

## Jive Talkin' to a Fed June/July hike

A perfect opportunity for a Bee Gees classic with more *Jive Talkin'* amongst US Fed officials with Lacker and Dudley hitting the wires overnight following Wednesday's more hawkish Fed Minutes. Although such talk is significant for reinforcing the case for a June/July rate hike, markets mostly generally consolidated yesterday's moves with the exception being equities which continued their post-US FOMC sell-off. There was little in the way of top tier data apart from UK Retail Sales which were strong in April (+1.5% m/m), while US Weekly Jobless Claims fell back to recent trends with claims at +278k down from +294k and a virtually unchanged Philadelphia Fed index at -1.8 from -1.6.

The market is currently ascribing around a 60% chance that the US Fed will hike rates by the July meeting, and NAB has pencilled in a July rate hike. Fed officials are seemingly content with such pricing with Dudley stating overnight he is "quite pleased to see that probability has in fact moved up" and that "I think a tightening in the summer, the June-July time frame, is a reasonable expectation". One caveat to a June move is that the Brexit referendum (23 June) occurs one week after the June FOMC meeting and Dudley described this event as "another variable in the mix" and in our view probably makes July more likely.

In terms of market moves, European stocks were down 1.3%, with larger falls in London being dominated by mining stock, the FTSE was down 1.8%. S&P500 also fell by similar magnitudes at the open, but ground higher to end the session down 0.4% with a positive earnings report by Wal-Mart and Cisco providing some offset.

Currencies were also little moved in aggregate with the exception being the CAD which fell alongside the dip in the oil price – that has now mostly reversed on the back of possible supply disruptions in Nigeria with Brent now down just 0.3% to \$48.79 a barrel. Despite most currencies being unchanged overnight in aggregate, this disguises the recent USD strength seen over recent days. The AUD was unchanged at 0.7228 but did trade with 71 handle for some time in the overnight session and reached a low of 0.7176. The Euro fell 0.1% against the dollar to be 1.1204 while the Yen appreciated 0.2% to be 109.94.

Major bond yields were also mostly unchanged with some volatility. US Treasury yields declined by 1 basis points to 1.85% while Bunds were unchanged at 0.17%, with yields having already risen strongly the previous day.

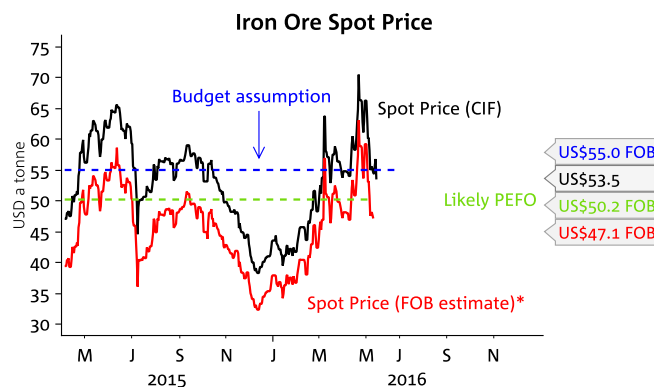
Commodities in general fell overnight with iron ore falling 5.8% to be \$53.47 a tonne, while gold fell 1.5% to 1,254.90.

## Coming Up

A quiet day ahead with little in the way of data from major markets. The G7 Finance Ministers/Central Bankers meeting in Japan today (and tomorrow) is likely to be the most significant event. Japanese Finance Minister Aso said earlier that "currencies will be discussed as needed as part of a broad debate on [the] global economy" – so worth keeping an eye out for wire headlines, quotes and the like.

For Australia there is no data, but the Secretaries of the Departments of Treasury and Finance will be releasing the Pre-Election and Fiscal Outlook (PEFO) today, probably sometime between 1-3pm AEST. It is likely it will largely be a tick to what was in the May 3 Budget, except perhaps for the iron ore price assumption that seems in need of some downgrade by around \$US5-10 a tonne. The budget has assumed a \$US55 a tonne FOB level and a \$10 downgrade would reduce tax receipts by around \$5.3bn over two years according to the budget's sensitivity analysis. Any downgrade would likely weigh on the forecast deficits for 2016-17 of \$37.1bn and \$26.1bn for 2017-18.

Chart 1: Iron ore assumption likely to be downgraded



\* Uses the spot iron ore price less an iron ore freight cost indicator  
Source: National Australia Bank, Bloomberg

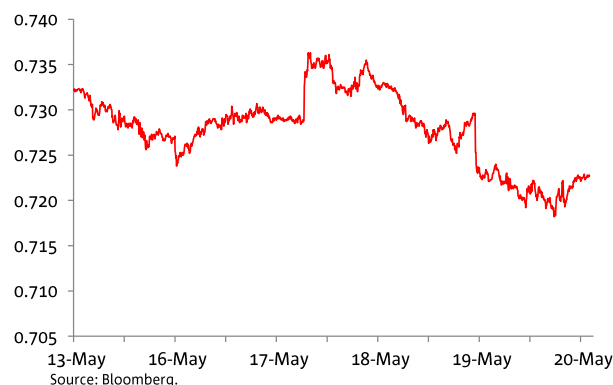
Otherwise on the international calendar NZ has Net Migration and Credit Card Spending figures today, the US has Existing Home Sales, and Canada is probably the more interesting one with Retail Sales and CPI ahead of the BoC meeting next week.

## Overnight

On global stock markets, the S&P 500 was -0.37%. Bond markets saw US 10-years -0.51bp to 1.85%. In commodities, Brent crude oil -0.16% to \$48.85, gold -1.5% to \$1,256, iron ore -5.8% to \$53.47. AUD is at 0.7225 and the range since yesterday 5pm Sydney time is 0.7182 to 0.7229.

## Markets

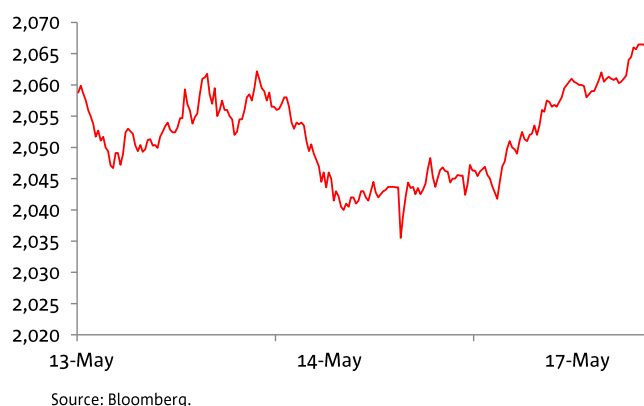
### AUD/USD - past week



### 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	0.7225	-0.1	0.7225	0.7228	HKD	7.7675 0.0
NZD	0.6742	0.0	0.6742	0.6744	CNY	6.5495 0.2
EUR	1.1201	-0.1	1.1200	1.1203	SGD	1.3802 -0.1
GBP	1.4608	0.1	1.4607	1.4612	IDR	13,565 1.4
JPY	109.98	-0.2	109.96	109.98	THB	35.69 0.0
CAD	1.3095	0.5	1.3093	1.3097	KRW	1,192 0.8
AUD/EUR	0.6451	0.1	0.6450	0.6453	TWD	32.77 0.2
AUD/JPY	79.47	-0.2	79.47	79.49	PHP	46.80 0.2
AUD/GBP	0.4947	-0.1	0.4946	0.4948	CHF	0.99 0.3
AUD/NZD	1.0718	-0.1	1.0715	1.0721	SEK	8.36 0.1
AUD/CNH	4.7140	-1.1	4.7410	4.7438		

### Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.50	0.64	1.02	1.71	USD 10	1.85	0.01
AUD	1.75	2.00	1.82	2.43	AUD 10	2.35	-0.06 0.50
NZD	2.25	2.37	2.28	2.94	NZD 10	2.68	-0.04 0.84
EUR	0.00	-0.26	-0.15	0.57	CAD 10	1.35	0.02 -0.50
GBP	0.50	0.59	0.82	1.46	EUR 10	0.17	0.00 -1.68
JPY	-0.03	-0.03	-0.12	0.11	GBP 10	1.44	0.00 -0.41
CAD	0.50	0.91	1.00	1.58	JPY 10	-0.07	-0.03 -1.91

### Equities

#### Major Indices

	Last	% day	% y/y
Dow	17,435	-0.5	-4.8
S&P 500	2,040	-0.4	-4.1
Nasdaq	4,713	-0.6	-7.1
VIX	16	2.4	27.1
FTSE	6,053	-1.8	-13.5
DAX	9,796	-1.5	-17.4
CAC 40	4,283	-0.9	-16.3
Nikkei	16,647	0.0	-17.6
Shanghai	2,807	0.0	-36.9
Hang Seng	19,694	-0.7	-28.6
ASX 200	5,323	-0.6	-5.1

### Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.01	0.00
3 Yr bond	97.8	-3.00
10 Yr bond	97.69	1.50
3/10 sprd	0.11	-4.50
SPI	5339.0	20.0

\*Change in bps

### Commodities\*

	Last	% day
Oil (Brent)	48.85	-0.2
Oil (WTI)	48.27	0.2
Oil (Tapis)	48.51	-3.1
Gold	1255.70	-1.5
CRB	183.88	-0.8
GS Metals	254.0	-0.7
Aluminium	1538.3	-0.4
Copper	4587.8	-0.7
Nickel	8525.5	-0.9
Zinc	1853.8	-1.5
Ch. steel	2063.0	-1.4
Iron ore	53.5	-5.8
Coal	51.0	0.2
Wheat Chic.	479.5	-2.1
Sugar	16.7	-0.7
Cotton	61.1	-1.6
Coffee	124.0	-4.7

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

	Last	% day
Jun-2016	5.81	Clsd
Dec-2016	6.00	-1.2
Jun-2017	6.01	-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
Friday, 20 May 2016								
NZ	Net Migration SA	Apr				5330.0	22.45	8.45
AU	Pre-Election Economic and Fiscal Outlook (PEFO), likely early afternoon, 1-3pm AEST							
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 22				115.1	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
Wednesday, 25 May 2016								
NZ	Trade Balance	Apr				117.0	22.45	8.45
AU	Skilled Vacancies MoM	Apr				-1.2	1.00	11.00
AU	Construction Work Done	1Q				-3.6	1.30	11.30
CH	Westpac-MNI Consumer Sentiment	May				117.8	1.45	11.45
US	Fed's Kaplan Speaks in Houston						4.00	14.00
GE	GfK Consumer Confidence	Jun				9.7	6.00	16.00
GE	IFO Business Climate	May				106.6	8.00	18.00
GE	IFO Current Assessment/Expectations	May		/		113.2/100.4	8.00	18.00
US	Advance Goods Trade Balance	Apr		-59.4		-56.9	12.30	22.30
US	House Price Purchase Index QoQ	1Q				1.4	13.00	23.00
US	FHFA House Price Index MoM	Mar		0.4		0.4	13.00	23.00
US	Markit US Services/Composite PMI	May P		/		52.8/52.4	13.45	23.45
CA	Bank of Canada Rate Decision	May 25		0.5		0.5	14.00	0.00
US	Fed's Kaplan Speaks at Greater Houston Partnership						18.00	4.00
Thursday, 26 May 2016								
JN	PPI Services YoY	Apr				0.2	23.50	9.50
CH	Swift Global Payments CNY	Apr				1.9	1.00	11.00
AU	Private CapEx QoQ/Expectations 16-17 \$Abn	1Q		/		0.8/82.6	1.30	11.30
UK	BBA Loans for House Purchase	Apr				45096.0	8.30	18.30
UK	GDP QoQ/YoY	1Q P				0.4	8.30	18.30
UK	Index of Services MoM	Mar				0.1	8.30	18.30
US	Fed's Bullard Speaks in Singapore						9.15	19.15
US	Initial Jobless Claims	May 14		275		294.0	12.30	22.30
US	Durable Goods Orders/Core orders	Apr P		0.5/0.3		0.8/0.1	12.30	22.30
AU	RBA's Debelle Speech in New York						13.00	23.00
US	Bloomberg Consumer Comfort	May 15				41.7	13.45	23.45
CA	CFIB Business Barometer	May				59.2		
US	Pending Home Sales MoM/YoY	Apr		0.6/		1.4/2.9	14.00	0.00
US	Kansas City Fed Manf. Activity	May		-4		-4.0	15.00	1.00
US	Fed's Powell Speaks About Economy at Peterson Institute						16.00	2.00
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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