



Markets Today

A daily outlook for Australia, key global economies and markets

18 June 2015

No Getting Ahead of Yourself

The FOMC meeting was a bit of a mark-to-reality exercise for markets, after perhaps getting a little ahead of itself. This applies both to the intra-day moves and the direction over recent weeks. Earlier in the day, yields had risen, the USD was up and equities were wavering. Post Fed: US equities are up a fraction, yields are lower, the USD is lower and GBP is the outperformer.

Indeed, the changes in the FOMC statement were relatively limited, reflecting the reality that the US economy has improved since the weather related slowdown in the first quarter. But that recovery is moderate and there is still work to be done, particularly on incomes and inflation.

This event is now a multi-faceted one, with forecasts, dot points and speeches. That means there tends to be something for everyone, no matter your point of view. Thus, it tends to come down to the dot points, which attempt to show where the FOMC members believe the Fed Funds rate will be at the end of each of the next three years. These had to reflect the reality, that given the Fed had not yet started to raise rates, that their prior distribution of 'dots,' where some were at 1% for 2015, is extremely unlikely (similarly for the highs of 2016 and '17). So, while the median forecast for 2015 was unchanged at 0.625%, the distribution was lower and more members seeing only one, or no, hikes this year, not two.

It is this fact that is behind the dovish tone to the market's response to the FOMC meeting. Two hikes are still possible this year, but as we probably already knew, it is not exactly a given. It appears, that with yields rising in the US, and the curve having steepened, that the market was perhaps a little ahead of itself, the data and now clearly, the Fed. As NAB's interest rate strategist, Skye Masters, notes, this likely keeps US 10yr yields around 2.5% for now. That, in turn, still supports the USD, but potentially limits its upside (in the absence of an extreme market risk event, aka Greek default).

In the rest of the release, the median dot points for 2016 and 2017 were lowered, as the highs were looking pretty unlikely. The economic forecasts for 2015 were lowered, as expected but fractionally higher in the out years.

There were other events yesterday; in the UK BoE minutes showed two members 'finely balanced' for the decision to raise interest rates, while the unemployment rate remained steady and earnings were above expectations. That allowed GBP to outperform. The ongoing Greek grumbling continues.

The AUD underperformed yesterday, and while it is flat now, that belies the large moves in the last 24hours. There was no

local data, but the fall in iron ore prices was possibly weighing.

Coming Up

It is quiet in Australia today, as we take in the events of overnight and prepare for more news from Greece. In NZ, the Q1 GDP release could cause some movement if it differs much from the 0.6%qoq consensus.

There are a number of things released, but predominantly, markets will be monitoring the newsflow from the EuroGroup Finance minister's meeting. The ongoing discussions about Greece between those who want a compromise and those who want Greece to meet the proposals already tabled will generate more than enough headlines; let alone the commentary from Greece's officials themselves. As we head closer to the deadline, (and the deadline may not even be the deadline), the higher is the risk of a less orderly resolution. For those who believe that the loss of Greece from the EUR doesn't matter- note the Bundesbank's Weidman highlights that there does remain contagion risks, even Yellen pointed to this as a market risk.

Elsewhere, the UK reports its retail sales, which should retrace April's bounce. GBP has been outperforming of late, so the risks lie in a bigger than expected decline.

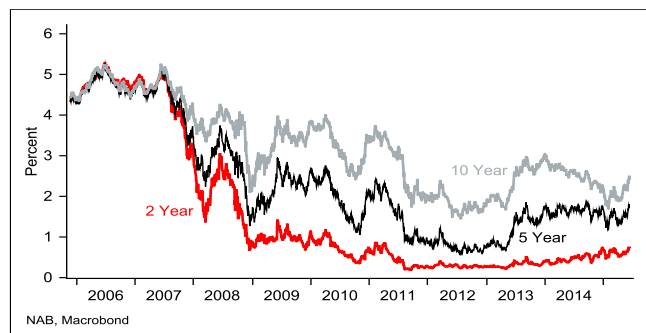
In the US, we are now back to watching the data: the CPI and Philly Fed releases are both expected to rise.

Overnight

On global stock markets, the S&P 500 was +0.20%. Bond markets saw US 10-years +0.72bp to 2.32%. On commodity markets, Brent crude oil +0.11% to \$63.77, gold+0.4% to \$1,186, iron ore -2.2% to \$61.51. AUD is at 0.775 and the range was 0.7646 to 0.777. (For more market prices, please see p.2 of the pdf).

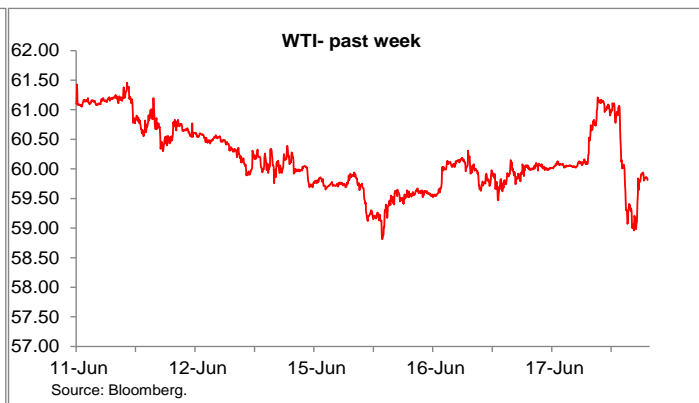
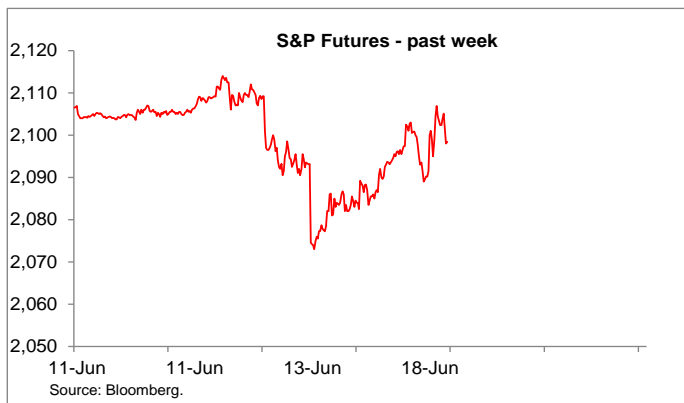
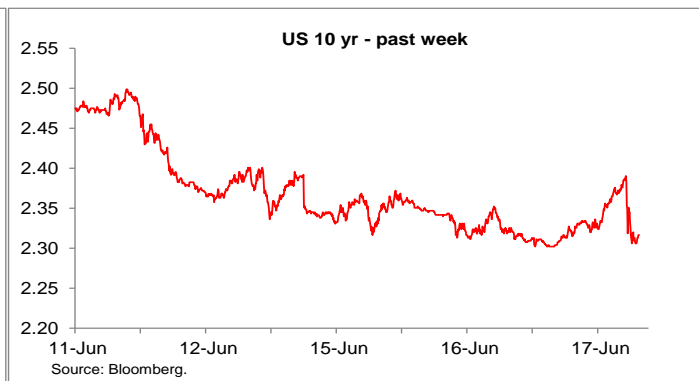
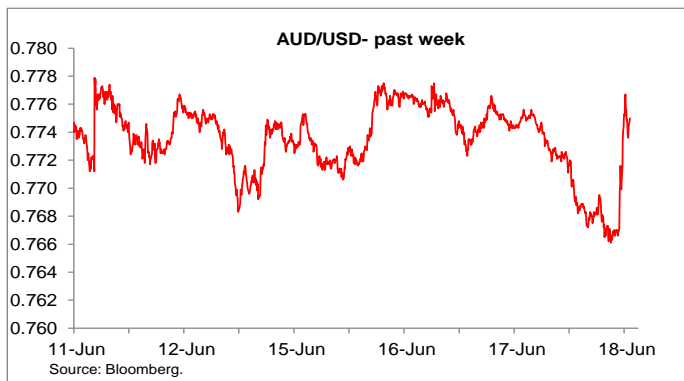
- BoE minutes: two members are close to hiking
- UK wages 2.7%yA, 2.1E, 2.3P rev higher.

Chart of the Day: US Interest Rates



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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	0.7750	0.0	0.7646	0.7770	HKD	7.7529	0.0	Dow	17,936	+0.2	6.7	Oil (Brent)	63.77	0.1		
NZD	0.6977	-0.2	0.6881	0.7012	CNY	6.2095	0.0	S&P 500	2,100	+0.2	8.2	Oil (WTI)	59.81	-0.3		
EUR	1.1339	0.8	1.1207	1.1358	SGD	1.3366	-0.4	Nasdaq	5,065	+0.2	16.8	Oil (Tapis)	65.08	0.7		
GBP	1.5828	1.2	1.5626	1.5847	IDR	13,348	0.0	FTSE	6,681	-0.4	-1.3	Gold	1185.70	0.4		
JPY	123.44	0.1	123.21	124.45	THB	33.63	-0.2	DAX	10,978	-0.6	10.7	CRB	223.52	-0.1		
CAD	1.2236	-0.5	1.2221	1.2350	KRW	1,118	-0.1	CAC 40	4,791	-0.1	5.6	GS Metals	301.3	-0.1		
AUD/EUR	0.6835	-0.8			TWD	30.91	-0.6	Nikkei	20,219	-0.2	33.8	Aluminium	1680	-0.1		
AUD/JPY	95.66	0.0			PHP	45.12	-0.2	Shanghai	4,968	+1.6	141.7	Copper	5738	0.0		
AUD/GBP	0.4897	-1.2			CHF	0.92	-1.1	Hang Seng	26,754	+0.7	15.4	Nickel	12722	0.2		
AUD/NZD	1.1106	0.1			SEK	8.11	-0.8	ASX 200	5,595	+1.1	4.0	Zinc	2069	-0.7		
												Ch. steel			2227	-0.2
												Iron ore			61.5	-2.2
												Coal			60.4	0.0
												Wheat Chic.			497.0	0.5
												Sugar			11.35	0.4
												Cotton			63.88	-0.9
												Coffee			129.4	-2.0
												CO₂ Emissions - Euros			Last % day	
												Jun-2015			7.53	0.7
												Dec-2015			7.50	0.7
												Dec-2016			7.58	0.7

Interest Rates					Benchmark 10 Year Bonds				Overnight Futures		
Indicative Swap Rates									Last Chge		
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd		Last	Chge
USD	0.25	0.29	0.91	2.40	USD 10	2.32	0.01		Australia		
AUD	2.00	2.16	2.12	3.32	AUD 10	2.99	-0.02	0.67	3 mth bill	97.89	0.01
NZD	3.25	3.29	3.17	4.00	NZD 10	3.80	-0.01	1.48	3 Yr bond	98	0.04
EUR	0.05	0.06	0.15	1.14	CAD 10	1.76	0.02	-0.56	10 Yr bonc	97.01	0.02
GBP	0.50	0.57	1.08	2.17	EUR 10	0.81	0.01	-1.51	3/10 sprd	1.00	0.02
JPY	0.09	0.10	0.15	0.67	GBP 10	2.06	0.07	-0.26	SPI	-4.0	-0.1
CAD	0.75	1.17	1.03	2.23	JPY 10	0.48	-0.02	-1.84			

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, 18 June 2015								
NZ	GDP SA QoQ/YoY	1Q	0.60%	0.60%		0.8%/3.5%	22.45	8.45
CH	Property Prices	May					1.30	11.30
AU	RBA Bulletin						1.30	11.30
AU	RBA FX Transactions Government	May				-419M	1.30	11.30
AU	RBA FX Transactions Market	May				274M	1.30	11.30
AU	RBA FX Transactions Other	May				72M	1.30	11.30
EC	ECB Publishes Economic Bulletin						8.00	18.00
UK	Retail Sales Ex Auto Fuel MoM	May		-0.20%		1.20%	8.30	18.30
EC	Labour Costs YoY	1Q				1.10%	9.00	19.00
US	Current Account Balance	1Q		-\$116.4B		-\$113.5B	12.30	22.30
US	CPI MoM/YoY	May		0.5%/0.0%		0.1%/-0.2%	12.30	22.30
US	Initial Jobless Claims	Jun-13				279K	12.30	22.30
US	Philadelphia Fed Business Outlook	Jun		8.0		6.7	14.00	0.00
EU EuroGroup meeting								
US	Leading Index	May		0.4%		0.7%	14.00	0.00
Friday, 19 June 2015								
NZ	ANZ Job Advertisements MoM	May				-0.20%	22.00	8.00
NZ	ANZ Consumer Confidence Index	Jun				123.9	1.00	11.00
NZ	ANZ Consumer Confidence MoM	Jun				-3.80%	1.00	11.00
CH	MNI Business Indicator	Jun				49.7	1.45	11.45
JN	Bank of Japan Policy Statement/Kuroda Press Conference						3.00	13.00
JN	All Industry Activity Index MoM	Apr		0.30%		-1.30%	4.30	14.30
JN	Leading Index CI	Apr F					5.00	15.00
EC	ECB Current Account SA	Apr				18.6B	8.00	18.00
UK	Public Finances (PSNCR)	May				-4.0B	8.30	18.30
CA	CPI Core MoM/YoY	May				0.1%/2.3%	12.30	22.30
CA	Retail Sales MoM	Apr				0.70%	12.30	22.30
CA	Retail Sales Ex Auto MoM	Apr					12.30	22.30
JN	BOJ Annual Rise in Monetary Base	Jun-19				¥80T	14.00	0.00
UK	CBI Trends Total Orders	Jun				-5	14.00	0.00
US	Fed's Mester (alt) Speaks at Fed Policy Summit in Pittsburgh						16.00	2.00
Monday, 22 June 2015								
NZ	Net Migration SA	May				4740	22.45	8.45
JN	Convenience Store Sales YoY	May				4.00%	7.00	17.00
SW	Sweden's Riksbank Executive Board Meeting						11.00	21.00
US	Chicago Fed Nat Activity Index	May				-0.15	12.30	22.30
JN	Supermarket Sales YoY	May				6.40%	14.00	0.00
GR	Current Account Balance	Apr					14.00	0.00
NZ	Westpac Consumer Confidence	2Q				117.4	14.00	0.00
CA	Bloomberg Nanos Confidence	Jun-19					14.00	0.00
EC	Consumer Confidence	Jun A					14.00	0.00
US	Existing Home Sales/MoM	May				5.04M/-3.3%	14.00	0.00
Tuesday, 23 June 2015								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jun-21					23.30	9.30
AU	Conf. Board Leading Index MoM	Apr				-0.10%	0.00	10.00
AU	ABS House Price Index QoQ/YoY	1Q				1.9%/6.8%	1.30	11.30
JN	Markit/JMMA Japan Manufacturing PMI	Jun P					1.35	11.35
CH	HSBC China Manufacturing PMI	Jun P					1.45	11.45
FR	Markit France Manufacturing PMI	Jun P					7.00	17.00
FR	Markit France Services PMI	Jun P					7.00	17.00
GE	Markit/BME Germany Manufacturing PMI	Jun P					7.30	17.30
GE	Markit Germany Services PMI	Jun P					7.30	17.30
EC	Markit Eurozone Manufacturing PMI	Jun P					8.00	18.00
EC	Markit Eurozone Services PMI	Jun P					8.00	18.00
EC	Markit Eurozone Composite PMI	Jun P					8.00	18.00
US	Durable Goods Orders	May					12.30	22.30
US	FHFA House Price Index MoM	Apr					13.00	23.00
US	Markit US Manufacturing PMI	Jun P					13.45	23.45
UK	CBI Reported Sales	Jun					14.00	0.00
US	New Home Sales	May					14.00	0.00
US	Richmond Fed Manufact. Index	Jun					14.00	0.00
Wednesday, 24 June 2015								
JN	Bank of Japan May 21-22 meeting minutes						23.50	9.50
AU	Skilled Vacancies MoM	May				0.00%	1.00	11.00
CH	Westpac-MNI Consumer Sentiment	Jun					1.45	11.45
CH	Conference Board Leading Economic Index	May					2.00	12.00
FR	GDP QoQ/YoY	1Q F				0.6%/0.7%	6.45	16.45
GE	IFO Business Climate	Jun					8.00	18.00
US	GDP Annualized QoQ	1Q T					12.30	22.30
Upcoming Central Bank Interest Rate Announcements								
Japan, BoJ		19-Jun	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
Australia, RBA		7-Jul	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%		
New Zealand, RBNZ		23-Jul	3.00%	3.00%/3.25%		3.25%		
US Federal Reserve		30-Jul						

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

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