

Markets Today

A daily outlook for Australia, key global economies and markets

3 June 2015

Flying Bund Yields

Big moves overnight, not all of them consistent, but they may have caught out investors positioning for a rise in risk aversion. As news of a possible deal between Greece and its creditors came in, bond yields – led by Germany, rose sharply. Commodities were buoyed, EUR was bid and risk appetite rose. Just don't tell equities that. Not all moves were consistent with the same theme, as equity markets, particularly Germany's DAX, were softer. Perhaps they don't like the idea of incrementally less accommodative policy. On a daily basis, it is often hard to square the asset class circle.

Admittedly, here were a few different themes. The positive one from Europe: Not only did we hear that the IMF, ECB and Euro group have some sort of agreement (still yet to be agreed upon by Greece), but also that Euro zone CPI was higher than expected. It's not rocketing away, but perhaps puts the market's mind to the fact that the ECB may not have to buy bonds forever. We will know more today, post the ECB meeting. But the news was enough to push yields higher, (Germany's bund selloff was the biggest since August 2012) support the EUR and weigh on equities.

In the US, the news wasn't so positive. Factory orders, typically a second tier release, were weaker than expected but the underlying results ok. More importantly, in Fed member Brainard's first speech on monetary policy, she was decidedly dovish. As the Fed's International expert, she commented on the negative impact of a stronger USD as well as negatives from lower oil prices. She was not convinced that the softness in Q1 was due to temporary factors and decidedly is not in the camp of recent Fed members looking to raise rates this year. We would expect a weaker USD on this, and softer equities; but the big rise in yields here doesn't necessarily add up.

Cross-currents and positioning can make for some funny moves at times. We would anticipate that if Greece gets a deal in coming days (it's still *if*. Greece has yet to agree), and that the US employment data is firmer, then the yield move is the correct response, if somewhat extreme. The USD will get pushed around by a better Europe outlook against a less accommodative Fed. But with better risk appetite, higher commodities and an outperforming AUD might hold.

Helping the AUD substantially outperform (+2.2%!) was the RBA. They kept interest rates unchanged yesterday, with only a slight easing bias in place. They kept the commentary on the AUD unchanged, seeing its fall "likely and necessary."

Coming Up

The busy week continues, as we heat up towards the blockbuster data at the end of the week. It is likely that markets get a little more concerned and consolidate into the Friday payrolls and Greece news.

Domestically, we get Q1 GDP. NAB raised its estimate for the outcome to 0.7%qoq from 0.6% post yesterday's better than expected trade contribution to GDP outcome. While growth numbers are backward looking and thus have less of an impact on market's view of what's ahead; anything substantially away from expectations will move markets.

There are a whole raft of services PMI's released. While many economies have a higher contribution to growth from the services sector, these series tend to be less market moving. Who knows, maybe it is due to our ability to conceptualise manufacturing rather than services. No matter, this data has been doing better of late, but doesn't tend to be strongly market moving. Results are released in: China, Europe, UK, and two versions in the US.

The US ADP measure of employment has lost a lot of credibility, but it can still guide some perception of Friday's release. It is expected to pick up. The big surprise would be a decline. That remains the biggest risk for payrolls on Friday.

While trade data is a little on the backburner (or was until Brainard's speech), it is trade data that is causing big swings in US growth, and influencing inflation. The US trade balance doesn't tend to move the USD, but it remains important for future guidance for the vulnerabilities for the USD. The trade deficit has been relatively consistently worse than expected from the start of 2014.

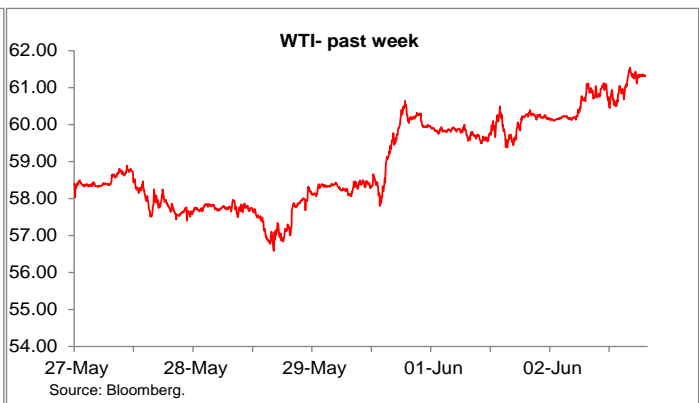
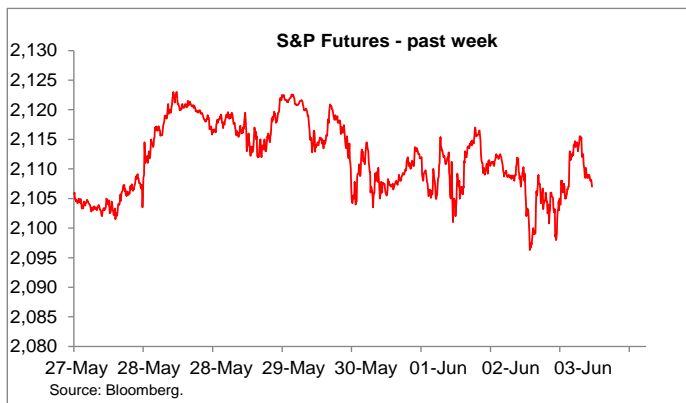
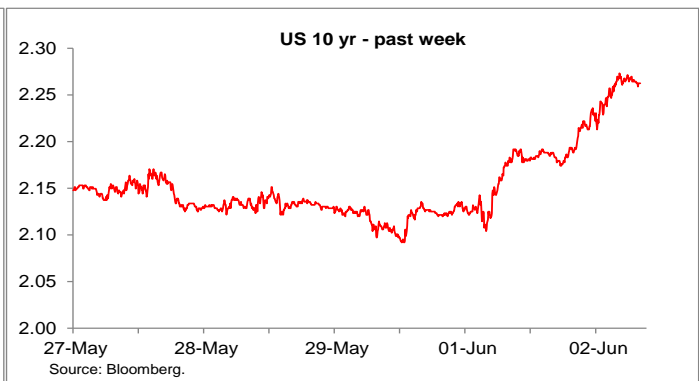
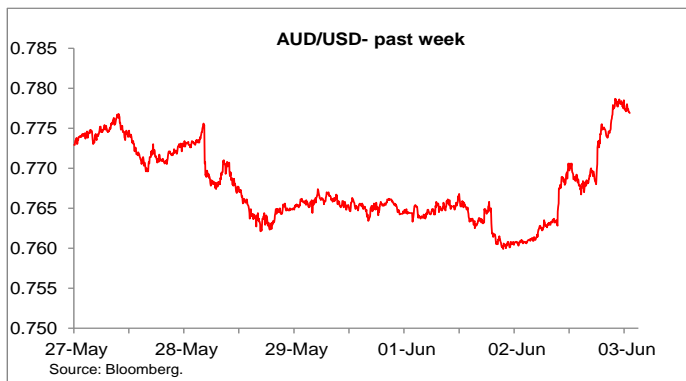
Finally, we get the ECB. That appears to be somewhat of a sideshow to all the Greece negotiations, but with EUR vulnerable to more (or less) bond buying, there is likely to be a short term focus on what Mr Draghi has to say. Policy is not expected to be changed; forecasts may be revised higher. The risks surrounding Greece, remain key for markets.

Overnight

On global stock markets, the S&P 500 was -0.10%. Bond markets saw US 10-years +8.30bp to 2.26%. On commodity markets, Brent crude oil +1.16% to \$65.63, gold+0.4% to \$1,193, iron ore +1.9% to \$63.02. AUD is at 0.7773 and the range was 0.7604 to 0.779. (For more market prices, please see p.2 of the pdf).

- EZ CPI 0.3%yoyA, 0.2E, 0P; Core 0.9%A, 0.7E, 0.6P
- US Factory Orders -0.4%A, -0.1E, 2.2P; ex transport 0A, E, P
- Fed's Brainard dovish with concerns about falling oil prices and rising USD

Markets



Foreign Exchange							
Indicative 24hr ranges (**)				Other FX			
	Last	% chge	Low	High		Last	% chge
AUD	0.7770	2.2	0.7604	0.7790	HKD	7.7559	0.0
NZD	0.7180	1.2	0.7090	0.7201	CNY	6.1982	0.0
EUR	1.1144	2.0	1.0916	1.1192	SGD	1.3485	-0.6
GBP	1.5339	0.9	1.5180	1.5367	IDR	13,210	0.0
JPY	124.11	-0.5	123.76	125.05	THB	33.70	0.0
CAD	1.2408	-0.9	1.2368	1.2535	KRW	1,112	0.2
AUD/EUR	0.6971	0.2			TWD	30.88	0.2
AUD/JPY	96.42	1.6			PHP	44.70	0.3
AUD/GBP	0.5065	1.2			CHF	0.93	-1.4
AUD/NZD	1.0821	0.9			SEK	8.45	-1.5

Equities			
Major Indices			
	Last	% day	% y/y
Dow	18,012	-0.2	7.6
S&P 500	2,110	-0.1	9.6
Nasdaq	5,077	-0.1	19.8
FTSE	6,928	-0.4	0.9
DAX	11,329	-0.9	13.9
CAC 40	5,004	+0	10.8
Nikkei	20,543	-0.1	36.6
Shanghai	4,911	+1.7	140.9
Hang Seng	27,467	-0.5	17.9
ASX 200	5,636	-1.7	2.9

Commodities*		
	Last	% day
Oil (Brent)	65.63	1.2
Oil (WTI)	61.31	1.8
Oil (Tapis)	66.92	4.2
Gold	1193.30	0.4
CRB	225.82	1.0
GS Metals	312.6	-0.2
Aluminium	1730	1.3
Copper	6022	0.2
Nickel	12953	2.9
Zinc	2149	-1.6
Ch. steel	2369	-0.1
Iron ore	63.0	1.9
St. coal	61.8	n.a.
Wheat Chic.	517.3	3.7
Sugar	12.32	0.6
Cotton	63.60	-0.2
Coffee	132.7	2.2
CO ₂ Emissions - Euros		
	Last	% day
Jun-2015	7.50	2.7
Dec-2015	7.48	2.7
Dec-2016	7.56	2.9

Interest Rates								
Indicative Swap Rates				Benchmark 10 Year Bonds				
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	0.25	0.28	0.89	2.34	USD 10	2.26	0.08	
AUD	2.00	2.13	2.17	3.18	AUD 10	2.74	0.03	0.48
NZD	3.50	3.47	3.35	3.90	NZD 10	3.66	0.02	1.39
EUR	0.05	0.06	0.11	1.02	CAD 10	1.71	0.08	-0.55
GBP	0.50	0.57	1.00	2.02	EUR 10	0.71	0.17	-1.55
JPY	0.09	0.10	0.15	0.63	GBP 10	1.98	0.13	-0.28
CAD	0.75	1.17	1.00	2.15	JPY 10	0.42	0.01	-1.84

Overnight Futures		
	Last	Chge
Australia		
3 mth bill	97.84	-0.01
3 Yr bond	98.01	-0.05
10 Yr bonc	97.15	-0.10
3/10 sprd	0.86	0.05
SPI	16.0	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
Wednesday, 3 June 2015								
AU	AiG Perf of Services Index	May				49.7	23.30	9.30
NZ	QV House Prices YoY	May				8.3%	0.00	10.00
NZ	ANZ Commodity Price, NZ\$	May				-8.9%	1.00	11.00
AU	NAB Online Retail Sales Index SA MoM/YoY	Apr				0.8%/16.8%	1.30	11.30
AU	GDP SA QoQ/YoY	1Q	0.6%/2.0%	0.6%/2.0%		0.5%/2.5%	1.30	11.30
JN	Markit Japan Services PMI	May				51.3	1.35	11.35
CH	HSBC China Services PMI	May				52.9	1.45	11.45
IN	HSBC India Services PMI	May				52.4	5.00	15.00
EC	Markit Eurozone Services PMI	May F				53.3	8.00	18.00
UK	Markit/CIPS UK Services PMI	May				59.5	8.30	18.30
EC	Unemployment Rate	Apr		11.2%		11.3%	9.00	19.00
EC	Retail Sales MoM/YoY	Apr		0.6%/2.0%		-0.8%/1.6%	9.00	19.00
EC	ECB Main Refinancing Rate	Jun-03		0.05%		0.05%	11.45	21.45
US	ADP Employment Change	May		200K		169K	12.15	22.15
US	Trade Balance	Apr		-\$44.0B		-\$51.4B	12.30	22.30
CA	Int'l Merchandise Trade	Apr				-3.02B	12.30	22.30
US	Markit US Services PMI	May F		56.4		56.4	13.45	23.45
US	ISM Non-Manf. Composite	May		57.0		57.8	14.00	0.00
US	U.S. Federal Reserve Releases Beige Book						18.00	4.00
US	Fed's Evans (v) Speaks at Banking Symposium in Chicago						18.15	4.15
Thursday, 4 June 2015								
NZ	Value of All Buildings SA QoQ	1Q				0.3%	22.45	8.45
JN	BOJ Kuroda speaks at BOJ's international conference						0.00	10.00
JN	Interview BOJ board member Yutaka Harada						1.00	11.00
AU	Trade Balance	Apr	-2300M	-2050M		-1322M	1.30	11.30
AU	Retail Sales MoM	Apr	0.1%	0.3%		0.3%	1.30	11.30
NZ	Weekly Mortgage Approvals, 13w apc	29-May				1.2%	3.00	13.00
UK	Bank of England Bank Rate	Jun-04	0.50%	0.50%		0.50%	11.00	21.00
US	Challenger Job Cuts YoY	May				52.8%	11.30	21.30
US	Nonfarm Productivity	1Q F		-2.9%		-1.9%	12.30	22.30
US	Initial Jobless Claims	May-30		278K		282K	12.30	22.30
CA	Ivey Purchasing Managers Index SA	May		55.0		58.2	14.00	0.00
Friday, 5 June 2015								
AU	AiG Perf of Construction Index	May				47	23.30	9.30
JN	Leading Index CI	Apr P				106	5.00	15.00
GE	Factory Orders MoM/YoY	Apr		0.5%/-0.6%		0.9%/1.9%	6.00	16.00
UK	BoE/GfK Inflation Next 12 Mths	May				1.9%	8.30	18.30
EC	GDP SA QoQ/YoY	1Q P		0.4%/1.4%		0.4%/1.4%	9.00	19.00
US	Change in Nonfarm Payrolls	May		225K		223K	12.30	22.30
US	Two-Month Payroll Net Revision	May					12.30	22.30
US	Change in Private Payrolls	May		220K		213K	12.30	22.30
US	Change in Manufact. Payrolls	May		5K		1K	12.30	22.30
US	Unemployment Rate	May		5.40%		5.40%	12.30	22.30
US	Average Hourly Earnings MoM/YoY	May		0.2%/2.2%		0.1%/2.2%	12.30	22.30
US	Underemployment Rate	May				10.8%	12.30	22.30
US	Change in Household Employment	May				192	12.30	22.30
US	Labor Force Participation Rate	May				62.8%	12.30	22.30
CA	Unemployment Rate	May		6.8%		6.8%	12.30	22.30
CA	Net Change in Employment	May		10.0K		-19.7K	12.30	22.30
US	Fed's Dudley (v) Speaks on Economy and Policy in Minneapolis						16.30	2.30
US	Consumer Credit	Apr		\$16.45B		\$20.523B	19.00	5.00
Upcoming Central Bank Interest Rate Announcements								
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%		
Canada, BoC		16-Jul				0.75%		

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

Kymberly 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 lure
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

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.