that leading indicators of labour demand point to continuing and reasonably solid growth in employment in coming months. We expect this trend to be evident in this month's report. NAB expects to see net employment growth to 10K in May after last month's flat result, just sufficient to see the unemployment rate remain steady at 6.2%. The market consensus is for somewhat higher increase in monthly employment of 15.0K and also an unchanged unemployment rate, employment forecasts ranging from -5K to +20K.

Overnight

On global stock markets, the S&P 500 was +1.20%. Bond markets saw US 10-years +4.54bp to 2.48%. On commodity markets, Brent crude oil +1.11% to \$65.6, gold+0.7% to \$1,186, iron ore +1.7% to \$65.39. AUD is at 0.776 and the range was 0.7636 to 0.7785. Indicative range today 0.7700 – 0.7800. For more market prices, please see p.2 of the pdf).

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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>0.7760</td> <td>0.9</td> <td>0.7636</td> <td>0.7785</td> <td>HKD</td> <td>7.7525</td> <td>0.0</td> </tr> <tr> <td>NZD</td> <td>0.7196</td> <td>0.9</td> <td>0.7107</td> <td>0.7232</td> <td>CNY</td> <td>6.2059</td> <td>0.0</td> </tr> <tr> <td>EUR</td> <td>1.1325</td> <td>0.4</td> <td>1.1260</td> <td>1.1386</td> <td>SGD</td> <td>1.3416</td> <td>-0.7</td> </tr> <tr> <td>GBP</td> <td>1.5530</td> <td>0.9</td> <td>1.5369</td> <td>1.5554</td> <td>IDR</td> <td>13,315</td> <td>0.1</td> </tr> <tr> <td>JPY</td> <td>122.70</td> <td>-1.3</td> <td>122.46</td> <td>124.62</td> <td>THB</td> <td>33.60</td> <td>-0.3</td> </tr> <tr> <td>CAD</td> <td>1.2261</td> <td>-0.6</td> <td>1.2203</td> <td>1.2352</td> <td>KRW</td> <td>1,108</td> <td>-1.0</td> </tr> <tr> <td>AUD/EUR</td> <td>0.6852</td> <td>0.5</td> <td></td> <td></td> <td>TWD</td> <td>30.89</td> <td>-1.0</td> </tr> <tr> <td>AUD/JPY</td> <td>95.20</td> <td>-0.4</td> <td></td> <td></td> <td>PHP</td> <td>45.00</td> <td>-0.1</td> </tr> <tr> <td>AUD/GBP</td> <td>0.4997</td> <td>0.0</td> <td></td> <td></td> <td>CHF</td> <td>0.93</td> <td>0.1</td> </tr> <tr> <td>AUD/NZD</td> <td>1.0782</td> <td>0.0</td> <td></td> <td></td> <td>SEK</td> <td>8.26</td> <td>-0.4</td> </tr> </table>								Indicative 24hr ranges (**)				Other FX		Last	% chge	Low	High	Last	% chge	AUD	0.7760	0.9	0.7636	0.7785	HKD	7.7525	0.0	NZD	0.7196	0.9	0.7107	0.7232	CNY	6.2059	0.0	EUR	1.1325	0.4	1.1260	1.1386	SGD	1.3416	-0.7	GBP	1.5530	0.9	1.5369	1.5554	IDR	13,315	0.1	JPY	122.70	-1.3	122.46	124.62	THB	33.60	-0.3	CAD	1.2261	-0.6	1.2203	1.2352	KRW	1,108	-1.0	AUD/EUR	0.6852	0.5			TWD	30.89	-1.0	AUD/JPY	95.20	-0.4			PHP	45.00	-0.1	AUD/GBP	0.4997	0.0			CHF	0.93	0.1	AUD/NZD	1.0782	0.0			SEK	8.26	-0.4
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 | Major Indices | | | | |---------------|--------|-------|-------| | | Last | % day | % y/y | | Dow | 18,000 | +1.3 | 6.2 | | S&P 500 | 2,105 | +1.2 | 7.9 | | Nasdaq | 5,077 | +1.3 | 17.0 | | FTSE | 6,830 | +1.1 | -0.6 | | DAX | 11,265 | +2.4 | 12.3 | | CAC 40 | 4,935 | +0.8 | 7.4 | | Nikkei | 20,046 | -0.2 | 33.0 | | Shanghai | 5,106 | -0.1 | 148.5 | | Hang Seng | 26,688 | -1.1 | 14.7 | | ASX 200 | 5,479 | +0.1 | 0.5 | | | | | | | Last | % day | |-------------|---------|-------| | Oil (Brent) | 65.60 | 1.1 | | Oil (WTI) | 61.18 | 1.7 | | Oil (Tapis) | 67.68 | 3.8 | | Gold | 1186.10 | 0.7 | | CRB | 228.18 | 0.8 | | GS Metals | 314.7 | 0.6 | | Aluminium | 1725 | 0.6 | | Copper | 6027 | 1.1 | | Nickel | 13566 | 0.8 | | Zinc | 2126 | -1.2 | | Ch. steel | 2344 | 0.2 | | Iron ore | 65.4 | 1.7 | | Coal | 59.5 | 2.0 | | Wheat Chic. | 521.3 | -3.2 | | Sugar | 12.01 | -0.5 | | Cotton | 64.89 | 0.5 | | Coffee | 138.6 | -0.7 | | | || | Interest Rates | | | | Benchmark 10 Year Bonds | | | | |-----------------------|------|------|------|-------------------------|--------|------|------| | Indicative Swap Rates | | | | Last | chge | Spnd | | | | Cash | 3mth | 2Yr | 10Yr | | | | | USD | 0.25 | 0.29 | 0.98 | 2.56 | USD 10 | 2.48 | 0.05 | | AUD | 2.00 | 2.15 | 2.19 | 3.42 | AUD 10 | 3.05 | 0.08 | | NZD | 3.50 | 3.47 | 3.35 | 4.13 | NZD 10 | 3.93 | 0.01 | | EUR | 0.05 | 0.06 | 0.15 | 1.29 | CAD 10 | 1.91 | 0.03 | | GBP | 0.50 | 0.57 | 1.03 | 2.21 | EUR 10 | 0.98 | 0.03 | | JPY | 0.09 | 0.10 | 0.16 | 0.71 | GBP 10 | 2.13 | 0.03 | | CAD | 0.75 | 1.17 | 1.10 | 2.37 | JPY 10 | 0.51 | 0.05 | | | | | | | | | Overnight Futures | | | |-------------------|--------|-------| | | Last | Chge | | Australia | | | | 3 mth bill | 97.85 | 0.00 | | 3 Yr bond | 97.895 | -0.03 | | 10 Yr bonc | 96.90 | -0.02 | | 3/10 sprd | 1.00 | 0.00 | | SPI | 52.0 | 0.9 | | | | | | CO ₂ Emissions - Euros | | | |-----------------------------------|------|-------| | | Last | % day | | Jun-2015 | 7.65 | 0.3 | | Dec-2015 | 7.62 | 0.3 | | Dec-2016 | 7.70 | 0.3 | | | |

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
Thursday, 11 June 2015								
NZ	RBNZ Official Cash Rate	Jun-11	3.50%	3.25%/3.5%		3.50%	21.00	7.00
NZ	RBNZ Governor Wheeler News Conference on OCR						21.05	7.05
UK	RICS House Price Balance	May		33%		33%	23.01	9.01
AU	Consumer Inflation Expectation	Jun				3.60%	1.00	11.00
AU	Employment Change	May	15K	13.5K		-2.9K	1.30	11.30
AU	Unemployment Rate	May	6.2%	6.2%		6.20%	1.30	11.30
AU	Participation Rate	May	64.8%	64.8%		64.80%	1.30	11.30
CH	Retail Sales YoY	May		10.20%		10.00%	5.30	15.30
CH	Industrial Production YoY	May		6%			5.30	15.30
CH	Fixed Assets Ex Rural YTD YoY	May		11.90%		12.00%	5.30	15.30
CH	Bloomberg monthly GDP estimate	May				6.40%	6.00	16.00
US	Retail Sales Advance MoM	May		1.1%		0.00%	12.30	22.30
CA	Capacity Utilization Rate	1Q				83.60%	12.30	22.30
CA	New Housing Price Index MoM/YoY	Apr				0%/1.2%	12.30	22.30
US	Import Price Index MoM/YoY	May		0.8%/		-0.3%/-10.7%	12.30	22.30
US	Initial Jobless Claims	Jun-06				276K	12.30	22.30
EC	ECB's Lautenschlaeger and Sijbrand speak in Dutch Parliament						13.30	23.30
US	Bloomberg Consumer Comfort	Jun-07					13.45	23.45
US	Business Inventories	Apr		0.20%		0.10%	14.00	0.00
US	Household change in net wealth	1Q				\$1517B	16.00	2.00
Friday, 12 June 2015								
NZ	BusinessNZ Manufacturing PMI	May				51.8	22.30	8.30
NZ	Food Prices MoM	May	0.10%			-0.30%	22.45	8.45
AU	Credit Card Purchases	Apr				\$A25.6B	1.30	11.30
AU	Credit Card Balances	Apr				\$A51.5B	1.30	11.30
JN	Industrial Production MoM/YoY	Apr F				1.0%/-0.1%	4.30	14.30
JN	Capacity Utilization MoM	Apr				-1.20%	4.30	14.30
JN	Tertiary Industry Index MoM	Apr				-1.00%	4.30	14.30
UK	Construction Output SA MoM/YoY	Apr		-0.4%/0%		3.9%/1.6%	8.30	18.30
EC	Industrial Production SA MoM	Apr		0.4%/1.1%		-0.3%/1.8%	9.00	19.00
CA	Teranet/National Bank HPI MoM/YoY	May				0.2%/4.4%	12.30	22.30
US	PPI Final Demand MoM/YoY	May		0.4%/-1.1%		-0.4%/-1.3%	12.30	22.30
CA	Teranet/National Bank HP Index	May				168.42	12.30	22.30
US	U. of Mich. Sentiment	Jun P		91		90.7	14.00	0.00
Monday, 15 June 2015								
NZ	Performance Services Index	May				56.5	22.30	8.30
IN	Wholesale Prices YoY	May				-2.65%	6.30	16.30
AS	ECB's Nowotny Speaks at Austrian Central Bank Conference						7.00	17.00
EC	Trade Balance SA	Apr				19.7B	9.00	19.00
AS	ECB's Praet speaks at Austrian Central Bank Conference						9.45	19.45
CA	Manufacturing Sales MoM	Apr				2.90%	12.30	22.30
US	Empire Manufacturing	Jun				3.09	12.30	22.30
CA	Existing Home Sales MoM	May				2.30%	13.00	23.00
US	Industrial Production MoM	May				-0.30%	13.15	23.15
CA	Bloomberg Nanos Confidence	Jun-12					14.00	0.00
US	NAHB Housing Market Index	Jun				54	14.00	0.00
US	Net Long-term TIC Flows	Apr				\$17.6B	20.00	6.00
US	Total Net TIC Flows	Apr				-\$100.9B	20.00	6.00
Tuesday, 16 June 2015								
AU	RBA's Debelle Gives Speech in Sydney						21.55	7.55
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jun-14					23.30	9.30
AU	RBA June Meeting Minutes						1.30	11.30
AU	New Motor Vehicle Sales MoM	May				-1.50%	1.30	11.30
GE	CPI MoM	May F					6.00	16.00
GE	CPI EU Harmonized MoM	May F					6.00	16.00
UK	CPI MoM	May				0.20%	8.30	18.30
UK	PPI Output Core NSA MoM	May				0.00%	8.30	18.30
UK	ONS House Price YoY	Apr				9.60%	8.30	18.30
EC	Employment QoQ	1Q				0.10%	9.00	19.00
GE	ZEW Survey Current Situation	Jun				65.7	9.00	19.00
EC	ZEW Survey Expectations	Jun				61.2	9.00	19.00
US	Housing Starts	May				1135K	12.30	22.30
US	Building Permits	May				1143K	12.30	22.30
CA	Int'l Securities Transactions	Apr				22.50B	12.30	22.30
Upcoming Central Bank Interest Rate Announcements								
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%		
Australia, RBA		7-Jul	2.00%	2.00%		2.00%		
UK BOE		9-Jul	0.50%	0.50%		0.50%		
Europe ECB		16-Jul	0.05%	0.05%		0.05%		
Canada, BoC		16-Jul				0.75%		

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

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