

3 May 2016

# Markets Today



## Going sub 2, but still chilled?

US and European equities ignored the negative lead from Asian markets and started the month of May on a positive note. While yesterday's fall in the Nikkei, partly reflected a catch up move given Friday's holiday in Japan, this negative sentiment spread throughout Asia with all markets excluding Thailand posting small decline for the day.

Gains in US stocks were led by consumer discretionary shares with the softer than expected manufacturing data seemingly having no dampening effect. The April ISM manufacturing index fell to 50.8 from 51.8 compared to 51.4 expected.

The softer manufacturing data seemingly had a bigger effect on the currency with the USD softer across the board. The SEK and the AUD are the G10 top performers over the past 24hrs. After trading to a low of 0.7593, the AUD/USD is now trading at 0.7669 and is up 0.76% since Monday's open. In a broad soft USD environment, the move higher in the AUD is probably also a reflection of short positions squaring up ahead of the RBA this afternoon. While admittedly a move sub 2% is very much a ball line call, NAB's view is that last week's extremely low CPI prints provides the RBA with the opportunity to add more support to the non-mining recovery without risking an overshoot in the Bank's inflation target. Like NAB, we think the Governor remains pretty chilled and optimistic on the near term outlook for the economy, however given the prospect core inflation will run below the RBA's target range at least over the near term, the Bank has room and the incentive to provide further stimulus (see more comments below)

Looking at other currencies, the EUR is trading above 1.15 for the first time since August, USDJPY is practically unchanged at ¥106.43 and the NZD/USD is back above 0.70.

In a light trading environment, US bond yields pushed higher overnight. The prices paid component in the ISM manufacturing index rose to 59 from 51.5 in March and although the move higher in yield was already under way, the jump in the price index was an additional driver for the move higher in yields.

Despite of a softer USD, oil prices fell overnight following a data release showing US oil stockpiles rose last week while a Reuter's survey suggested OPEC's output rose in April. Looking at other commodities, Iron ore is back above the \$66 mark (+5.5%), Gold is practically unchanged at \$1292.9 and copper is up 2.2%.

## Coming Up

We have a massive day domestically with the RBA board meeting this afternoon followed by the Federal budget this evening.

Last week's CPI print saw the AUD/USD drop two big figures on the day (0.7765 to 0.7549) and the probability of a May rate cut jumped from a 14% to 51%. Based on last night's closing levels this probability is practically unchanged at 52% while Bloomberg's survey shows 55% of respondents expect the RBA to stand pat (15 out of 27).

The reaction to the CPI print along with the almost evenly split view on the RBA rate decision today suggest a result either way has the potential to elicit big moves in both the AUD and rates market. That said, we suspect that in the event of a hold decision the rally in the AUD is likely to be limited given that the market will most likely retain pricing of a rate cut over the near term. In contrast, if the RBA cuts, as we expect, the extent to which the Bank retains its easing bias will determine the degree of the selloff in the currency.

As for the budget, NAB expects the Treasurer will unveil a 2016-17 Underlying Cash Balance (UCB) of around \$A-36.6bn (2.1% of GDP), up somewhat from the \$A33.7bn shortfall released in the Mid-Year Economic and Fiscal Outlook (MYEFO) and fairly close to the market consensus \$A35bn deficit. History suggests Federal budgets do not usually trigger a big market reaction from markets. That being said, comments from rating agencies are likely to be closely watched, particularly given last month's low level warning on Australia's AAA rating from Moody's.

Ahead of the two big domestic events this morning we also get the weekly consumer confidence reading (9:30am) followed by building approvals at 11:30am. Of some interest as well, China's Caixin version of its manufacturing PMI is due for release at 11.45am. The small fall recorded in the official manufacturing reading over the weekend suggests there is downside risk to the practically unchanged number expected by the market (49.8 vs 49.7 prev).

In other offshore markets, the UK gets its manufacturing PMI reading for April (51.2 exp vs 51 prev) and in the US the New York April ISM is due for release. As for Fed speaker, Mester (non-voter) moderates a panel on Financial Markets, Williams (non-voter) speaks with Bloomberg radio and Lockhart (non-voter) speaks to World Affairs Council in Jacksonville.

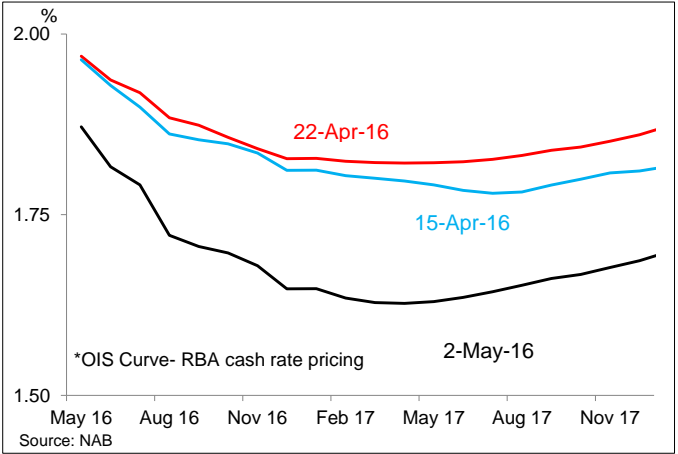
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## Overnight

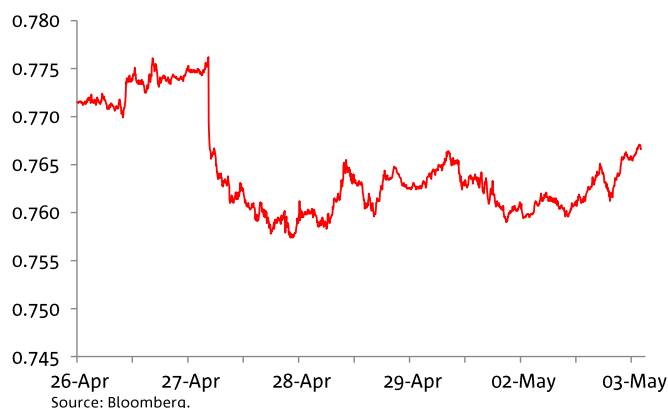
On global stock markets, the S&P 500 was +0.80%. Bond markets saw US 10-years +3.90bp to 1.87%. On commodity markets, Brent crude oil -3.00% to \$45.95, gold+0.4% to \$1,296, iron ore +5.3% to \$66.24. AUD is at 0.7668 and the range was 0.7663 to 0.7669..

## Chart of the day: Gearing up for a cut?



## Markets

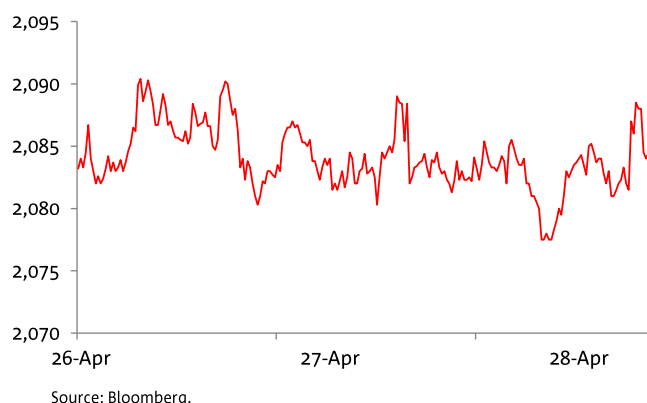
### AUD/USD - past week



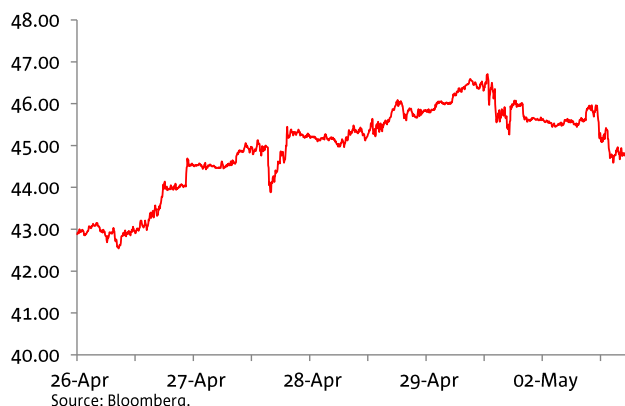
### US 10 yr - past week



### S&P Futures - past week



### WTI - past week



### Foreign Exchange

#### Indicative 24hr ranges (\*\*)

	Last	% chge	Low	High
AUD	0.7670	0.0	0.7663	0.7669
NZD	0.7022	0.0	0.7020	0.7022
EUR	1.1532	0.0	1.1529	1.1534
GBP	1.4670	0.0	1.4669	1.4673
JPY	106.43	0.0	106.4100	106.4400
CAD	1.2531	0.0	1.2528	1.2533
AUD/EUR	0.6651	0.1		
AUD/JPY	81.60	0.0		
AUD/GBP	0.5228	0.1		
AUD/NZD	1.0922	0.0		
AUD/CNY	4.9466	0.2		

#### Other FX

	Last	% chge
HKD	7.7584	0.0
CNY	6.4780	0.0
SGD	1.3406	0.0
IDR	13,159	-0.2
THB	34.86	0.0
KRW	1,138	-0.2
TWD	32.22	-0.2
PHP	47.00	0.2
CHF	0.95	0.0
SEK	7.96	0.0

### Interest Rates

#### Indicative Swap Rates

	Cash	3mth	2Yr	10Yr
USD	0.50	0.64	0.93	1.76
AUD	2.00	2.15	2.05	2.68
NZD	2.25	2.39	2.27	3.00
EUR	0.00	0.06	-0.13	0.66
GBP	0.50	0.59	0.87	1.56
JPY	-0.07	-0.02	-0.11	0.12
CAD	0.50	1.17	1.04	1.72

#### Benchmark 10 Year Bonds

	Last	chge	Spnd
USD 10	1.87	0.04	
AUD 10	2.52	0.00	0.65
NZD 10	2.85	0.00	0.98
CAD 10	1.54	0.02	-0.34
EUR 10	0.27	0.00	-1.61
GBP 10	1.60	0.00	-0.28
JPY 10	-0.12	-0.05	-2.00

### Equities

#### Major Indices

	Last	% day	% y/y
Dow	17,891	+0.7	-0.7
S&P 500	2,081	+0.8	-1.3
Nasdaq	4,818	+0.9	-3.8
VIX	15	-6.5	15.6
FTSE	6,242	-1.3	-10.7
DAX	10,123	+0.8	-11.6
CAC 40	4,443	+0.1	-12.0
Nikkei	16,147	-3.1	-17.3
Shanghai	2,938	-0.2	-33.8
Hang Seng	21,067	-1.5	-25.1
ASX 200	5,243	-0.2	-9.8

### Overnight Futures

	Last	Chge
Australia		
3 mth bill	97.90	0.00
3 Yr bond	98.12	-0.02
10 Yr bond	97.45	-0.01
3/10 sprd	0.68	-0.01
SPI	12.0	0.2

### Commodities\*

	Last	% day
Oil (Brent)	45.95	-3.0
Oil (WTI)	44.89	-2.2
Oil (Tapis)	48.90	2.1
Gold	1295.80	0.4
CRB	182.53	-1.1
GS Metals	276.8	0.0
Aluminium	1674	0.6
Copper	5064	2.2
Nickel	9417	1.6
Zinc	1934	1.4
Ch. steel	2567	2.4
Iron ore	66.2	5.3
Coal	51.0	0.0
Wheat Chic.	487.8	-0.2
Sugar	16.21	-0.7
Cotton	64.36	0.9
Coffee	119.7	-1.5

\* clsd = market holiday

#### CO<sub>2</sub> Emissions - Euros

	Last	% day
Jun-2016	6.10	-1.1
Dec-2016	6.11	-1.1
Jun-2017	6.13	-1.3

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

## Calendar

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Tuesday, 3 May 2016								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May 1				111.7	23.30	9.30
AU	Building Approvals MoM/YoY	Mar	-0.5/-12.6	-2/-14		3.1/-9.0	1.30	11.30
CH	Caixin China PMI Mfg	Apr		49.8		49.7	1.45	11.45
AU	RBA Cash Rate Target	May 3	2	2		2.0	4.30	14.30
EC	ECB's Coeure speaks at World Bank Borrower Forum						7.15	17.15
UK	Markit UK PMI Manufacturing SA	Apr		51.2		51.0	8.30	18.30
EC	PPI MoM/YoY	Mar		0		-0.7/-4.2	9.00	19.00
EC	EU Issues Spring Economic Forecasts						9.00	19.00
AU	Federal Budget, Underlying Cash balance, \$bn/ % of GDP, 2016-17		-36.6/-2.1	-35/-2.1			9.30	19.30
US	ISM New York	Apr				50.4	13.45	23.45
US	IBD/TIPP Economic Optimism	May		46.5		0.0	14.00	0.00
US	Fed's Mester (non-voter) Moderates Panel on Financial Markets						14.30	0.30
US	Fed's Williams (non-voter) Speaks with Bloomberg radio						18.00	4.00
US	Fed's Lockhart (non-voter) Speaks to World Affairs Council Jacksonville						23.00	9.00
Wednesday, 4 May 2016								
NZ	Unemployment Rate	1Q		5.5		5.3	22.45	8.45
NZ	Employment Change QoQ/YoY	1Q		0.6/1.3		0.9/1.3	22.45	8.45
NZ	Pvt Wages Ex/Incl Overtime QoQ	1Q		0.3/0.3		0.4/0.4	22.45	8.45
AU	AiG Perf of Services Index	Apr				49.5	23.30	9.30
NZ	QV House Prices YoY	Apr				11.4	0.00	10.00
NZ	ANZ Commodity Price	Apr				-1.3	1.00	11.00
GE	Markit Germany Services/Composite PMI	Apr F		54.6/53.8		54.6/53.8	7.55	17.55
EC	Markit Eurozone Services/Composite PMI	Apr F		53.2/53		53.2/53.0	8.00	18.00
UK	Markit/CIPS UK Construction PMI	Apr		54		54.2	8.30	18.30
EC	Retail Sales MoM/YoY	Mar		-0.1/2.6		0.2/2.4	9.00	19.00
US	ADP Employment Change	Apr		195		200.0	12.15	22.15
US	Trade Balance	Mar		-41.1		-47.1	12.30	22.30
CA	Int'l Merchandise Trade	Mar		-1.4		-1.9	12.30	22.30
US	Nonfarm Productivity/Unit labour costs	1Q P		-1.3/3		-2.2/3.3	12.30	22.30
US	Markit US Services/Composite PMI	Apr F		52.1/		52.1/51.7	13.45	23.45
US	ISM Non-Manf. Composite	Apr		54.7		54.5	14.00	0.00
US	Factory Orders	Mar		0.6		-1.7	14.00	0.00
UK	UK PM David Cameron questioned by House Committee on Brexit						15.30	1.30
Thursday, 5 May 2016								
US	Fed's Kashkari Hosts Town Hall in Rochester, MN						22.30	8.30
UK	BRC Shop Price Index YoY	Apr		-1.7		-1.7	23.10	9.10
AU	HIA New Home Sales MoM	Mar				-1.8	1.00	11.00
AU	Trade Balance	Mar	-3000	-2900		-3410.0	1.30	11.30
AU	Retail Sales MoM/Volumes QoQ	Mar	0.2/0.6	0.3/0.7		0.0/0.6	1.30	11.30
CH	Caixin China PMI Services/Composite	Apr		/		52.2/51.3	1.45	11.45
EC	ECB Publishes Economic Bulletin						8.00	18.00
UK	Markit/CIPS UK Services/Composite PMI	Apr		53.5		53.7/53.6	8.30	18.30
US	Challenger Job Cuts YoY	Apr				31.7	11.30	21.30
CA	Building Permits MoM	Mar		-4.4		15.5	12.30	22.30
US	Initial Jobless Claims	Apr 30		260		257.0	12.30	22.30
US	Bloomberg Consumer Comfort	May 1				43.4	13.45	23.45
EC	OECD Economic Outlook							
US	Fed's Bullard Speaks at Santa Barbara Conference						15.30	1.30
Friday, 6 May 2016								
US	Fed's Bullard, Kaplan, Lockhart, Williams Speak at Stanford						23.15	9.15
AU	AiG Perf of Construction Index	Apr				45.2	23.30	9.30
AU	RBA Statement on Monetary Policy						1.30	11.30
JN	Nikkei Japan PMI Services	Apr				50.0/49.9	2.00	12.00
CH	BoP Current Account Balance	1Q P				91.9		
GE	Markit Germany Construction PMI	Apr				55.8	7.30	17.30
GE	Markit Germany Retail PMI	Apr				54.1	8.10	18.10
US	Change in Nonfarm Payrolls/Unemployment rate	Apr		200/5		215.0/5.0	12.30	22.30
US	Average Hourly Earnings MoM/YoY	Apr		0.3		0.3	12.30	22.30
CA	Net Change in Employment/Unemployment rate	Apr		5/7.2		40.6/7.1	12.30	22.30
CA	Ivey Purchasing Managers Index SA	Apr		52.5		50.1	14.00	0.00
US	Consumer Credit	Mar		16		17.2	19.00	5.00
Saturday, 7 May 2016								
CH	Foreign Reserves	Apr		3200				
Sunday, 8 May 2016								
CH	Trade Balance	Apr		40.35		29.9	not specified	
CH	Exports/Imports YoY	Apr		1.3/-4.6		11.5/-7.6	not specified	
Monday, 9 May 2016								
EC	European Commission Economic Forecasts						2/5 to 13/5	
CH	Foreign Direct Investment YoY CNY	Apr				7.8	2/5 to 11/5	#VALUE!
JN	Labor Cash Earnings YoY	Mar				0.9	0.00	10.00
JN	Real Cash Earnings YoY	Mar				0.4	0.00	10.00
AU	ANZ Job Advertisements MoM	Apr				0.2	1.30	11.30
JN	Consumer Confidence Index	Apr				41.7	5.00	15.00
GE	Factory Orders MoM	Mar				-1.2	6.00	16.00
GE	Factory Orders WDA YoY	Mar				0.5	6.00	16.00
EC	Sentix Investor Confidence	May				5.7	8.30	18.30
US	Fed's Evans Speaks on Economy and Policy on Panel in London						9.10	19.10
CA	Housing Starts	Apr				204.3	12.15	22.15
CA	OECD Economic Outlook						9/May to 20/5	
CA	Bloomberg Nanos Confidence	Apr 29				55.9	14.00	0.00
US	Labor Market Conditions Index Change	Apr				-2.1	14.00	0.00
US	Fed's Kashkari Speaks in Minneapolis						17.00	3.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		3-May	1.75%	2.00%		2.00%		
UK BOE		12-May				0.50%		
Canada, BoC		26-May				0.50%		
Europe ECB		2-Jun				0.00%		
New Zealand, RBNZ		9-Jun	2.00%	2.25%		2.25%		
US Federal Reserve		15-Jun				0.25-0.50%		
Japan, BoJ		16-Jun				-0.1% to +0.1%		

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

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