14 April 2016

Markets Today

National Australia Bank

The only way is up

Risky assets have continued to benefit from an improvement in sentiment. Bank stocks have led the surge in equity markets and most commodities have also enjoyed some gains, despite of a pullback in oil prices. The USD is broadly stronger with safe haven currencies the underperformers.

The Nikkei's solid rebound and China's better than expected trade data boosted Asian equity markets and this positive tone carried into the European session. Financials once again led the way with the deal to support Italian banks (announced earlier in the week) seemingly still having a positive effect in the sector. The Euro stoxx index ended the day +3.30% and theFTS100 was +1.93%. Better than expected earnings results from JPMorgan Chase dictated the tone in Wall street with the S&P 500 financials sector gaining 2.25%. The DJ closed +1.06%, S&P500 +1.00% and Nasdaq was +1.55%.

Oil prices fell as scepticism of a "Freeze" agreement rose following comments from Saudi oil minister ruling out a production cut while U.S. industry data showed crude stockpiles expanded last week. Still, other commodities had a good night, boosted by the better than expected trade data from China. Iron ore gained another 2.1% to be up by nearly 12% since Friday. Copper was +1.3%, Nickel +1.4% and with the lack safe haven demand, gold fell 1.0% to $1246.8.

The NZD was the G10 outperformer overnight managing to stay practically unchanged against the USD. The big dollar was stronger across the board with safe haven CHF at the bottom of the leader board, down 1.11%. The CAD lost 0.42%, pulled down by the decline in oil prices notwithstanding the fact that the BoC was a bit more upbeat on the outlook of the Canadian economy. The Bank left rates unchanged as expected, but it brought forward the closing of the output gap to H2 2017 from end 2017. JPY lost 0.69% against the USD, dragged lower by the 2.8% rally in the Nikkei and rumours that the Japanese government is considering low rate infrastructure loans. The AUD had a quiet night, it traded in a narrow range and is currently at 0.7652, little changed from Sydney's closing level.

The buoyancy of the equity markets meant that softer US data releases were relegated to the back seat overnight. March retail sales fell 0.2%, below the consensus, +0.1% and the March PPI fell 0.1%, below the consensus, +0.2%. The Fed Beige book noted US economic activity expanded with several regions seeing a pickup in wage growth.

Looking at core global yields, despite of the risk on environment 10y Bunds dropped 3.6bps to 0.127% and 10y UST fell 1.8bps to 1.76%. A strong 10y UST auction and softer data kept UST yields lower.

Lastly, ECB Nowotny was speaking in New York and noted that if there is no clear improvement in inflation then there is no room for changes to monetary policy.

Coming Up

Australia's March labour force report will be released this morning at 11:30am. In their preview, our economists wrote that the RBA has tied the outlook for the cash rate to the labour market and they also noted Governor Stevens' description of recent labour data as ambiguous. Today's report could provide the opportunity to see if this ambiguity is resolved.

In terms of the numbers, the market is expecting the unemployment rate to rise to 5.9% and for employment growth to be +17k. NAB expects the unemployment rate to be unchanged at 5.8% and for employment to print considerably stronger at +40k. This rather "unbelievable" number is by and large a function of sample rotation rather than a marked pick-up in the pace of job creation.

The market is currently pricing a 23% chance of an RBA May rate cut and 27.4bps of rate cuts over the coming year. A strong number as expected by NAB should result in a pullback on these expectations. However, given the RBA easing bias and global back drop of low/negative rates we think this pullback is likely to be limited.

The AUD/USD has been tracking higher since last Friday aided by an oil price induced improvement in sentiment. Our fair value model suggests the AUD/USD is currently trading pretty close to fair value and it shows that sentiment (measured by the VIX in our model) has been the main driver for the currency appreciation so far this year. Notably too, over this period RBA cash rate expectations have only had a minor influence on the currency. All else equal, given the current risk on sentiment, we think that we will need to see a significantly softer than expected report in order to have an enduring negative impact on the currency while a better than expected outcome could be the catalyst for the AUD/USD to make a move towards the 78 cent mark.

Looking at offshore markets, in New Zealand this morning we get BNZ manufacturing PMI. Europe prints its final CPI for March and the UK releases RIC house prices. The Bank of England makes its rate announcement and a no change in

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policy is unanimously expected. Nevertheless, it will be interesting to learn what the BoE's near term outlook is on the economy, particularly given the EU referendum late in June.

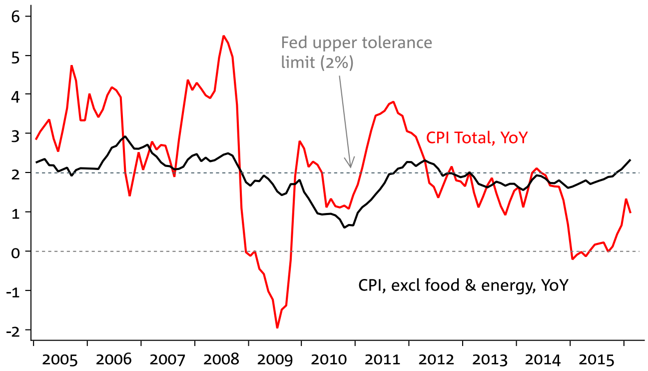
All that being said the big event in terms of data releases comes from the US with the March CPI numbers slotted for release at 10.30pm (AEST). Gas prices are expected to provide a lift to headline inflation, but undoubtedly the focus will be in the core reading following the strong prints over the previous two months (both at 0.3%). Market consensus is at 0.2% and a softer than expected number would vindicate the Fed's more dovish stand at its March meeting. Conversely a stronger than expected outcome would serve as an additional piece of evidence that the economy is starting to heat up at a faster rate than what the Fed is expecting.

In terms of central bank speakers, BoE's Shafik speaks at the IMF. Fed's Lockhart speaks in Chicago and Fed's Powell Appears before the Senate Banking Committee.

Overnight

On global stock markets, the S&P 500 was +1.00%. Bond markets saw US 10-years -1.22bp to 1.76%. On commodity markets, Brent crude oil -1.83% to $43.87, gold-1.2% to $1,244, iron ore +2.1% to $60.48. AUD is at 0.7655 and the range was 0.7652 to 0.7657.

Chart of the Day: US economy overheating?



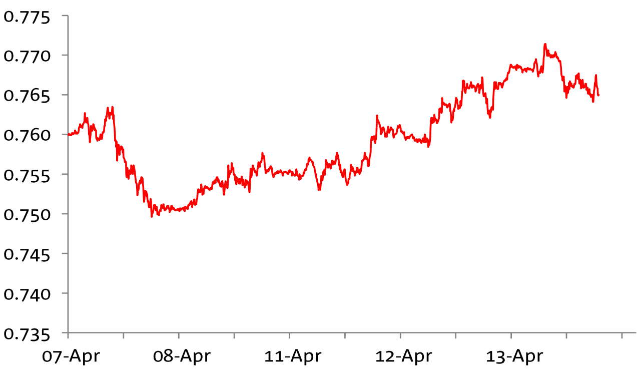
Source: National Australia Bank, Macrobond

Good luck,

Rodrigo

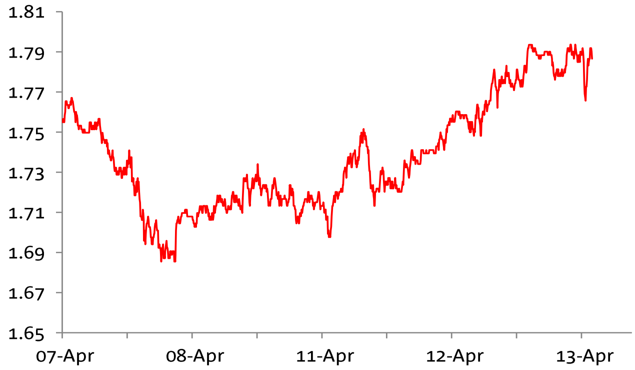
Markets

AUD/USD - past week



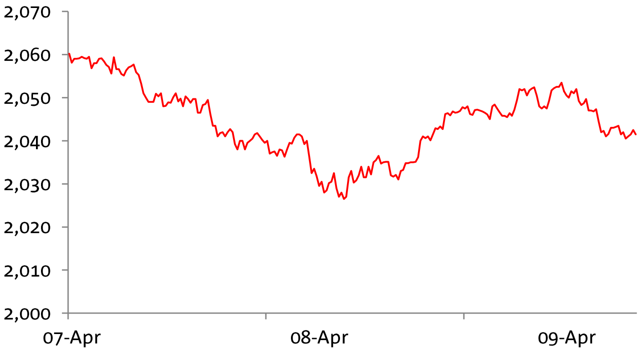
Source: Bloomberg.

US 10 yr - past week



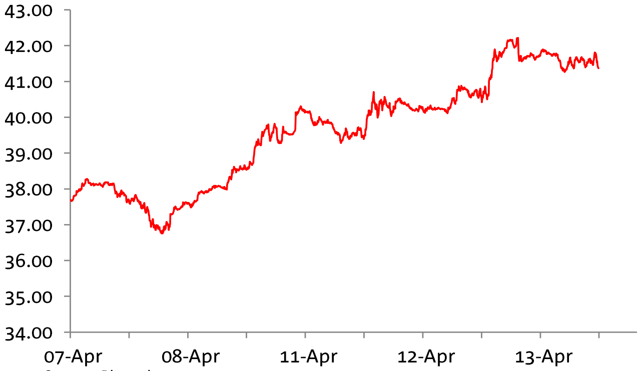
Source: Bloomberg.

S&P Futures - past week



Source: Bloomberg.

WTI - past week



Source: Bloomberg.

Foreign Exchange

			Indicative 24hr ranges (**)	
	Last	% chge	Low	High
AUD	0.7661	-0.3	0.7634	0.7716
NZD	0.6926	0.0	0.6898	0.6953
EUR	1.1285	-0.9	1.1273	1.1391
GBP	1.4213	-0.4	1.4193	1.4279
JPY	109.28	0.7	108.5100	109.4100
CAD	1.2813	0.4	1.2745	1.2828
AUD/EUR	0.6789	0.6		
AUD/JPY	83.72	0.4		
AUD/GBP	0.5390	0.1		
AUD/NZD	1.1060	-0.3		
AUD/CNY	4.9563	0.1		

Other FX		
	Last	% chge
HKD	7.7565	0.0
CNY	6.4784	0.2
SGD	1.3507	0.5
IDR	13,158	0.3
THB	35.05	0.2
KRW	1,144	-0.2
TWD	32.33	-0.1
PHP	46.09	0.1
CHF	0.97	1.1
SEK	8.14	0.7

Equities

Major Indices			
	Last	% day	% y/y
Dow	17,909	+1.1	-0.4
S&P 500	2,082	+1	-0.5
Nasdaq	4,948	+1.6	-0.8
VIX	14	-6.9	-0.9
FTSE	6,363	+1.9	-9.9
DAX	10,026	+2.7	-18.7
CAC 40	4,490	+0.8	-14.5
Nikkei	16,381	+2.8	-17.7
Shanghai	3,067	+1.4	-25.8
Hang Seng	21,159	+3.2	-23.2
ASX 200	5,055	+1.6	-15.0

Commodities*

	Last	% day
Oil (Brent)	44.11	-1.3
Oil (WTI)	41.63	-1.3
Oil (Tapis)	45.03	1.7
Gold	1246.80	-1.0
CRB	175.65	0.1
GS Metals	262.5	1.7
Aluminium	1549	1.5
Copper	4849	1.3
Nickel	8952	1.4
Zinc	1877	3.0
Ch. steel	2366	0.0
Iron ore	60.5	2.1
Coal	50.3	0.0
Wheat Chic.	467.5	1.9
Sugar	14.01	-0.4
Cotton	61.63	0.2
Coffee	123.6	-2.1

* clsd = market holiday

CO_2 Emissions - Euros

	Last	% day
Jun-2016	5.53	-0.9
Dec-2016	5.54	-0.9
Jun-2017	5.57	-0.9

Interest Rates

Indicative Swap Rates				
	Cash	3mth	2Yr	10Yr
USD	0.50	0.63	0.87	1.62
AUD	2.00	2.27	2.11	2.64
NZD	2.25	2.36	2.26	3.00
EUR	0.00	0.06	-0.17	0.54
GBP	0.50	0.59	0.81	1.43
JPY	-0.03	-0.01	-0.12	0.12
CAD	0.50	1.17	0.89	1.49

Benchmark 10 Year Bonds			
	Last	chge	Sprd
USD 10	1.76	-0.01	
AUD 10	2.52	0.05	0.76
NZD 10	2.90	0.05	1.13
CAD 10	1.25	-0.04	-0.51
EUR 10	0.13	-0.04	-1.63
GBP 10	1.42	-0.02	-0.34
JPY 10	-0.08	0.03	-1.84

Overnight Futures

	Last	Chge
Australia		
3 mth bill	97.81	0.00
3 Yr bond	98.11	-0.01
10 Yr bond	97.50	0.02
3/10 sprd	0.61	-0.03
SPI	43.0	0.9

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	AEST
Thursday, 14 April 2016								
NZ	BusinessNZ Manufacturing PMI	Mar				56.0	22.30	8.30
UK	RICS House Price Balance	Mar		50		50.0	23.10	9.10
JN	Japan Buying Foreign Bonds	Apr 8				-1555.1	23.50	9.50
JN	Foreign Buying Japan Bonds	Apr 8				30.2	23.50	9.50
AU	Consumer Inflation Expectation	Apr				3.4	1.00	11.00
AU	Employment Change	Mar	40k	17		0.3	1.30	11.30
AU	Labour Force Report (unemployment)	Mar	5.8%	5.9		5.8	1.30	11.30
NZ	Non Resident Bond Holdings	Mar				68.3	3.00	13.00
Oil	International Energy Agency April Oil Market Report						8.00	18.00
EC	CPI MoM/YoY	Mar		-0.1%/1.0		-0.1%/1.0	9.00	19.00
UK	Bank of England Bank Rate	Apr 14		0.5		0.5	11.00	21.00
CA	New Housing Price Index MoM	Feb		0.1		0.1	12.30	22.30
US	Initial Jobless Claims	Apr 9		270		267.0	12.30	22.30
US	Continuing Claims	Apr 2		2183		2191.0	12.30	22.30
US	CPI MoM	Mar		0.2		-0.2	12.30	22.30
US	Real Avg Weekly Earnings YoY	Mar				0.6	12.30	22.30
US	Bloomberg Consumer Comfort	Apr 10				42.6	13.45	23.45
US	Fed's Lockhart speaks in Chicago						14.00	0.00
US	Fed's Powell Appears Before Senate Banking Committee						14.00	0.00
UK	BoE's Shafik speaks on Fortifying the Global Financial Safety Net at the IMF						20.00	6.00
Friday, 15 April 2016								
AU	RBA Financial Stability Review						1.30	11.30
CH	Industrial Production YTD YoY	Mar		5.5		5.4	2.00	12.00
CH	Industrial Production YoY	Mar		5.9		5.9	2.00	12.00
CH	Retail Sales YoY	Mar		10.4		11.1	2.00	12.00
CH	Retail Sales YTD YoY	Mar		10.2		10.2	2.00	12.00
CH	Fixed Assets Ex Rural YTD YoY	Mar		10.4		10.2	2.00	12.00
CH	GDP SA QoQ/YoY	1Q		1.5/6.7		1.6/6.8	2.00	12.00
JN	Capacity Utilization MoM	Feb				2.6	4.30	14.30
JN	Industrial Production MoM	Feb F				-6.2	4.30	14.30
UK	Construction Output SA MoM	Feb		0		-0.2	8.30	18.30
EC	Trade Balance SA	Feb		21.5		21.2	9.00	19.00
CA	Manufacturing Sales MoM	Feb		-1.5		2.3	12.30	22.30
US	Empire Manufacturing	Apr		2		0.6	12.30	22.30
US	Industrial Production MoM	Mar		-0.1		-0.5	13.15	23.15
US	Capacity Utilization	Mar		75.3		76.7	13.15	23.15
US	U. of Mich. Sentiment	Apr P		92		91.0	14.00	0.00
US	U. of Mich. 5-10 Yr Inflation	Apr P				2.7	14.00	0.00
US	Fed's Evans speaks on Economy and Policy in Washington						16.30	2.30
US	Total Net TIC Flows	Feb				118.4	20.00	6.00
Sunday, 17 April 2016								
Oil	Major Oil Producers Meet to Discuss Production Freeze							
Monday, 18 April 2016								
NZ	CPI QoQ/YoY	1Q		/		-0.5/0.1	22.45	8.45
UK	Rightmove House Prices MoM/YoY	Apr				1.3/7.6	23.10	9.10
AU	New Motor Vehicle Sales MoM/YoY	Mar				-0.1/2.3	1.30	11.30
CH	Property Prices	Mar					1.30	11.30
CA	Int'l Securities Transactions	Feb				13.5	12.30	22.30
US	Fed's Dudley Gives Opening Remarks at Economics Conference						12.30	22.30
CA	Bloomberg Nanos Confidence	Apr 15				55.0	14.00	0.00
US	NAHB Housing Market Index	Apr		59		58.0	14.00	0.00
US	Fed's Kashkari Speaks in Minneapolis						16.30	2.30
Tuesday, 19 April 2016								
NZ	Performance Services Index	Mar				56.9	22.30	8.30
US	Fed's Rosengren to Speak at Central Conn State University						23.00	9.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Apr 17				112.0	23.30	9.30
AU	RBA April Meeting Minutes						1.30	11.30
EC	ECB Current Account SA	Feb				25.4	8.00	18.00
EC	ECB Bank Lending Survey						8.00	18.00
EC	Construction Output MoM/YoY	Feb				3.6/6.0	9.00	19.00
GE	ZEW Survey Current Situation/Expectations	Apr		/		50.7/4.3	9.00	19.00
EC	ZEW Survey Expectations	Apr				10.6	9.00	19.00
US	Housing Starts/MoM	Mar		1156/-1.9		1178.0/5.2	12.30	22.30
US	Building Permits/MoM	Mar		1205/2.4		1167.0/-3.1	12.30	22.30
AU	RBA Governor Stevens Speech in New York						13.30	23.30
Wednesday, 20 April 2016								
JN	Trade Balance/Adjusted	Mar		/		242.8/166.1	23.50	9.50
JN	Trade Balance Adjusted	Mar				166.1	23.50	9.50
AU	Westpac Leading Index MoM	Mar				-0.2	0.30	10.30
AU	Skilled Vacancies MoM	Mar				-0.9	1.00	11.00
JN	Machine Tool Orders YoY	Mar F				-21.2	6.00	16.00
UK	Jobless Claims Change	Mar				-18.0	8.30	18.30
UK	Average Weekly Earnings 3M/YoY	Feb				2.1	8.30	18.30
UK	Weekly Earnings ex Bonus 3M/YoY	Feb				2.2	8.30	18.30
UK	ILO Unemployment Rate 3Mths	Feb				5.1	8.30	18.30
UK	Employment Change 3M/3M	Feb				116.0	8.30	18.30
US	MBA Mortgage Applications	Apr 8				2.7	11.00	21.00
CA	Wholesale Trade Sales MoM	Feb				0.0	12.30	22.30
CH	Conference Board Leading Economic Index	Mar					13.00	23.00
US	Existing Home Sales/MoM	Mar		5.27/3.74		5.1/-7.1	14.00	0.00
US	Existing Home Sales MoM	Mar		3.74		-7.1	14.00	0.00
Saturday, 23 April 2016								
Sunday, 24 April 2016								

Upcoming Central Bank Interest Rate Announcements				
UK BOE	14-Apr			0.50%
Canada, BoC	14-Apr			0.50%
Europe ECB	21-Apr			0.00%
New Zealand, RBNZ	28-Apr	2.25%	2.25%	2.25%
Japan, BoJ	28-Apr			-0.1% to +0.1%
US Federal Reserve	28-Apr			0.25-0.50%
Australia, RBA	3-May	2.00%	2.00%	2.00%

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

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