

13 May 2016

Markets Today



China Matters

In a shock revelation, the Dallas Fed has published a note on its website saying that the impact of the Chinese economy on the U.S. has notably increased over the past two decades. We could have saved them the number crunching. One of the charts this (less econometrically-educated) author was fond of showing clients last year, noted that compared to the Fed's previous tightening cycle back in 2004-2006, China's economy has expanded from about 17% to 60% of the size of the U.S. economy. We mention this by way of segue into the fact that that today is likely to bring the keenly-anticipated China loan data for April, and on Saturday the slug of monthly activity readings covering industrial production, retail sales and fixed asset investment.

Not a big night just gone, but a fair amount of FX volatility. AUD sits at the foot of the G10 leader board, extending its losses after taking a mild hit during our time-zone yesterday from the fall in the usually little-noticed inflation expectations reading. The NOK sits at the top, in conjunction with WTI crude oil prices hitting a six-month high (briefly above \$47) after the IEA said global oil stocks would experience a drastic reduction in the second half of the year on the back of strong demand and falling supply by some major producers. CAD also benefited from higher oil. Other commodity prices – base metals in particular – are slightly softer.

GBP is also higher following the 9-0 vote for unchanged Bank of England Policy. There had been some speculation of dissent(s) in favour of pre-emptive easing ahead of the 23 June EU referendum. On this, the Bank's forecast assume that the government's declared policy of "Remain" comes to pass and while it's medium term growth track is lower than in February, Governor Carney described the outlook as 'far from gloomy'. Under a "Leave" scenario, the Bank notes potentially severe downside risk for Sterling – and with that higher inflation. In the EM world, the Brazilian Real hasn't shown much reaction to the news that the Senate voted 55-22 in favour of impeachment proceedings against President Rouseff – a widely expected outcome.

US stocks have recouped their mid-session, technology-led, weakness to be close to flat into the close, while US Treasury yields are mostly 2-3bps firmer (following the lead from Europe) and so failing to respond positively to the night's one economic release showing a big jump in weekly jobless claims (294k vs 270k expected). Earlier Eurozone industrial production fell by 0.8% against expectations for unchanged.

Coming Up

At the end of a week that has lacked much by way of tier-1 data or events this all changes today. April US retail sale is the U.S. highlight. Though the survey consensus is for a strong rebound after the weak March prints (+0.8% m/m for headline, +0.5% ex-autos) markets are likely to be braced for downside surprises following this week's poor earnings results from Macys, Walt Disney and Fossil. Also important will be the preliminary University of Michigan Consumer Sentiment Index and including the latest readings on inflation expectations (the 5-10 year reading is one the Fed pays a lot of attention to). Consensus for the headline sentiment index is for a rise to 89.5 from the 89.0 April final read. PPI is also due.

In Europe, Germany issues its preliminary estimate of GDP, expected to show +0.6% q/q, and a few hours later we get the Eurozone preliminary estimate. We've already had the equivalent of a 'flash' estimate, at 0.6% and this is accordingly the consensus estimate. We'd suggest some downside risk to this.

In our time zone, it's quite likely that China will release April lending and money supply data. After the sharp acceleration in growth in both New Yuan Loans (NYL) and Total Social Financing (TSF) in March – seen to be the result of state owned banks being compelled to step up lending – there is keen interest in whether April has seen a sharp slowdown. The market expects so, looking for NYL of just 800bn after 1,370bn. in March and TSF of 1,399bn down from 2,336bn.

If we do see a particularly sharp drop, this is likely to play with the grain of the softer AUD. If loan growth hasn't fallen that much, concerns about ongoing reliance on credit to maintain expansion and hence still rapidly rising debt levels, could weigh. How's that for a glass half-empty view?

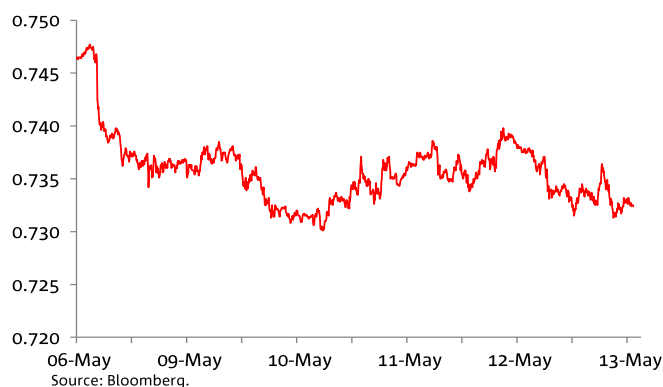
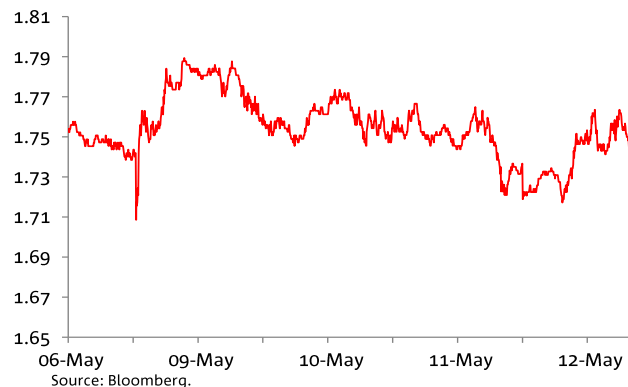
Saturday brings the slug of China April activity readings, covering industrial production, retail sales and fixed asset investment. Industrial production is expected to show 6.1% y/y growth up from 5.8% last time and will likely be the most important of the three releases.

Overnight

On global stock markets, the S&P 500 is flat. Bond markets see US 10-years +1.14bp to 1.75%. On commodity markets, Brent crude oil +0.71% to \$47.94, gold -0.5% to \$1,270, iron ore -0.9% to \$55.05. AUD is at 0.7323 and the range has been 0.7313 to 0.7368.

Author:

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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	0.7324	-0.7	0.7310	0.7380	HKD	7.7598 0.0
NZD	0.6814	-0.1	0.6805	0.6848	CNY	6.5167 0.3
EUR	1.1375	-0.4	1.1371	1.1429	SGD	1.3726 0.5
GBP	1.4447	0.0	1.4406	1.4531	IDR	13,299 -0.1
JPY	109.05	0.6	108.2300	109.4000	THB	35.32 0.1
CAD	1.2838	-0.1	1.2772	1.2879	KRW	1,163 -0.4
AUD/EUR	0.6439	-0.2			TWD	32.53 0.0
AUD/JPY	79.88	-0.1			PHP	46.61 0.3
AUD/GBP	0.5070	-0.7			CHF	0.97 0.0
AUD/NZD	1.0748	-0.6			SEK	8.19 0.6
AUD/CNY	4.7777	-0.6				

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.50	0.63	0.89	1.61	USD 10	1.75	0.01
AUD	1.75	2.00	1.80	2.41	AUD 10	2.30	-0.01 0.55
NZD	2.25	2.35	2.21	2.84	NZD 10	2.61	0.00 0.86
EUR	0.00	0.06	-0.15	0.56	CAD 10	1.32	0.01 -0.43
GBP	0.50	0.59	0.78	1.44	EUR 10	0.15	0.03 -1.59
JPY	-0.05	-0.03	-0.14	0.10	GBP 10	1.40	0.01 -0.34
CAD	0.50	1.17	0.92	1.52	JPY 10	-0.12	-0.01 -1.87

Equities
Major Indices

	Last	% day	% y/y
Dow	17,721	+0.1	-1.9
S&P 500	2,064	0.0	-1.7
Nasdaq	4,737	-0.5	-4.8
VIX	14	-2.2	3.6
FTSE	6,104	-0.9	-12.0
DAX	9,862	-1.1	-14.0
CAC 40	4,293	-0.2	-13.7
Nikkei	16,646	+0.4	-15.8
Shanghai	2,836	0.0	-35.2
Hang Seng	19,915	-0.7	-26.9
ASX 200	5,359	-0.2	-6.2

Commodities*

	Last	% day
Oil (Brent)	47.94	0.7
Oil (WTI)	46.48	0.5
Oil (Tapis)	48.68	4.9
Gold	1269.50	-0.5
CRB	183.65	0.2
GS Metals	255.3	-1.9
Aluminium	1530	-1.3
Copper	4628	-1.9
Nickel	8591	-2.9
Zinc	1862	-1.8
Ch. steel	2033	-4.5
Iron ore	55.1	-0.9
Coal	50.4	-0.1
Wheat Chic.	468.0	2.0
Sugar	16.98	1.3
Cotton	60.73	0.2
Coffee	130.1	0.2

* clsd = market holiday

CO₂ Emissions - Euros

	Last	% day
Jun-2016	5.80	-3.5
Dec-2016	5.81	-3.5
Jun-2017	5.82	-3.6

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
Friday, 13 May 2016								
NZ	Retail Sales Ex Inflation QoQ	1Q	0.8	1		1.2	22.45	8.45
NZ	Non Resident Bond Holdings	Apr				67.4	3.00	13.00
JN	Tertiary Industry Index MoM	Mar		-0.1		-0.1	4.30	14.30
GE	CPI MoM/YoY	Apr F		-0.4/-0.1		-0.2/0.1	6.00	16.00
GE	CPI EU Harmonized MoM/YoY	Apr F		-0.5/-0.3		-0.3/-0.1	6.00	16.00
GE	GDP SA QoQ/YoY	1Q P		0.6/1.5		0.3/1.3	6.00	16.00
EC	GDP SA QoQ/YoY	1Q P		0.6/1.6		0.6/1.6	9.00	19.00
US	Retail Sales Advance/Ex Autos and Gas MoM	Apr		0.8/0.3		-0.3/0.1	12.30	22.30
US	PPI Final Demand MoM/YoY	Apr		0.3/0.2		-0.1/-0.1	12.30	22.30
US	Business Inventories	Mar		0.2		-0.1	14.00	0.00
US	U. of Mich. Sentiment/5-10 Yr Inflation	May P		89.5/		89.0/2.5	14.00	0.00
US	Fed's Williams Speaks in Sacramento						20.00	6.00
Saturday, 14 May 2016								
CH	Industrial Production YoY/YTD YoY	Apr		6.5/6.1		6.8/5.8	5.30	15.30
CH	Retail Sales YoY/YTD/YoY	Apr		10.6/10.4		10.5/10.3	5.30	15.30
Monday, 16 May 2016								
NZ	Performance Services Index	Apr				54.8	22.30	8.30
UK	Rightmove House Prices MoM	May				1.3	23.10	9.10
JN	Loans & Discounts Corp YoY							
JN	PPI MoM	Apr		0.2		-0.1	23.50	9.50
JN	Machine Tool Orders YoY	Apr P				-21.2	6.00	16.00
US	Empire Manufacturing	May		7		9.6	12.30	22.30
CA	Existing Home Sales MoM	Apr				1.5	13.00	23.00
US	NAHB Housing Market Index	May		59		58.0	14.00	0.00
US	Total Net TIC Flows	Mar				33.5	20.00	6.00
US	Net Long-term TIC Flows	Mar				72.0	20.00	6.00
US	Fed's Kashkari Holds Town Hall on TBTF in Minneapolis						23.00	9.00
Tuesday, 17 May 2016								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May 15				113.9	23.30	9.30
AU	RBA May Meeting Minutes						1.30	11.30
AU	New Motor Vehicle Sales MoM	Apr				2.2/4.2	1.30	11.30
NZ	2Yr Inflation Expectation	2Q				1.6	3.00	13.00
JN	Capacity Utilization MoM	Mar				-5.4	4.30	14.30
JN	Industrial Production MoM/YoY	Mar F				3.6/0.1	4.30	14.30
UK	CPI MoM/YoY	Apr		/		0.4/0.5	8.30	18.30
UK	CPI Core YoY	Apr				1.5	8.30	18.30
UK	PPI Input NSA MoM/YoY	Apr		/		2.0/-6.5	8.30	18.30
UK	ONS House Price YoY	Mar				7.6	8.30	18.30
EC	Trade Balance SA	Mar				20.2	9.00	19.00
CA	Manufacturing Sales MoM	Mar				-3.3	12.30	22.30
US	Housing Starts, #/MoM	Apr		1120/2.9		1089.0/-8.8	12.30	22.30
US	Building Permits, #/MoM	Apr		1132/5.2		1086.0/-7.7	12.30	22.30
US	CPI MoM/YoY	Apr		0.4/1.1		0.1/0.9	12.30	22.30
US	CPI Ex Food and Energy MoM/YoY	Apr		0.2/2.1		0.1/2.2	12.30	22.30
US	Real Avg Weekly Earnings YoY	Apr				1.1	12.30	22.30
US	Industrial Production MoM/Cap Use	Apr		0.3/74.95		-0.6/74.8	13.15	23.15
US	Manufacturing (SIC) Production	Apr		0.3		-0.3	13.15	23.15
US	Fe's Williams and Lockhart Discuss Economy at Politico Event						16.00	2.00
US	Fed's Kaplan in Moderated Q&A at Petroleum Club of Midland						17.15	3.15
Wednesday, 18 May 2016								
NZ	PPI Input QoQ	1Q				-1.2	22.45	8.45
NZ	PPI Output QoQ	1Q				-0.8	22.45	8.45
JN	GDP SA QoQ/SAAR QoQ	1Q P		0.1/0.3		-0.3/-1.1	23.50	9.50
NZ	RBNZ Governor Wheeler Speaks in Hamilton (Not Public)						0.00	10.00
AU	Westpac Leading Index MoM	Apr				-0.1	0.30	10.30
AU	RBA's Debelle speaks at Beijing RMB FX Forum on Developments in Global FX Markets and Challenges from an Australian Perspective"						1.00	11.00
CH	Property Prices						1.00	11.00
AU	Wage Price Index QoQ/YoY	1Q		0.6/2.2		0.5/2.2	1.30	11.30
UK	Jobless Claims Change	Apr				6.7	8.30	18.30
UK	Average Weekly Earnings 3M/YoY	Mar				1.8	8.30	18.30
UK	Weekly Earnings ex Bonus 3M/YoY	Mar				2.2	8.30	18.30
UK	ILO Unemployment Rate 3Mths	Mar				5.1	8.30	18.30
UK	Employment Change 3M/3M	Mar				20.0	8.30	18.30
EC	CPI MoM/YoY	Apr		0/-0.2		1.2/0.0	9.00	19.00
EC	CPI Core YoY	Apr F		0.7			9.00	19.00
CA	Int'l Securities Transactions	Mar				15.9	12.30	22.30
US	FOMC Minutes from April 26-27 Meeting						18.00	4.00
Thursday, 19 May 2016								
NZ	ANZ Job Advertisements MoM	Apr				2.9	22.00	8.00
JN	Housing Loans YoY	1Q				2.2	23.50	9.50
JN	Machine Orders MoM/YoY	Mar		-2.4/1.4		-9.2/-0.7	23.50	9.50
NZ	ANZ Consumer Confidence Index/MoM	May				120.0/1.7	1.00	11.00
AU	Employment Change/Unemployment rate	Apr		10/5.8		26.1/5.7	1.30	11.30
AU	RBA FX Transactions Market	Apr				954.0	1.30	11.30
CH	MNI Business Indicator	May					1.45	11.45
JN	All Industry Activity Index MoM	Mar				-1.2	4.30	14.30
JN	Machine Tool Orders YoY	Apr P				-21.2	6.00	16.00
EC	ECB Current Account SA	Mar				19.0	8.00	18.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Apr		/		-1.6/1.8	8.30	18.30
EC	ECB account of the monetary policy meeting						11.30	21.30
US	Chicago Fed Nat Activity Index	Apr				-0.4	12.30	22.30
CA	Wholesale Trade Sales MoM	Mar				-2.2	12.30	22.30
US	Initial Jobless Claims	May 7		270		274.0	12.30	22.30
US	Philadelphia Fed Business Outlook	May		3		-1.6	12.30	22.30
US	Bloomberg Economic Expectations	May				44.5	13.45	23.45
US	Bloomberg Consumer Comfort	May 8				42.0	13.45	23.45
US	Leading Index	Apr		0.4		0.2	14.00	0.00
Upcoming Central Bank Interest Rate Announcements								
Canada, BoC		26-May		0.50%		0.50%		
Europe ECB		2-Jun				0.00%		
Australia, RBA		7-Jun	1.75%	1.75%		2.00%		
New Zealand, RBNZ		9-Jun	2.00%	2.00%		2.25%		
US Federal Reserve		15-Jun	0.25-0.50%	0.5%-0.75%		0.25-0.50%		
Japan, BoJ		16-Jun		-0.1% to +0.1%		-0.1% to +0.1%		
UK BOE		16-Jun		0.50%		0.50%		

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

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