

22 March 2016

Markets Today



Fed hikes back on the radar

It was a quite start to the holiday shortened week with European equities closing marginally lower while US equities have ended marginally higher. Other markets were also quiet, however we did have two Fed officials suggesting Fed hikes could be coming sooner rather than later (see more below).

Yesterday's rally in Chinese equities failed to boost other markets with the rest of Asia closing flat to marginally lower. The Shanghai composite index ended the day 2.2% higher following news that controls on margin lending were loosened. The news was somewhat surprising, not only because it was unexpected, but also given the PBoC warnings over the weekend that the country's corporate debt levels were too high.

In currencies, the USD has continued to recover some of its lost ground post the FOMC announcement last week. The big dollar is marginally stronger against 9 of the G10 currencies with the Swedish Krona technically the only outperformer, up a whopping 0.04%. The AUD is practically unchanged and the GBP is at the bottom of the leader board, down 0.63%. The resignation of Duncan Smith on Friday, a senior member of the UK government and pro-Brexit supporter as well as a report from the Confederation of British Industry that Brexit could cost Britain GBP100 bn and a million jobs weighed on the GBP.

The USD appreciation was also supported by a modest rise in US treasury yields. The move higher in yields appears to have been propelled by comments from two Fed officials advocating for Fed hike sooner rather than later. Fed Lockhart (non-voter) said that US data may justify a move as soon as April, warning that inflation was being kept artificially low due to falling oil prices and a stronger dollar. Lockhart also predicted that consumer prices would rise "significantly" as soon as oil prices stabilise. Lockhart upbeat assessment on the US economy was also shared by Fed Williams (non-voter). In an MNI interview, Williams said that "assuming everything else is basically the same and the data flow continues the way I hope and expect, then April or June would definitely be potential times to have an increase in interest rates,"

Looking at commodities, oil prices look set to end the day marginally higher, boosted by a report from a private data provider noting that oil inventories at the key US delivery hub in Cushing, Oklahoma, declined last week. Iron ore has

climbed another 2.3% and is just under \$59. Gold is 0.9% lower at \$1243.3 and the CRB index is unchanged at 176.6.

US existing home sales were the only notable data release. The February numbers were disappointing (5.08m vs 5.31m exp), however the figures were dismissed with many expecting a rebound in the spring.

Coming Up

Today's domestic highlight comes courtesy of the RBA. Governor Stevens is speaking at the ASIC's annual forum and while no title is available for the speech, we know that he is speaking at 4.15pm (AEDT) and that the topic is likely to be somewhere along the lines of Australia's ability to withstand a major global shock.

We suspect, however, the real focus for market participants will be on whether the Governor takes the opportunity to jawbone the currency. The AUD/USD is currently trading just under 76c, it has appreciated 11% since it reached a low of 0.6827 in mid-January and it is four cent above the level where RBA Board Member John Edwards recently noted that the currency was still a "bit too high". Given the sense of market anticipation, if the Governor passes on the opportunity to talk the currency lower, this could be the catalyst for the AUD to move another leg higher.

In terms of data releases, in Australia this morning we get the weekly consumer confidence reading and the ABS releases its own measure of house prices. Both are unlikely to be market movers.

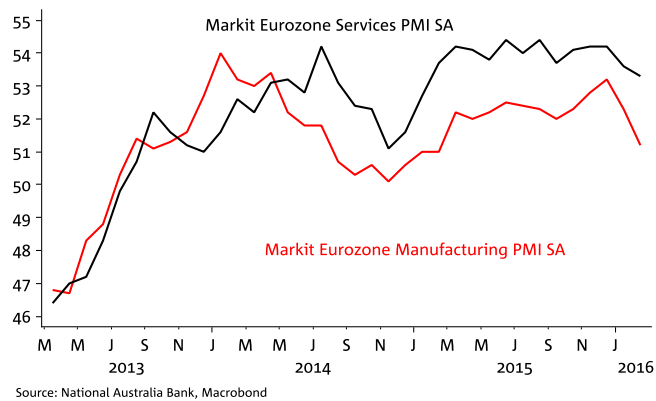
In offshore markets, the all industry activity index (Jan) and small business confidence survey (Feb) are out in Japan and it's a busy day in Europe where the preliminary manufacturing and services PMI readings for France, Germany and the Eurozone are slotted for release. While still in expansionary mode, both Eurozone PMIs have declined in recent months and it will be interesting to see if further momentum has been lost in March (see chart below). The ZEW and IFO Surveys for Germany are also due for release and in the UK we get the CPI reading for February.

On the other side of the Atlantic, the US releases its FHFA House Price Index (Jan) and the March edition of the Richmond Fed Manufacturing Index is also out. Fed Evans (non-voter) is speaking in Chicago, but at the time of writing there was no tittle to his speech.

Overnight

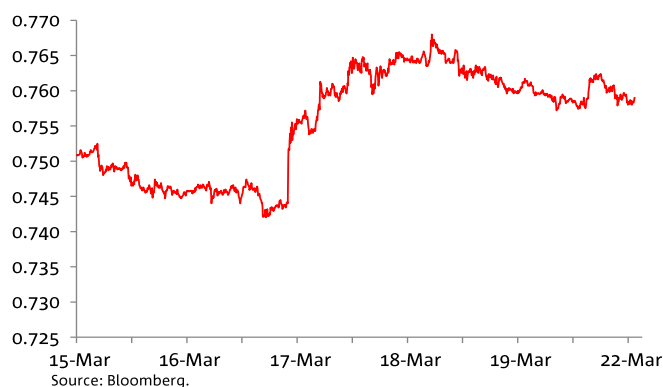
On global stock markets, the S&P 500 was +0.10%. Bond markets saw US 10-years +4.41bp to 1.92%. On commodity markets, Brent crude oil +1.07% to \$41.64, gold-0.9% to \$1,244, iron ore +2.3% to \$58.82. AUD is at 0.7581 and the range was 0.7569 to 0.7627.

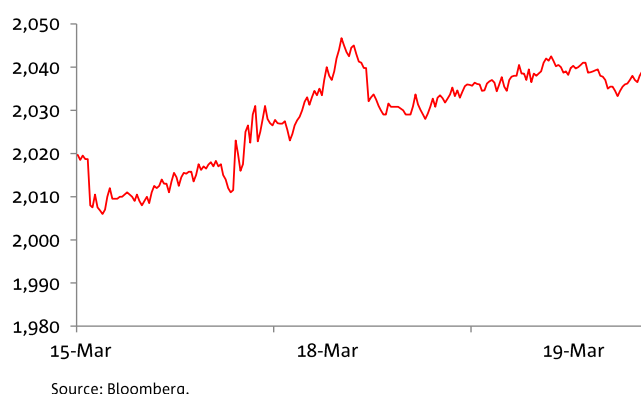
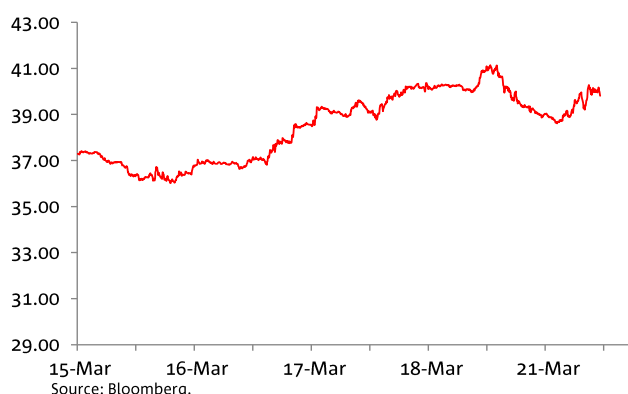
Chart of the Day: All eyes on EU’s PMIs



Good Luck,

Rodrigo

AUD/USD - past week

US 10 yr - past week

S&P Futures - past week

WTI - past week

Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High		Last	% chge
AUD	0.7592	-0.2	0.7569	0.7627	HKD	7.7533	0.0
NZD	0.6762	-0.6	0.6747	0.6808	CNY	6.4845	0.2
EUR	1.1248	-0.2	1.1235	1.1288	SGD	1.3600	0.1
GBP	1.4390	-0.6	1.4366	1.4469	IDR	13,152	0.3
JPY	111.85	0.3	111.2200	111.8600	THB	34.91	0.0
CAD	1.3069	0.5	1.2988	1.3092	KRW	1,164	0.1
AUD/EUR	0.6745	0.1			TWD	32.40	0.1
AUD/JPY	84.85	0.1			PHP	46.33	0.0
AUD/GBP	0.5273	0.4			CHF	0.97	0.0
AUD/NZD	1.1222	0.5			SEK	8.23	0.0
AUD/CNY	4.9253	0.0					

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	0.50	0.62	0.95	1.76	USD 10	1.92	0.04	
AUD	2.00	2.32	2.16	2.72	AUD 10	2.56	0.01	0.65
NZD	2.25	2.34	2.23	3.03	NZD 10	2.98	-0.01	1.07
EUR	0.00	0.06	-0.16	0.61	CAD 10	1.30	0.02	-0.61
GBP	0.50	0.59	0.83	1.48	EUR 10	0.23	0.02	-1.69
JPY	-0.01	-0.01	-0.11	0.12	GBP 10	1.48	0.03	-0.44
CAD	0.50	1.17	0.87	1.55	JPY 10	-0.09	0.00	-2.01

Equities
Major Indices

	Last	% day	% y/y
Dow	17,640	+0.2	-2.7
S&P 500	2,053	+0.2	-2.6
Nasdaq	4,812	+0.3	-4.3
VIX	14	-0.6	7.0
FTSE	6,185	-0.1	-11.9
DAX	9,949	0.0	-17.4
CAC 40	4,428	-0.2	-13.0
Nikkei	16,725	-1.2	-14.5
Shanghai	3,019	+2.2	-16.5
Hang Seng	20,684	+0.1	-15.1
ASX 200	5,167	-0.3	-13.5

Commodities*

	Last	% day
Oil (Brent)	41.37	0.4
Oil (WTI)	39.81	0.9
Oil (Tapis)	42.03	-0.7
Gold	1243.30	-0.9
CRB	176.36	0.0
GS Metals	264.6	-0.6
Aluminium	1510	-0.8
Copper	5060	-0.5
Nickel	8634	-2.7
Zinc	1841	0.4
Ch. steel	2170	1.2
Iron ore	58.8	2.3
Coal	52.0	-0.4
Wheat Chic.	473.5	0.7
Sugar	16.29	2.0
Cotton	58.17	1.8
Coffee	131.6	-2.0

* clsd = market holiday

CO₂ Emissions - Euros

	Last	% day
Jun-2016	4.86	-2.6
Dec-2016	4.88	-1.4
Jun-2017	4.90	-1.4

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	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Tuesday, 22 March 2016								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Mar 20				116.4	22.30	9.30
AU	House Price Index QoQ	4Q		0		2.0	0.30	11.30
AU	House Price Index YoY	4Q		8.5		10.7	0.30	11.30
US	RBA's Edey Panel Participation in Sydney						0.45	11.45
JN	All Industry Activity Index MoM	Jan		1.9		-0.9	4.30	15.30
JN	Small Business Confidence	Mar				47.9	5.00	16.00
AU	RBA's Stevens Speech at ASIC Forum in Sydney						5.30	16.30
GE	IFO Business Climate	Mar		106		105.7	9.00	20.00
GE	IFO Current Assessment	Mar		112.7		112.9	9.00	20.00
EC	Markit Eurozone Manufacturing PMI	Mar P		51.4		51.2	9.00	20.00
EC	Markit Eurozone Services PMI	Mar P		53.3		53.3	9.00	20.00
UK	CPI MoM	Feb		0.4		-0.8	9.30	20.30
UK	CPI YoY	Feb		0.4		0.3	9.30	20.30
UK	CPI Core YoY	Feb		1.2		1.2	9.30	20.30
UK	PPI Output Core NSA MoM	Feb		0.1		0.1	9.30	20.30
UK	PPI Output Core NSA YoY	Feb		0.1		0.0	9.30	20.30
UK	ONS House Price YoY	Jan				6.7	9.30	20.30
UK	Public Finances (PSNCR)	Feb				-24.9	9.30	20.30
GE	ZEW Survey Current Situation	Mar		53		52.3	10.00	21.00
GE	ZEW Survey Expectations	Mar		5.4		1.0	10.00	21.00
EC	ZEW Survey Expectations	Mar				13.6	10.00	21.00
EC	Bank of France's Villeroy de Galhau at Breugel Institute						12.00	23.00
UK	BoE's Forbes speaks at Royal Economic Society in London						13.30	0.30
US	FHFA House Price Index MoM	Jan		0.5		0.4	13.00	0.00
US	Richmond Fed Manufact. Index	Mar		0		-4.0	14.00	1.00
US	Fed's Evans (non voter) Speaks in Chicago						17.30	4.30
CA	Canada's Federal Budget						20.00	7.00
US	Fed's Harker (non voter) Speaks in New York on "The Growth and Role of Economic Policies"						23.00	10.00
Wednesday, 23 March 2016								
AU	Skilled Vacancies MoM	Feb				0.4	0.00	11.00
JN	BoJ Funo speaks in Kobe						1.30	12.30
US	MBA Mortgage Applications	Mar 18				-3.3	11.00	22.00
US	Fed's Bullard (voter) speaks on Bloomberg TV & Radio						13.00	0.00
US	New Home Sales	Feb		510		494.0	14.00	1.00
US	New Home Sales MoM	Feb		3.2		-9.2	14.00	1.00
EC	Consumer Confidence	Mar A		-8.3		-8.8	15.00	2.00
Thursday, 24 March 2016								
NZ	Trade Balance	Feb		90		8.0	21.45	8.45
JN	Nikkei Japan PMI Mfg	Mar P		50.5		50.1	2.00	13.00
EC	ECB Publishes Economic Bulletin						9.00	20.00
UK	Retail Sales Ex Auto Fuel MoM	Feb		-1		2.3	9.30	20.30
UK	Retail Sales Ex Auto Fuel YoY	Feb		3.5		5.0	9.30	20.30
UK	BBA Loans for House Purchase	Feb		47900		47509.0	9.30	20.30
UK	CBI Retailing Reported Sales	Mar		10		10.0	11.00	22.00
UK	CBI Total Dist. Reported Sales	Mar					11.00	22.00
US	Fed's Bullard (voter) speaks on economy and monetary policy in New York							23.15
US	Initial Jobless Claims	Mar 19		268		265.0	12.30	23.30
US	Durable Goods Orders	Feb P		-3		4.7	12.30	23.30
US	Markit US Manufacturing PMI	Mar P		51.9		51.3	13.45	0.45
US	Kansas City Fed Manf. Activity	Mar				-12.0	15.00	2.00
UK	BoE's Bailey speaks on the "Future of Green Finance"						16.15	3.15
Friday, 25 March 2016								
AU	Good Friday public holiday							
JN	Natl CPI YoY	Feb		0.3		0.0	23.30	10.30
JN	Natl CPI Ex Food, Energy YoY	Feb		0.8		0.7	23.30	10.30
JN	Tokyo CPI YoY	Mar		-0.1		0.1	23.30	10.30
JN	Tokyo CPI Ex Food, Energy YoY	Mar		0.5		0.5	23.30	10.30
JN	PPI Services YoY	Feb		0.2		0.2	23.50	10.50
JN	Natl CPI Ex Fresh Food, Energy YoY	Feb		1.1		1.1	5.00	16.00
JN	Leading Index CI	Jan F				101.4	5.00	16.00
US	GDP Annualized QoQ	4Q T		1		1.0	12.30	23.30
US	Personal Consumption	4Q T		2		2.0	12.30	23.30
US	GDP Price Index	4Q T		0.9		0.9	12.30	23.30
US	Core PCE QoQ	4Q T		1.3		1.3	12.30	23.30
Upcoming Central Bank Interest Rate Announcements								
Japan, BoJ		15-Mar	-0.1% to +0.1%	-0.1% to +0.1%		-0.1% to +0.1%		
UK BOE		17-Mar				0.50%		
US Federal Reserve		17-Mar				0.25-0.50%		
Australia, RBA		5-Apr	2.00%	2.00%				
Canada, BoC		14-Apr				0.50%		
Europe ECB		21-Apr				0.00%		
New Zealand, RBNZ		28-Apr				2.25%		

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Saving Time

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