

Spooky Fed talk

US equities fell overnight and the US Treasury curve flattened to its lowest level since 2007 after solid data and hawkish Fed talk increased market's expectations of US rate hikes.

The US headline April CPI reading rose to 0.4% vs 0.3% expected while core CPI was 0.2%, in line with consensus. On an annual basis, core CPI dip to 2.1% from 2.2% in March and it would suggest there is downside risk to the core PCE deflator (the Fed preferred inflation measure) due for release on the last day in May. US April industrial production rose 0.7%, well above the 0.3% expected and notably manufacturing output rose 0.3%, reversing the decline seen in March. US housing starts jumped by 6.6% beating expectations (1172k vs 1125k exp.), but permits were weaker printing at 1116k below the consensus of 1135k.

Reaction to the data helped short dated US treasury yields drifted higher, but later in the session comments from Fed speaker seemingly spooked the equity market and boosted the move higher in yields in the front end of the US Treasury curve. Fed Lockhart and Williams said two to three rate increases this year may be warranted while Dallas Fed President Kaplan said a hike may come soon.

The overnight session for the USD was a story of two halves. In the early session the USD was on the back foot against most G10 currencies with US data releases only providing mild support. Later in the session, however, hawkish comments from Fed speakers boosted the USD, helping it recover over half of the early session's losses.

Looking at the G10 currency leader board, the AUD is the top performer over the past 24hrs, thanks to the rally post RBA minutes which revealed no evident easing bias. GBP is also a top performer boosted by polls showing a majority for the remain vote while NZD got a small boost from the GDT auction overnight which came in at +2.6%.

The CAD and NOK lost a bit of ground against the USD, even though oil prices had another positive night. WTI gained another 1% currently trading at \$48.53 while Brent is up 0.4% and is trading just under the \$50 mark. Commodities in general also had a positive night with iron ore jumping 2.66% to \$55.8, copper was +0.6% and gold gained 0.4% and is currently trading at \$1281.1.

Coming Up

This morning in Australia we get the wage price index reading for Q1 (AEST 11:30am) and given the focus on

inflation, this data release is likely to be watched closely by both the RBA and market participants. Expectations are for a rise of 0.5% in Q1, in line with the previous quarter.

RBA Assistant Governor Debelle speaks at the Beijing RMB FX Forum at 11:05 AEST and the title to his speech is "Developments in Global FX Markets and challenges in currency internationalisation from an Australian perspective". We don't expect the speech to be particularly market moving however we will keep an eye out in case we get any interesting headlines.

Japan Q1 GDP data and China's April property prices are also out this morning. For Japan's GDP data, Bloomberg is showing a consensus estimate of 0.3%QoQ SA annualized increase. If correct, this would suggest Japan narrowly avoided a technical recession. Given the BOJ apparent lack of urgency it's hard to see the Bank embarking on further stimulatory measures at its June meeting unless the data start to surprise to the downside and the yen moves back below Y105. As for China April property prices following last month's whopping 29% yoy rise in prices, talks of a housing bubble have begun to remerge again. Private transaction data from property agency Centaline suggest a slower pace of price surge should be expected in April.

Last week the BoE noted that distortions from the Brexit referendum mean that the interpretation of economic data will be harder to read until the June referendum is behind us. Notwithstanding the UK March employment report due for release later today is an important indicator on the state of the economy, the market is expecting the ILO unemployment rate (3 mths) to remain unchanged at 5.1%.

All that said the big event for the day comes from the US with the release of the April FOMC Minutes. The April statement gave the impression the Fed was in no rush to lift the Fed Funds Rate anytime soon. The Minutes may provide some colour on the extent that global concerns (Brexit and China) are playing into the Fed thinking and whether two hikes before year end remains the base case scenario. The latter point in particular could be an important factor in determining if the nascent USD recovery has more legs.

Overnight

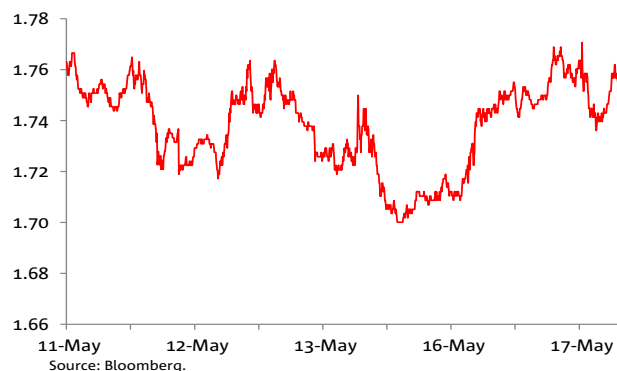
On global stock markets, the S&P 500 was -0.94%. Bond markets saw US 10-years +1.90bp to 1.77%. In commodities, Brent crude oil +0.75% to \$49.5, gold +0.4% to \$1,280, iron ore +2.6% to \$55.78. AUD is at 0.7326 and the range since yesterday 5pm Sydney time is 0.7315 to 0.7361.

Markets

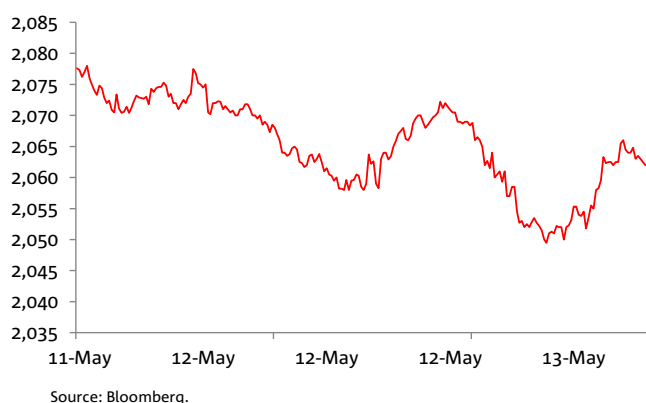
AUD/USD - past week



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	0.7325	0.5	0.7282	0.7366	HKD	7.7627 0.0
NZD	0.6808	0.3	0.6779	0.6843	CNY	6.5204 0.0
EUR	1.1322	0.0	1.1302	1.1349	SGD	1.3695 0.0
GBP	1.4460	0.4	1.4398	1.4524	IDR	13,295 -0.1
JPY	109.00	0.0	108.84	109.65	THB	35.51 0.2
CAD	1.2908	0.1	1.2838	1.2955	KRW	1,174 -0.5
AUD/EUR	0.647	0.5	0.6433	0.6507	TWD	32.62 -0.1
AUD/JPY	79.84	0.5	79.30	80.56	PHP	46.43 0.0
AUD/GBP	0.5066	0.1	0.5037	0.5084	CHF	0.98 0.2
AUD/NZD	1.0759	0.2	1.0732	1.0807	SEK	8.25 -0.1
AUD/CNH	4.7849	0.6	4.7664	4.8178		

Equities

Major Indices	Last	% day	% y/y
Dow	17,509	-1.1	-4.2
S&P 500	2,045	-1.0	-3.7
Nasdaq	4,715	-1.3	-6.6
VIX	16	7.8	27.8
FTSE	6,168	0.3	-11.4
DAX	9,890	-0.6	-13.6
CAC 40	4,298	-0.3	-13.9
Nikkei	16,653	1.1	-16.3
Shanghai	2,844	-0.3	-33.6
Hang Seng	20,119	1.2	-27.1
ASX 200	5,396	0.7	-4.7

Commodities*

	Last	% day
Oil (Brent)	49.33	0.4
Oil (WTI)	48.41	1.1
Oil (Tapis)	49.79	0.3
Gold	1281.10	0.4
CRB	185.86	0.7
GS Metals	257.0	0.0
Aluminium	1537.0	0.8
Copper	4666.5	0.6
Nickel	8767.3	1.5
Zinc	1898.5	1.5
Ch. steel	2105.0	2.6
Iron ore	55.8	2.6
Coal	50.9	0.4
Wheat Chic.	491.5	1.9
Sugar	16.8	-0.8
Cotton	62.4	2.3
Coffee	132.7	-0.7

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.50	0.63	0.94	1.63	USD 10	1.76	0.00
AUD	1.75	1.98	1.81	2.41	AUD 10	2.30	-0.07 0.54
NZD	2.25	2.35	2.22	2.88	NZD 10	2.63	-0.04 0.88
EUR	0.00	-0.26	-0.15	0.54	CAD 10	1.30	0.01 -0.45
GBP	0.50	0.59	0.77	1.40	EUR 10	0.13	0.01 -1.62
JPY	-0.05	-0.03	-0.14	0.09	GBP 10	1.37	0.02 -0.39
CAD	0.50	0.90	0.95	1.53	JPY 10	-0.10	0.00 -1.86

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.01	3.00
3 Yr bond	97.8	-3.00
10 Yr bond	97.73	5.00
3/10 sprd	0.08	-8.00
SPI	5358.0	-12.0

*Change in bps

CO₂ Emissions - Euros

	Last	% day
Jun-2016	5.81	Clsd
Dec-2016	6.04	-1.0
Jun-2017	6.06	-1.0

* clsd = market holiday

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
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	0.5/2.2	0.5/2.2		0.5/2.2	1.30	11.30
UK	Jobless Claims Change	Apr		4.5		6.7	8.30	18.30
UK	Average Weekly Earnings 3M/YoY	Mar		1.7		1.8	8.30	18.30
UK	Weekly Earnings ex Bonus 3M/YoY	Mar		2.3		2.2	8.30	18.30
UK	ILO Unemployment Rate 3Mths	Mar		5.1		5.1	8.30	18.30
UK	Employment Change 3M/3M	Mar		0		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		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		-2/0.8		-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	16/5.7%	12/5.8		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		0.7		-1.2	4.30	14.30
JN	Machine Tool Orders YoY	Apr F				-26.4	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		0.7/2		-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		-0.2		-0.4	12.30	22.30
CA	Wholesale Trade Sales MoM	Mar		-0.5		-2.2	12.30	22.30
US	Initial Jobless Claims	May 14		275		294.0	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 15				41.7	13.45	23.45
US	Leading Index	Apr		0.4		0.2	14.00	0.00
Friday, 20 May 2016								
NZ	Net Migration SA	Apr				5330.0	22.45	8.45
NZ	Credit Card Spending MoM/YoY	Apr				-1.1/4.8	3.00	13.00
JN	Convenience Store Sales YoY	Apr				-0.1	7.00	17.00
CA	Retail Sales MoM	Mar		-0.6		0.4	12.30	22.30
CA	CPI NSA MoM/YoY	Apr		0.3/1.7		0.6/1.3	12.30	22.30
US	Existing Home Sales, #/MoM	Apr		5.4/1.31		5.3/5.1	14.00	0.00
Monday, 23 May 2016								
JN	Trade Balance Adjusted	Apr				276.5	23.50	9.50
JN	Leading Index CI	Mar F				98.4	5.00	15.00
GE	Markit/BME Germany Manufacturing PMI	May P				51.8	7.30	17.30
GE	Markit Germany Services/Composite PMI	May P		/		54.5/53.6	7.30	17.30
EC	Markit Eurozone Manufacturing PMI	May P				51.7	8.00	18.00
EC	Markit Germany Services/Composite PMI	May P		/		53.1/53.0	8.00	18.00
US	Fed's Bullard Speaks in Beijing						9.30	19.30
US	Fed's Williams Speaks in New York						12.00	22.00
US	Markit US Manufacturing PMI	May P		51		50.8	13.45	23.45
JN	Cabinet Office Monthly Economic Report for May							
EC	Consumer Confidence	May A				-9.3	14.00	0.00
Tuesday, 24 May 2016								
US	Fed's Harker Speaks on Economic Outlook in Philadelphia						22.30	8.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May 15				113.9	23.30	9.30
JN	Nikkei Japan PMI Mfg	May P				48.2	2.00	12.00
AU	RBA's Stevens Speech in Sydney						3.05	13.05
GE	GDP SA QoQ/YoY	1Q F		/		0.7/1.6	6.00	16.00
UK	Public Finances (PSNCR)	Apr				16.6	8.30	18.30
GE	ZEW Survey Current Situation/Expectations	May				47.7	9.00	19.00
EC	ZEW Survey Expectations	May				21.5	9.00	19.00
UK	CBI Retailing Reported Sales	May				-13.0	10.00	20.00
UK	CBI Total Dist. Reported Sales	May				13.0	10.00	20.00
CH	Conference Board Leading Economic Index	Apr					13.00	23.00
EC	ECB's Nouy, BOE's Gracie Speak at IIF Conference in Madrid							
CA	Bloomberg Nanos Confidence	May 20				57.3	14.00	0.00
US	Richmond Fed Manufact. Index	May		9		14.0	14.00	0.00
US	New Home Sales, #/MoM	Apr		520/1.8		511.0/-1.5	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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