

## Take it easy

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The US Fed kept its policy rate unchanged (between 0.25% and 0.50%) as expected, however the tone of the statement and forecast revealed a more dovish stance. US Treasury yields rallied, the USD lost ground against most currencies and US stocks failed to retain early gains, slipping into negative territory in the final half an hour of trading.

The dovish tone in the FOMC statement came mostly from its assessment of a softer labour market while a decline in market based inflation expectations was also noted. The Fed remarked that the pace of improvement in the US labour market “has slowed while growth in economic activity appears to have picked up”. It also said that it still expects inflation to head towards 2%, however it noted that Market-based measures of inflation compensation had declined, this was a downgrade relative to previous comments that they “remain low”. Against this backdrop Fed officials lowered their projections of future rate hikes and also slightly downgraded their growth forecast (2% vs 2.2% in 2016 and 2.0% vs 2.1% in 2017).

Looking in more detail at the Fed funds rate projections, although the median dot point for 2016 remains unchanged at 0.875% (equivalent to two 25bps hikes), the number of Fed members who expect only one hike rose from 1 to 6. So the Fed is now torn between one or two hikes in 2016. The median dot point for 2017 is now at 1.625% down from 1.875%, implying the Fed now expects 3 hikes next year compare to 4 previously. The median dot point for 2018 has also been lowered to 2.35% from 3% suggesting 3 hikes are now more likely instead of 4. Finally, the long term rate was also lowered by 25bps to 3%.

US equities opened the day in positive territory helped along by a positive lead from Europe. A small rally ensued just ahead of the Fed announcement, but all the day's gains were lost in the last half an hour of trading with utilities and healthcare stocks the big underperformers.

The USD dollar is weaker across the board with the exception of the CAD in G10 and PHP and TWD in emerging currencies. The AUD is the top G10 performer, up 0.68% followed closely by GBP (+0.66%). The NZD gained 0.6% with the overnight dairy auction having little impact. The auction showed average dairy prices unchanged from the last event. Not surprisingly, gains in US treasury yields were led by the front end of the curve. 2y UST fell to 0.66% from 0.738% pre FOMC levels and 10y UST dropped to 1.572% from 1.635%. Early in the session 10y Bunds closed at -0.012%, 0.7bps lower and 10y Gilts ended at 1.118%, 2.3bps lower.

In commodities oil prices fell between 0.9% and -1.3%, iron ore stabilised at \$50.2 after falling 4% in the previous day while gold is unchanged at \$1290.90.

As for data releases, US industrial production fell 0.4% in May while US (May) producer prices rose 0.4%.

## Coming Up

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We have a pretty busy day of global data releases coupled with two major central bank meetings.

New Zealand Q1 GDP number is the first cab off the rank (8:45AEST) and our BNZ colleagues are expecting a print of +0.3%qoq while the market is at 0.5%. Also this morning, in Australia we get consumer inflation expectations (11:00 AEST) followed by the labour force report at 11:30 AEST. Just on time for RBA Kent to start his speech on China and implications for Australia in Queensland.

NAB and market consensus is for Australia's unemployment rate to be unchanged at 5.7%. As for employment growth NAB is at 17k close and the market is at +15k. Given Brexit is currently dominating market sentiment it's hard to imagine Australia's labour force report having an enduring impact on the domestic market, unless of course we get a significantly off consensus and credible outcome.

Sometime after midday the BoJ is expected to make its policy announcement. While most including ourselves think the BoJ will ease again over the coming months, whether they do it today is more of a line ball call. Falling inflation, weak consumer spending and stronger yen are the major arguments for further easing. However, choosing to wait until its next meeting late in July provides the BoJ with the sensible option of more information to assess the economy's outlook. Key data releases such as the Tankan survey would have been published, new forecasts would also be available and the dust from the UK EU referendum as well as Japan's upper house election would have settled by then. All that said, we think the market is better priced for an unchanged outcome, so if we do get a surprise easing announcement it is likely to be JPY negative.

In Europe, the Eurozone prints its CPI number for May followed by the BoE policy announcement later this evening. Given the UK EU referendum next week, a no change by the BoE is unanimously expected. However, we wouldn't be surprised to see the statement and minutes emphasising the challenging economic consequences from a Brexit outcome.

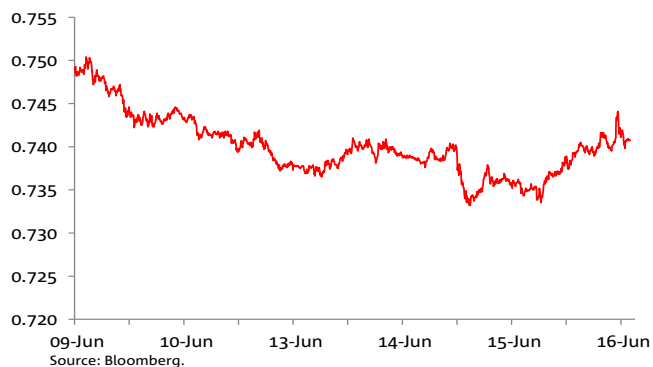
Last, but not least the US release its CPI reading for May( 0.3%mom vs 0.4% prev), the June Philly Fed is also due out along with the NAHB Housing index and weekly jobless claims.

## Overnight

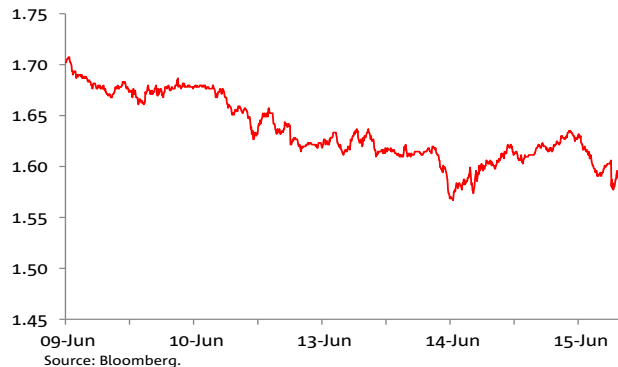
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On global stock markets, the S&P 500 was -0.18%. Bond markets saw US 10-years -4.10bp to 1.57%. In commodities, Brent crude oil -1.34% to \$48.59, gold+0.4% to \$1,291, iron ore +0.2% to \$50.65. AUD is at 0.7408 and the range since yesterday 5pm Sydney time is 0.7374 to 0.7441.

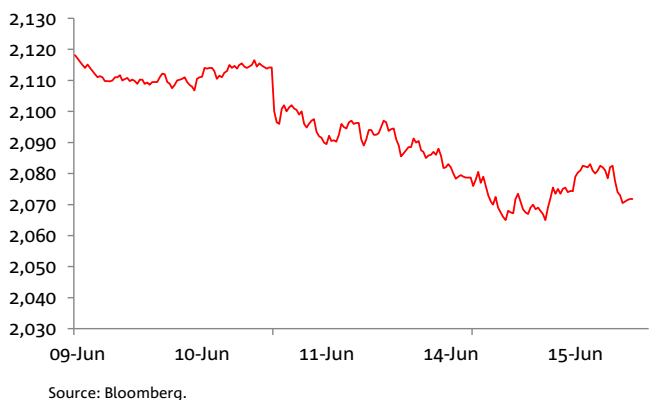
AUD/USD - past week



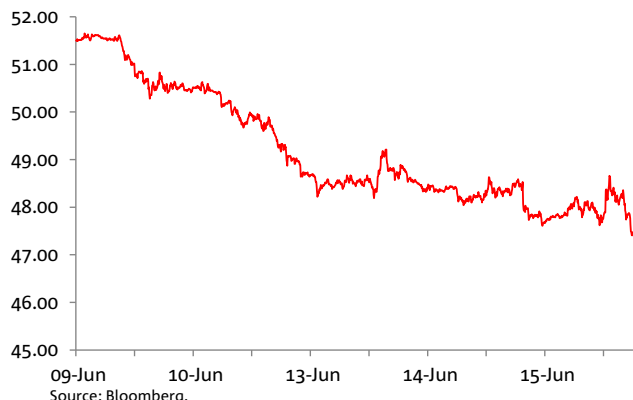
US 10 yr - past week



S&P Futures - past week



WTI - past week



Foreign Exchange

|         | Indicative 24hr ranges (**) |        |        |        | Other FX |        |      |
|---------|-----------------------------|--------|--------|--------|----------|--------|------|
|         | Last                        | % chge | Low    | High   | Last     | % chge |      |
| AUD     | 0.7408                      | 0.7    | 0.7407 | 0.7410 | HKD      | 7.7599 | 0.0  |
| NZD     | 0.7034                      | 0.6    | 0.7033 | 0.7035 | CNY      | 6.5818 | -0.2 |
| EUR     | 1.1262                      | 0.5    | 1.1259 | 1.1264 | SGD      | 1.3520 | -0.2 |
| GBP     | 1.4212                      | 0.7    | 1.4204 | 1.4213 | IDR      | 13,355 | -0.3 |
| JPY     | 106.01                      | -0.1   | 106.00 | 106.03 | THB      | 35.23  | -0.2 |
| CAD     | 1.2907                      | 0.3    | 1.2905 | 1.2913 | KRW      | 1,173  | 0.0  |
| AUD/EUR | 0.6578                      | 0.2    | 0.6577 | 0.6580 | TWD      | 32.43  | 0.1  |
| AUD/JPY | 78.53                       | 0.6    | 78.50  | 78.56  | PHP      | 46.34  | 0.0  |
| AUD/GBP | 0.5213                      | 0.0    | 0.5212 | 0.5217 | CHF      | 0.96   | -0.2 |
| AUD/NZD | 1.0532                      | 0.1    | 1.0530 | 1.0534 | SEK      | 8.31   | 0.0  |
| AUD/CNH | 4.8794                      | 0.5    | 4.8830 | 4.9091 |          |        |      |

Interest Rates

|     | Indicative Swap Rates |       |       |       | Benchmark 10 Year Bonds |       |             |
|-----|-----------------------|-------|-------|-------|-------------------------|-------|-------------|
|     | Cash                  | 3mth  | 2Yr   | 10Yr  | Last                    | chge  | Sprd        |
| USD | 0.50                  | 0.65  | 0.82  | 1.45  | USD 10                  | 1.57  | -4.10       |
| AUD | 1.75                  | 2.03  | 1.78  | 2.24  | AUD 10                  | 2.07  | 1.70 0.49   |
| NZD | 2.25                  | 2.35  | 2.27  | 2.78  | NZD 10                  | 2.47  | -1.40 0.89  |
| EUR | 0.00                  | -0.26 | -0.17 | 0.46  | CAD 10                  | 1.08  | -3.60 -0.49 |
| GBP | 0.50                  | 0.57  | 0.70  | 1.19  | EUR 10                  | -0.01 | -0.60 -1.58 |
| JPY | -0.05                 | -0.04 | -0.16 | -0.02 | GBP 10                  | 1.12  | -2.40 -0.45 |
| CAD | 0.50                  | 0.89  | 0.85  | 1.35  | JPY 10                  | -0.18 | -2.40 -1.75 |

Equities

| Major Indices |        |       |       |
|---------------|--------|-------|-------|
|               | Last   | % day | % y/y |
| Dow           | 17,640 | -0.2  | -0.8  |
| S&P 500       | 2,072  | -0.2  | -0.6  |
| Nasdaq        | 4,835  | -0.2  | -3.9  |
| VIX           | 20     | -1.8  | 30.9  |
| FTSE          | 5,967  | 0.7   | -11.1 |
| DAX           | 9,607  | 0.9   | -12.5 |
| CAC 40        | 4,172  | 1.0   | -13.4 |
| Nikkei        | 15,920 | 0.4   | -21.4 |
| Shanghai      | 2,887  | 1.6   | -40.9 |
| Hang Seng     | 20,468 | 0.4   | -23.0 |
| ASX 200       | 5,147  | -1.1  | -7.0  |

Commodities\*

|             | Last    | % day |
|-------------|---------|-------|
| Oil (Brent) | 48.59   | -1.3  |
| Oil (WTI)   | 47.49   | -0.9  |
| Oil (Tapis) | 48.84   | -1.4  |
| Gold        | 1290.90 | 0.4   |
| CRB         | 191.74  | -0.2  |
| GS Metals   | 263.5   | 1.7   |
| Aluminium   | 1619.5  | 1.3   |
| Copper      | 4630.5  | 2.5   |
| Nickel      | 9015.0  | 1.8   |
| Zinc        | 2031.5  | 1.1   |
| Ch. steel   | 2085.0  | 0.6   |
| Iron ore    | 50.7    | 0.2   |
| Coal        | 52.5    | 0.1   |
| Wheat Chic. | 490.0   | -2.0  |
| Sugar       | 19.8    | 1.9   |
| Cotton      | 62.8    | -0.7  |
| Coffee      | 140.5   | 2.3   |

Overnight Futures

| Australia  |        |       |
|------------|--------|-------|
|            | Last   | Chge* |
| 3 mth bill | 98.11  | -2.00 |
| 3 Yr bond  | 97.8   | -3.00 |
| 10 Yr bond | 97.95  | -3.00 |
| 3/10 sprd  | -0.15  | 0.00  |
| SPI        | 5109.0 | 44.0  |

\*Change in bps

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

|          | Last | % day |
|----------|------|-------|
| Jun-2016 | 5.86 | Clsd  |
| Dec-2016 | 5.92 | 0.9   |
| Jun-2017 | 5.93 | 0.9   |

\* 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  |
|--|---|--------|------------|----------------|--------|----------------|-------|-------|
| <b>Thursday, 16 June 2016</b>                            |   |        |            |                |        |                |       |       |
| NZ   | GDP SA QoQ/YoY  | 1Q     |            | 0.5/2.6        |        | 0.9/2.3        | 22.45 | 8.45  |
| AU   | Consumer Inflation Expectation                              | Jun    |            |                |        | 3.2            | 1.00  | 11.00 |
| AU   | Employment Change/Unemployment rate                         | May    |            | 15/5.7         |        | 10.8/5.7       | 1.30  | 11.30 |
| AU   | Participation Rate  | May    |            | 64.9           |        | 64.8           | 1.30  | 11.30 |
| AU   | New Motor Vehicle Sales MoM/YoY                             | May    |            |                |        | -2.5/2.4       | 1.30  | 11.30 |
| AU   | RBA FX Transactions Market                                  | May    |            |                |        | 946.0          | 1.30  | 11.30 |
| JN   | BOJ Annual Rise in Monetary Base                            | Jun 16 |            | 80             |        | 80.0           |       |       |
| JN   | BOJ Monetary Policy Statement                               |        |            |                |        |                |       |       |
| EC   | ECB Publishes Economic Bulletin                             |        |            |                |        |                | 8.00  | 18.00 |
| UK   | Retail Sales Ex Auto Fuel MoM/YoY                           | May    |            | 0.3/3.8        |        | 1.5/4.2        | 8.30  | 18.30 |
| EC   | CPI MoM/YoY   | May    |            | 0.3/-0.1       |        | 0.0/-0.2       | 9.00  | 19.00 |
| EC   | CPI Core YoY  | May F  |            | 0.8            |        | 0.8            | 9.00  | 19.00 |
| UK   | Bank of England Bank Rate                                   | Jun 16 |            | 0.5            |        | 0.5            | 11.00 | 21.00 |
| UK   | BOE Asset Purchase Target                                   | Jun    |            | 375            |        | 375.0          | 11.00 | 21.00 |
| CA   | Int'l Securities Transactions                               | Apr    |            |                |        | 17.2           | 12.30 | 22.30 |
| US   | Current Account Balance                                     | 1Q     |            | -125           |        | -125.3         | 12.30 | 22.30 |
| US   | Initial Jobless Claims                                      | Jun 11 |            | 270            |        | 264.0          | 12.30 | 22.30 |
| US   | Philadelphia Fed Business Outlook                           | Jun    |            | 1              |        | -1.8           | 12.30 | 22.30 |
| US   | CPI MoM/YoY   | May    |            | 0.3/1.1        |        | 0.4/1.1        | 12.30 | 22.30 |
| US   | CPI Ex Food and Energy MoM/YoY                              | May    |            | 0.2/2.2        |        | 0.2/2.1        | 12.30 | 22.30 |
| US   | Real Avg Weekly Earnings YoY                                | May    |            |                |        | 1.3            | 12.30 | 22.30 |
| US   | Bloomberg Economic Expectations                             | Jun    |            |                |        | 44.5           | 13.45 | 23.45 |
| US   | Bloomberg Consumer Comfort                                  | Jun 12 |            |                |        | 43.5           | 13.45 | 23.45 |
| US   | NAHB Housing Market Index                                   | Jun    |            | 59             |        | 58.0           | 14.00 | 0.00  |
| <b>Friday, 17 June 2016</b>                              |   |        |            |                |        |                |       |       |
| NZ   | BusinessNZ Manufacturing PMI                                | May    |            |                |        | 56.5           | 22.30 | 8.30  |
| NZ   | ANZ Consumer Confidence Index/MoM                           | Jun    |            |                |        | 116.2/-3.2     | 1.00  | 11.00 |
| EC   | ECB Current Account SA                                      | Apr    |            |                |        | 27.3           | 8.00  | 18.00 |
| EC   | Current Account NSA   | Apr    |            |                |        | 32.3           | 8.00  | 18.00 |
| EC   | Labour Costs YoY  | 1Q     |            |                |        | 1.3            | 9.00  | 19.00 |
| US   | Housing Starts #/MoM  | May    |            | 1150/-1.9      |        | 1172.0/6.6     | 12.30 | 22.30 |
| US   | Building Permits #/MoM                                      | May    |            | 1145/1.3       |        | 1116.0/3.6     | 12.30 | 22.30 |
| CA   | CPI NSA MoM/YoY   | May    |            | 0.5/1.6        |        | 0.3/1.7        | 12.30 | 22.30 |
| CA   | CPI Core MoM  | May    |            | 0.3/2.1        |        | 0.2/2.2        | 12.30 | 22.30 |
| <b>Saturday, 18 June 2016</b>                            |   |        |            |                |        |                |       |       |
| CH   | China May Property Prices                                   |        |            |                |        |                | 1.30  | 11.30 |
| <b>Monday, 20 June 2016</b>                              |   |        |            |                |        |                |       |       |
| NZ   | Performance Services Index                                  | May    |            |                |        | 57.7           | 22.30 | 8.30  |
| JN   | Trade Balance Adjusted                                      | May    |            |                |        | 426.6          | 23.50 | 9.50  |
| JN   | Convenience Store Sales YoY                                 | May    |            |                |        | 0.9            | 7.00  | 17.00 |
| EC   | Construction Output MoM/YoY                                 | Apr    |            |                |        | -0.9/-0.5      | 9.00  | 19.00 |
| CA   | Wholesale Trade Sales MoM                                   | Apr    |            |                |        | -1.0           | 12.30 | 22.30 |
| NZ   | Westpac Consumer Confidence                                 | 2Q     |            |                |        | 109.6          | 22.00 | 8.00  |
| CA   | Bloomberg Nanos Confidence                                  | Jun 17 |            |                |        | 57.9           | 14.00 | 0.00  |
| <b>Tuesday, 21 June 2016</b>                             |   |        |            |                |        |                |       |       |
| AU   | ANZ Roy Morgan Weekly Consumer Confidence Index             | Jun 12 |            |                |        | 116.8          | 23.30 | 9.30  |
| AU   | RBA June Meeting Minutes                                    |        |            |                |        |                | 1.30  | 11.30 |
| AU   | House Price Index QoQ/YoY                                   | 1Q     |            |                |        | 0.2/8.7        | 1.30  | 11.30 |
| JN   | All Industry Activity Index MoM                             | Apr    |            |                |        | 0.1            | 4.30  | 14.30 |
| UK   | Public Finances (PSNCR)                                     | May    |            |                |        | -2.4           | 8.30  | 18.30 |
| GE   | ZEW Survey Current Situation/Expectations                   | Jun    |            |                |        | 53.1/6.4       | 9.00  | 19.00 |
| EC   | ZEW Survey Expectations                                     | Jun    |            |                |        | 16.8           | 9.00  | 19.00 |
| UK   | CBI Trends Total Orders/Selling prices                      | Jun    |            |                |        | -8.0/2.0       | 10.00 | 20.00 |
| US   | Yellen Testifies on Monetary Policy to Senate Banking Panel |        |            |                |        |                | 14.00 | 0.00  |
| <b>Wednesday, 22 June 2016</b>                           |   |        |            |                |        |                |       |       |
| NZ   | Net Migration SA  | May    |            |                |        | 5520.0         | 22.45 | 8.45  |
| AU   | Westpac Leading Index MoM                                   | May    |            |                |        | 0.2            | 0.30  | 10.30 |
| AU   | Skilled Vacancies MoM                                       | May    |            |                |        | 0.6            | 1.00  | 11.00 |
| NZ   | Credit Card Spending MoM/YoY                                | May    |            |                |        | 2.5            | 3.00  | 13.00 |
| US   | MBA Mortgage Applications                                   | Jun 10 |            |                |        | 9.3            | 11.00 | 21.00 |
| CA   | Retail Sales MoM  | Apr    |            |                |        | -1.0           | 12.30 | 22.30 |
| US   | FHFA House Price Index MoM                                  | Apr    |            |                |        | 0.7            | 13.00 | 23.00 |
| CH   | Conference Board Leading Economic Index                     | May    |            |                |        |                | 13.00 | 23.00 |
| EC   | Consumer Confidence   | Jun A  |            |                |        | -7.0           | 14.00 | 0.00  |
| US   | Existing Home Sales, #/MoM                                  | May    |            | 5.5            |        | 5.5/1.7        | 14.00 | 0.00  |
| <b>Upcoming Central Bank Interest Rate Announcements</b> |   |        |            |                |        |                |       |       |
| US   | Federal Reserve   | 15-Jun | 0.25-0.50% | 0.25-0.50%     |        | 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%          |       |       |
| Australia  | RBA   | 5-Jul  | 1.75%      | 1.75%          |        | 1.75%          |       |       |
| Canada   | BoC   | 14-Jul |            |                |        | 0.50%          |       |       |
| Europe   | ECB   | 21-Jul |            |                |        | 0.00%          |       |       |
| New Zealand  | RBNZ  | 11-Aug | 2.00%      | n/a            |        | 2.25%          |       |       |

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

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