

# MARKETS TODAY



## *Risk-off, but the US economy still seems Titanium*

### Good Morning

**Titanium** was the urban-dance hit of late 2011 and is still a favourite of gym junkies the world around. The lyrics also seem to be an apt description of the US economy where data remains strong even though a risk-off tone has developed over the past couple of days. That risk-off tone continued overnight with falls in global equity markets and declines in global bond yields.

US Treasury yields fell 5.7 bps overnight to 2.33%. The moves again mostly occurred in the real yield component which fell 3.8 bps to 0.36%, while the breakeven inflation rate fell 1.8 bps to 1.97%. Despite the decline, it is not clear what exactly drove the move and overall markets are focused on the President Xi-Trump meeting on Thursday and on US Payrolls Friday. Traders have been closing short Treasury positions over the past few weeks amidst Congressional gridlock (typified by the failure to pass healthcare reform) and a lack of policy detail on fiscal plans. Comments by the Fed's Dudley on Friday were also interpreted as hinting at a lower terminal Fed funds rate than currently implied by the Fed's median dotpoint of 3%.

Dudley stated on Friday "we have maybe 100 to 150 bps of tightening ahead" which some took as implying a terminal rate of 2.50%. However, it is not clear whether Dudley was referring to the terminal rate or to the next couple of years. The Fed's Harker was out overnight stating the Fed should stick to its plan of hiking twice more this year and that "I don't want to get behind the curve, but I don't think we need to rush, either". The market currently prices 1.5 rate hikes for the rest of the year.

Against that background, US economic data remains strong. The US Manufacturing ISM remained at high levels overnight and was bang in line with expectations at 57.2. Under the hood the details were very strong. The Employment Index jumped to a six-year high of 58.9 from 54.2 and suggestive of payrolls continuing to print strongly in the months ahead. Crucial for the Fed, indicators of inflationary pressures were also higher with the Prices Paid Index reaching its highest level since June 2011 at 70.5.

In the FX space the US dollar was broadly flat. The Yen was the clear outperformer up 0.4% on the risk-off tone while the Euro was also 0.1% higher. The UK Pound was the clear underperformer, down 0.5% following the weaker than expected UK Manufacturing PMI (it fell to 53.3 against expectations of a rise to 55.0). The Australian dollar also underperformed down 0.3% to 0.7603 following the weak retail sales figures yesterday (-0.1% m/m against expectations of a 0.3% increase).

For equities, car manufacturer deliveries garnered the most attention where deliveries disappointed. Automobile stocks led losses on the S&P500 with car manufacturers down 2.6% on the day while the S&P500

index fell 0.2%. The Euro Stoxx was down 0.8% overnight.

Finally, S&P downgraded South Africa's credit rating to BB+ from BBB- which puts it into the Junk category. S&P cited "internal government and party divisions" which follows the recent sacking of the Finance Minister.

### Coming Up

A busy day on the domestic calendar ahead with the Trade Balance, RBA Board Meeting and RBA Governor Lowe speaking. Internationally it is very quiet with the only events to note being a speech by outgoing Fed Governor Tarullo (he resigns effective April 5) and the US Trade Balance (expected -\$44.6bn).

For the Australian Trade Balance (11.30am AEST) the market will be focused on whether the trade balance bounces back from its unexpectedly weak read last month (it fell to a \$1.3bn surplus from \$3.3bn surplus). NAB's read of loadings at major ports suggests a bounce is unlikely given sharp falls in the amount of coal being loaded in Newcastle, while flooding in key gold mining regions continued in early February. NAB looks for a \$1.2bn surplus, somewhat below the market consensus of \$1.9bn.

The RBA Board Meeting (2.30pm AEST) is unanimously expected to be on hold, though markets will be paying close attention to the post meeting statement. It is possible the Statement could have a slight dovish tone given the ongoing softness in the labour market and yesterday's soft retail numbers.

Nevertheless, the RBA has little appetite to ease policy further given concerns over "creating fragilities in household balance sheets" and on the positive side of the ledger the RBA has become more optimistic on the global economy with the March Minutes noting the spillovers to the domestic economy are potentially larger than expected. On risks in the housing market, we do not think the Statement will provide much in the way of assessment given the RBA is part of the Council of Financial Regulators which helped to formulate the recent macro-prudential changes in the first place (alongside APRA and ASIC).

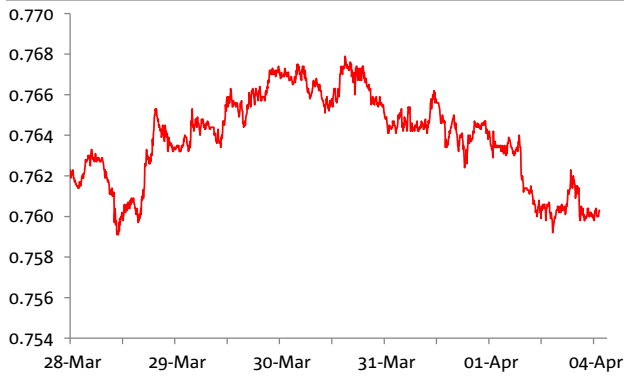
Finally, RBA Governor Lowe is giving public remarks at the post RBA Board Dinner (7.15pm AEST) which will be closely watched for any further nuance on top of the post meeting Statement released earlier in the day.

### Overnight

On global stock markets, the S&P 500 was -0.16%. Bond markets saw US 10-years -4.66bp to 2.33%. In commodities, Brent crude oil -0.75% to \$53.13, gold+0.3% to \$1,251, iron ore -1.3% to \$79.36, steam coal +6.4% to \$89.50, met.coal +9.6% to \$195.00. AUD is at 0.7606 and the range since yesterday 5pm Sydney time is 0.7592 to 0.7624.

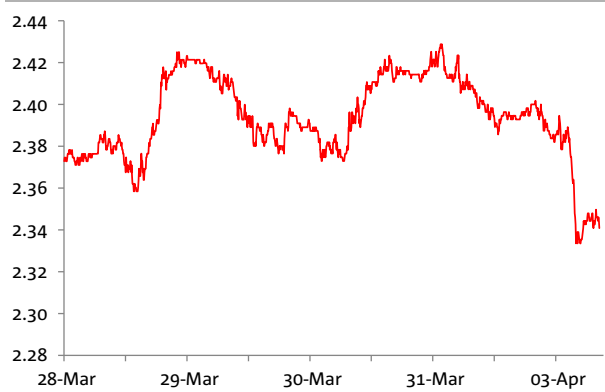
# Markets

AUD/USD - past week



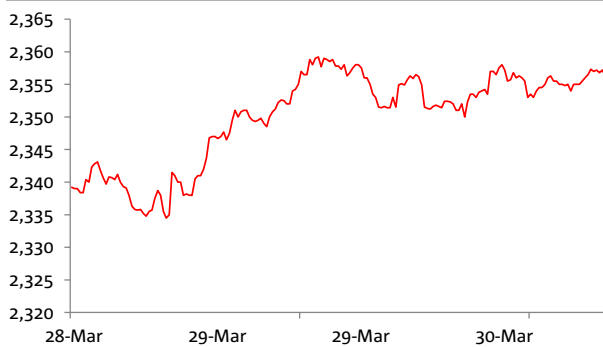
Source: Bloomberg.

US 10yr - past week



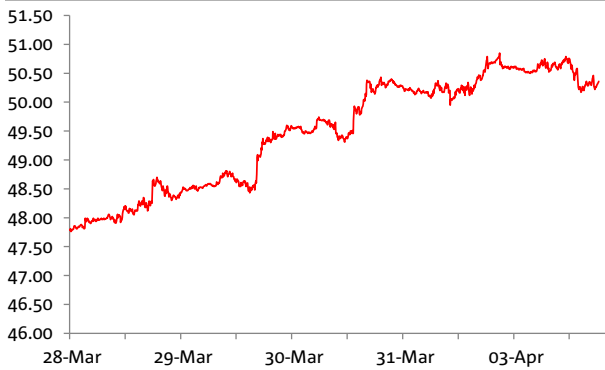
Source: Bloomberg.

S&P Future - past week



Source: Bloomberg.

WTI - past week



Source: Bloomberg.

## Foreign Exchange

	Indicative 24hr ranges (**)				Other FX		
	Last	% chge	Low	High	Last	% chge	
AUD	0.7606	-0.3	0.7591	0.7646	HKD	7.7712	0.0
NZD	0.7012	0.1	0.6986	0.7015	CNY	6.8872	0.0
EUR	1.0671	0.2	1.0643	1.0681	SGD	1.3970	0.0
GBP	1.2483	-0.5	1.2466	1.2567	IDR	13,325	0.0
JPY	110.91	-0.4	110.86	111.59	THB	34.36	0.0
CAD	1.3379	0.5	1.3300	1.3400	KRW	1,115	-0.3
AUD/EUR	0.7127	-0.5	0.7114	0.7178	TWD	30.33	0.0
AUD/JPY	84.35	-0.7	84.24	85.17	PHP	50.16	-0.1
AUD/GBP	0.6093	0.2	0.6055	0.6104	CHF	1.00	-0.1
AUD/NZD	1.0847	-0.4	1.0846	1.0924	SEK	8.96	-0.1
AUD/CNH	5.2366	-0.5	5.2201	5.2749			

## Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spnd
USD	1.00	1.15	1.58	2.32	USD 10	2.33	-5.74
AUD	1.50	1.80	1.89	2.90	AUD 10	2.68	-2.60
NZD	1.75	2.00	2.31	3.43	NZD 10	3.16	-3.20
EUR	0.00	-0.33	-0.15	0.74	CAD 10	1.58	-4.90
GBP	0.25	0.34	0.59	1.13	EUR 10	0.28	-5.10
JPY	-0.06	0.03	0.06	0.26	GBP 10	1.06	-7.50
CAD	0.50	0.94	1.10	1.86	JPY 10	0.08	0.50

## Equities

Major Indices	Last	% day	% y/y
	Dow	20,650	-0.06
S&P 500	2,359	-0.16	13.8
Nasdaq	5,895	-0.29	19.9
VIX	12	0.08	-5.5
FTSE	7,283	-0.5	18.5
DAX	12,257	-0.5	25.1
CAC 40	5,086	-0.7	17.7
Nikkei	18,983	0.4	17.7
Shanghai	3,223	0.0	7.1
Hang Seng	24,261	0.6	18.4
ASX 200	5,873	0.1	17.6

## Commodities\*

	Last	% day
Oil (Brent)	53.13	-0.7
Oil (WTI)	50.25	-0.7
Oil (Tapis)	54.54	1.3
Gold	1251.30	0.3
CRB	184.53	-0.7
GS Metals	325.1	-1.4
Aluminium	1942.8	-0.6
Copper	5738.3	-1.5
Nickel	9801.0	-1.8
Zinc	2687.5	-2.5
Ch. steel	3166.0	0.0
Iron ore	79.4	-1.3
St. Coal	89.5	6.4
Met.coal	195.0	9.6
Wheat Chic.	440.3	0.3
Sugar	16.5	-1.3
Cotton	75.5	-2.4
Coffee	137.9	-1.0

## Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.21	0.00
3 Yr bond	97.8	0.00
10 Yr bond	97.35	9.00
3/10 sprd	0.45	-9.00
SPI	5851.0	-3.0

\*Change in bps

## Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-0.2	-0.8%
FED	#N/A	#N/A

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>Tuesday, 4 April 2017</b>								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Apr 2				113.8	0.30	9.30
AU	Trade Balance	Feb	1200	1900		1302.0	2.30	11.30
AU	RBA Cash Rate Target	Apr 4	1.5%	1.5		1.5	5.30	14.30
UK	Markit/CIPS UK Construction PMI	Mar		52.5		52.5	9.30	18.30
EC	Retail Sales MoM/YoY	Feb		0.5/1		-0.1/1.2	10.00	19.00
AU	RBA Governor Remarks at RBA Board Dinner						10.15	19.15
US	Trade Balance	Feb		-44.5		-48.5	13.30	22.30
CA	Int'l Merchandise Trade	Feb		0.55		0.8	13.30	22.30
US	Factory Orders/Ex-trans	Feb		1/		1.2/0.3	15.00	0.00
NZ	QV House Prices YoY	Mar				13.5	18.00	3.00
US	Fed's Tarullo speaks at Princeton University						21.30	6.30
<b>Wednesday, 5 April 2017</b>								
NZ	ANZ Job Advertisements MoM	Mar				0.4	23.00	8.00
UK	BRC Shop Price Index YoY	Mar		-0.8		-1.0	0.10	9.10
AU	AiG Perf of Services Index	Mar				49.0	0.30	9.30
JN	Nikkei Japan PMI Services/Composite	Mar		/		51.3/52.2	1.30	10.30
NZ	ANZ Commodity Price	Mar				2.0	2.00	11.00
AU	RBA's Heath at Bloomberg Voices Event						8.30	17.30
GE	Markit Germany Services/Composite PMI	Mar F		55.6/57		55.6/57.0	8.55	17.55
EC	Markit Eurozone Services/Composite PMI	Mar F		56.5/56.7		56.5/56.7	9.00	18.00
UK	Markit/CIPS UK Services/Composite PMI	Mar		53.4/53.8		53.3/53.8	9.30	18.30
UK	Unit Labor Costs YoY	4Q		2		2.3	9.30	18.30
US	ADP Employment Change	Mar		195		298.0	13.15	22.15
US	Markit US Services PMI	Mar F				52.9	14.45	23.45
US	ISM Non-Manf. Composite	Mar		57		57.6	15.00	0.00
US	FOMC Meeting Minutes	Mar 15					19.00	4.00
<b>Thursday, 6 April 2017</b>								
AU	RBA Deputy Gov Debelle speaking on "Recent Trends in Australian Capital Flows"						23.40	8.40
CH	Caixin China PMI Services/Composite	Mar		/		52.6/52.6	2.45	11.45
JN	Consumer Confidence Index	Mar		43.4		43.1	6.00	15.00
GE	Factory Orders MoM/YoY	Feb		4/3.9		-7.4/-0.8	7.00	16.00
EC	ECB account of the monetary policy meeting						12.30	21.30
CA	Building Permits MoM	Feb				5.4	13.30	22.30
US	Initial Jobless Claims	Apr 1		250		258.0	13.30	22.30
US	Fed's Williams Speaks on a Panel in Frankfurt						14.30	23.30
US	Bloomberg Consumer Comfort	Apr 2				49.7	14.45	23.45
<b>Friday, 7 April 2017</b>								
AU	AiG Perf of Construction Index	Mar				53.1	0.30	9.30
JN	Labor Cash Earnings YoY	Feb		0.5		0.5	1.00	10.00
JN	Leading Index CI	Feb P		104.6		104.9	6.00	15.00
GE	Industrial Production SA MoM/YoY	Feb		-0.2/0.5		2.8/0.0	7.00	16.00
GE	Current Account Balance	Feb		19.1		12.8	7.00	16.00
UK	Halifax House Prices MoM/3M YoY	Mar		0.2/4		0.1/5.1	8.30	17.30
UK	Industrial Production MoM/YoY	Feb		0.2/3.7		-0.4/3.2	9.30	18.30
UK	Manufacturing Production MoM/YoY	Feb		0.3/3.9		-0.9/2.7	9.30	18.30
UK	Construction Output SA MoM/YoY	Feb		0.1/1.9		-0.4/2.0	9.30	18.30
UK	Trade Balance	Feb		-2200		-1966.0	9.30	18.30
UK	NIESR GDP Estimate	Mar		0.6		0.6	13.00	22.00
CA	Net Change in Employment	Mar		5.7		15.3	13.30	22.30
CA	Unemployment Rate	Mar		6.7		6.6	13.30	22.30
US	Change in Nonfarm Payrolls/Unemployment Rate	Mar		175/4.7		235.0/4.7	13.30	22.30
US	Average Hourly Earnings MoM/YoY	Mar		0.3/2.7		0.2/2.8	13.30	22.30
CH	Foreign Reserves	Mar		3015		3005.1		
CA	Ivey Purchasing Managers Index SA	Mar				55.0	15.00	0.00
US	Wholesale Inventories MoM	Feb F		0.4		0.4	15.00	0.00
US	Consumer Credit	Feb		13.75		8.8	20.00	5.00
CH	Foreign Direct Investment YoY CNY	Mar				9.2		
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Australia, RBA		4-Apr	1.50%	1.50%		1.50%		
Canada, BoC		12-Apr	0.5%	0.5%		0.5%		
Europe ECB		17-Apr	-0.4%	-0.4%		-0.4%		
Japan, BoJ		27-Apr	-0.1%	-0.1%		-0.1%		
US Federal Reserve		4-May	0.75-1.00%	0.75-1.00%		0.75-1.00%		
New Zealand, RBNZ		11-May	1.75%	1.75%		1.75%		
UK BOE		11-May	0.25%	0.25%		0.25%		

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

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