

MARKETS TODAY



Geopolitical UFO? Not according to markets

Good Morning

I saw a UFO was the 2006 hit song by Aussie Electro-pop outfit Sneaky Sound. Will geopolitics prove to be the UFO for markets in 2017? Not if you believe moves overnight with only small changes in yields, equities and currencies, while the VIX remains at a low 13.8.

The oil price was the standout performer with WTI oil up 1.6% to \$53.10 a barrel while Brent reached \$55.99 after having risen for six-consecutive days. Although geopolitical tensions have played a role, last night's moves were driven more by an outage at Libya's largest oil field and comments from Russia that it was looking to extend the OPEC-lend oil production cuts. Russia's Deputy PM was quoted last week wanting the oil price in a \$55-60 a barrel range.

Comments this morning by US Fed Chair Yellen had little impact on markets. Dr Yellen emphasised that the current trajectory of Fed rate rises was appropriate – "it is appropriate to gradually raise the federal funds rate to a neutral stance" if the economy performs as expected. Although core inflation had not quiet reached 2%, Yellen said "we want to be ahead of the curve and not behind it". In regards to the unemployment rate hitting a fresh cycle low of 4.5%, Yellen said it is a "a little below what I and my colleagues would use as a marker of full employment".

US Treasury Yields fell 2bps to 2.36% in a quiet session. German bund yields also fell by 2.1 bps to 0.21%. Moves in Australian CGS largely followed movements in US Treasury yields the previous day and were up 2.2bps to 2.57%.

With the French presidential election just weeks away, attention has started to turn to French politics (first round 23 April, second round 7 May). Although it is still likely centrist Macron will prove the eventual winner (betting markets ascribe a 57% probability), markets are paying close attention. Capturing attention last night was the rising fortunes of far left candidate Melenchon who is polling at around 18% in the first round. Although Melenchon wants to stay in the euro and EU, he does want to reform it and it is unclear how we would perform in a run-off against Eurosceptic Le Pen. The French OAT-German Bund spread rose 4bps overnight on the news and is now at its highest level since February. Nevertheless, French yields still remain at low levels overall at 0.93%.

In the FX space, commodity-linked currencies were the strongest performers - boosted by oil price. The CAD was up 0.5% and the Norwegian Krone was up a similar 0.4%. The US dollar was down a slight 0.1% across the board. The Euro and Yen were unchanged, suggesting that geopolitics concerns while capturing media headlines, are largely isolated to the Oil Market and North Asia.

On geopolitics, South Korean markets were sharply down yesterday following news of a US aircraft carrier being sent to the Korean peninsula as a show of force. US Secretary of State Tillerson clarified that we wasn't seeking regime change in North Korea. The KOSPI fell 0.9% and the Korean Won also depreciated by a similar amount. While geopolitics is capturing market, the VIX remains at low levels, rising to just 13.75.

Coming Up

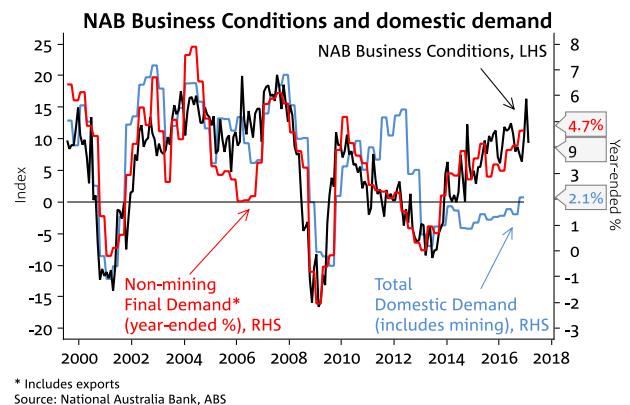
The domestic data highlight is the NAB Business Survey (11.30am AEST). NAB provides no hints here, but we do note the survey has a strong relationship with non-mining activity (see Chart). In February the survey did decline to +9 from a stellar +16 in January, but the read importantly was still well above its long-run average of +5. Focus is also likely to be on the employment sub-index given the clear divergence that has emerged between the official employment figures and leading indicators such as the NAB business survey.

Internationally the data calendar is fairly sparse. Across the ditch we get NZ card spending, and then the focus will be on the UK CPI. Also out is the German ZEW for April, Eurozone Industrial Production, US NFIB small business optimism and US JOLTS.

Overnight

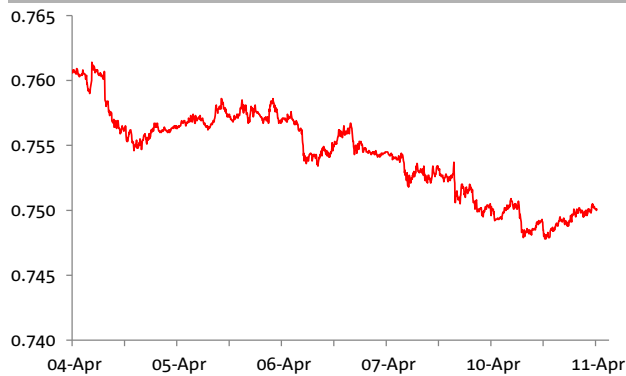
On global stock markets, the S&P 500 was +0.07%. Bond markets saw US 10-years -2.33bp to 2.36%. In commodities, Brent crude oil +1.36% to \$55.99, gold-0.3% to \$1,251, iron ore -1.0% to \$74.71, steam coal -1.6% to \$86.75, met.coal +8.7% to \$282.50. AUD is at 0.7501 and the range since yesterday 5pm Sydney time is 0.7476 to 0.7509.

Chart 1: NAB survey tracks non-mining activity closely



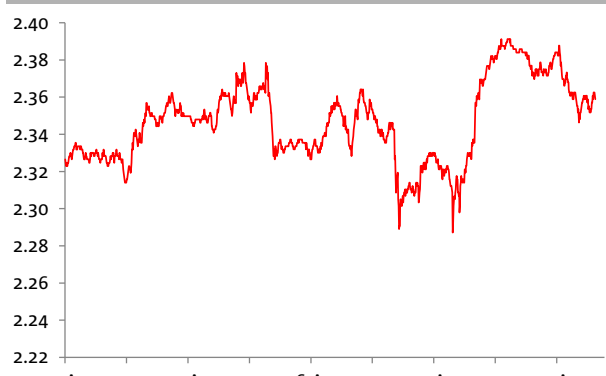
Markets

AUD/USD - past week



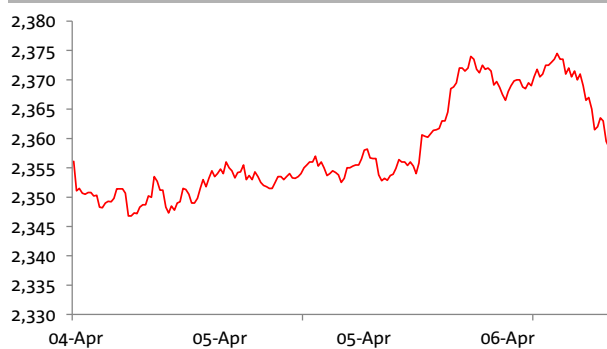
Source: Bloomberg.

US 10yr - past week



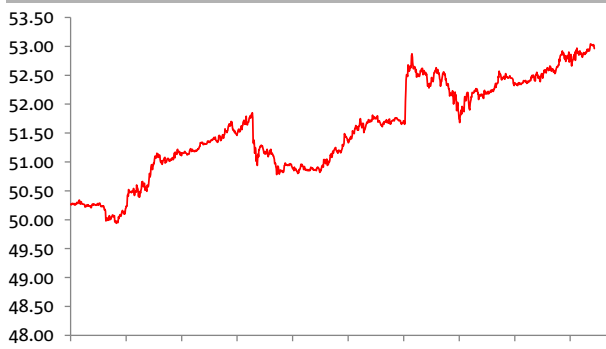
Source: Bloomberg.

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 | 0.7501 | 0.0 | 0.7476 | 0.7509 | HKD | 7.7703 | 0.0 |
| NZD | 0.6961 | 0.3 | 0.6921 | 0.6965 | CNY | 6.9030 | 0.0 |
| EUR | 1.0595 | 0.0 | 1.0570 | 1.0609 | SGD | 1.4054 | 0.0 |
| GBP | 1.2413 | 0.3 | 1.2351 | 1.2429 | IDR | 13,286 | -0.3 |
| JPY | 110.90 | -0.2 | 110.81 | 111.58 | THB | 34.62 | 0.0 |
| CAD | 1.3328 | -0.5 | 1.3328 | 1.3426 | KRW | 1,142 | 0.7 |
| AUD/EUR | 0.708 | -0.1 | 0.7050 | 0.7097 | TWD | 30.64 | 0.1 |
| AUD/JPY | 83.19 | -0.1 | 83.05 | 83.72 | PHP | 49.63 | -0.5 |
| AUD/GBP | 0.6043 | -0.3 | 0.6029 | 0.6069 | CHF | 1.01 | 0.0 |
| AUD/NZD | 1.0776 | -0.2 | 1.0764 | 1.0835 | SEK | 9.08 | 0.1 |
| AUD/CNH | 5.1785 | -0.1 | 5.1655 | 5.2021 | | | |

Interest Rates

| | Indicative Swap Rates | | | | Benchmark 10 Year Bonds | | |
|-----|-----------------------|-------|-------|------|-------------------------|------|-------------|
| | Cash | 3mth | 2Yr | 10Yr | Last | chge | Sprd |
| USD | 1.00 | 1.16 | 1.60 | 2.33 | USD 10 | 2.36 | -1.97 |
| AUD | 1.50 | 1.78 | 1.83 | 2.86 | AUD 10 | 2.57 | 2.20 0.21 |
| NZD | 1.75 | 1.98 | 2.27 | 3.35 | NZD 10 | 3.09 | 3.20 0.73 |
| EUR | 0.00 | -0.33 | -0.16 | 0.71 | CAD 10 | 1.60 | 0.40 -0.76 |
| GBP | 0.25 | 0.34 | 0.56 | 1.11 | EUR 10 | 0.21 | -2.10 -2.16 |
| JPY | -0.04 | 0.03 | 0.04 | 0.24 | GBP 10 | 1.08 | 0.20 -1.29 |
| CAD | 0.50 | 0.94 | 1.14 | 1.89 | JPY 10 | 0.06 | -0.20 -2.30 |

Equities

| Major Indices | | | |
|---------------|--------|-------|-------|
| | Last | % day | % y/y |
| Dow | 20,658 | 0.01 | 17.5 |
| S&P 500 | 2,357 | 0.07 | 15.1 |
| Nasdaq | 5,881 | 0.05 | 21.2 |
| VIX | 14 | 9.17 | -8.5 |
| FTSE | 7,349 | 0.0 | 18.4 |
| DAX | 12,201 | -0.2 | 26.8 |
| CAC 40 | 5,107 | -0.5 | 18.7 |
| Nikkei | 18,798 | 0.7 | 19.3 |
| Shanghai | 3,269 | -0.5 | 7.8 |
| Hang Seng | 24,262 | 0.0 | 18.7 |
| ASX 200 | 5,913 | 0.9 | 19.9 |

Commodities*

| | Last | % day |
|-------------|---------|-------|
| Oil (Brent) | 55.99 | 1.4 |
| Oil (WTI) | 53.10 | 1.6 |
| Oil (Tapis) | 56.40 | 0.1 |
| Gold | 1251.10 | -0.3 |
| CRB | 187.63 | 0.3 |
| GS Metals | 322.3 | -1.5 |
| Aluminium | 1912.8 | -1.8 |
| Copper | 5715.3 | -1.6 |
| Nickel | 10124.0 | 0.0 |
| Zinc | 2593.5 | -2.7 |
| Ch. steel | 3011.0 | -1.5 |
| Iron ore | 74.7 | -1.0 |
| St. Coal | 86.8 | -1.6 |
| Met.coal | 282.5 | 8.7 |
| Wheat Chic. | 441.8 | 1.3 |
| Sugar | 16.6 | -0.8 |
| Cotton | 75.2 | 2.3 |
| Coffee | 142.2 | -0.2 |

Overnight Futures

| | Last | Chge* |
|------------------|--------|-------|
| Australia | | |
| 3 mth bill | 98.25 | 2.00 |
| 3 Yr bond | 97.8 | 0.00 |
| 10 Yr bond | 97.41 | 2.00 |
| 3/10 sprd | 0.39 | -2.00 |
| SPI | 5898.0 | -46.0 |

*Change in bps

Prob. of 25bps hike/cut at next meeting

| | bps | % |
|-----|------|-------|
| RBA | -1.0 | -4.0% |
| 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 | AEDT/AEST |
|--|---|--------|------------|------------|--------|------------|----------------------|-----------|
| Monday, 10 April 2017 | | | | | | | | |
| JN | BoP Current Account Balance | Feb | | 2512.9 | | 65.5 | 0.50 | 9.50 |
| JN | Trade Balance BoP Basis | Feb | | 981.7 | | -853.4 | 0.50 | 9.50 |
| AU | Home Loans MoM | Feb | -1.4% | 0 | | 0.5 | 2.30 | 11.30 |
| US | Fed's Bullard speaks in Australia | | | | | | 2.30 | 11.30 |
| JN | Bankruptcies YoY | Mar | | | | -4.8 | 5.30 | 14.30 |
| EC | Sentix Investor Confidence | Apr | | 21 | | 20.7 | 9.30 | 18.30 |
| CA | Housing Starts | Mar | | 215.5 | | 210.2 | 13.15 | 22.15 |
| JN | Eco Watchers Survey Current SA | Mar | | 49.8 | | 48.6 | 6.00 | 15.00 |
| JN | Eco Watchers Survey Outlook SA | Mar | | 50.7 | | 50.6 | 6.00 | 15.00 |
| CH | Money Supply M2 YoY | Mar | | 11.1 | | 11.1 | between 10/4 to 15/4 | |
| CH | Aggregate Financing CNY | Mar | | 1500 | | 1150.0 | between 10/4 to 15/4 | |
| NZ | REINZ House Sales YoY | Mar | | | | -14.2 | unknown date | |
| CA | Bloomberg Nanos Confidence | Apr 7 | | | | 58.7 | 15.00 | 0.00 |
| US | Labor Market Conditions Index Change | Mar | | | | 1.3 | 15.00 | 0.00 |
| US | Fed's Yellen in live Q&A | | | | | | 21.00 | 6.00 |
| Tuesday, 11 April 2017 | | | | | | | | |
| NZ | Card Spending Retail MoM | Mar | | 0.5 | | -0.6 | 23.45 | 8.45 |
| UK | BRC Sales Like-For-Like YoY | Mar | | -0.45 | | -0.4 | 0.10 | 9.10 |
| AU | ANZ Roy Morgan Weekly Consumer Confidence Index | Apr 9 | | | | 111.1 | 0.30 | 9.30 |
| AU | NAB Business Conditions | Mar | | | | 9.0 | 2.30 | 11.30 |
| AU | NAB Business Confidence | Mar | | | | 7.0 | 2.30 | 11.30 |
| JN | Machine Tool Orders YoY | Mar P | | | | 9.1 | 7.00 | 16.00 |
| UK | CPI YoY | Mar | | 2.3 | | 2.3 | 9.30 | 18.30 |
| UK | CPI MoM | Mar | | 0.3 | | 0.7 | 9.30 | 18.30 |
| UK | CPI YoY | Mar | | 2.3 | | 2.3 | 9.30 | 18.30 |
| UK | CPI Core YoY | Mar | | 1.9 | | 2.0 | 9.30 | 18.30 |
| UK | Retail Price Index | Mar | | 269.5 | | 268.4 | 9.30 | 18.30 |
| UK | RPI MoM | Mar | | 0.4 | | 1.1 | 9.30 | 18.30 |
| UK | RPI YoY | Mar | | 3.2 | | 3.2 | 9.30 | 18.30 |
| UK | RPI Ex Mort Int.Payments (YoY) | Mar | | 3.5 | | 3.5 | 9.30 | 18.30 |
| UK | PPI Output Core NSA MoM | Mar | | 0.2 | | 0.0 | 9.30 | 18.30 |
| UK | PPI Output Core NSA YoY | Mar | | 2.5 | | 2.4 | 9.30 | 18.30 |
| UK | House Price Index YoY | Feb | | 6.1 | | 6.2 | 9.30 | 18.30 |
| EC | Industrial Production SA MoM | Feb | | 0.1 | | 0.9 | 10.00 | 19.00 |
| EC | Industrial Production WDA YoY | Feb | | 1.9 | | 0.6 | 10.00 | 19.00 |
| GE | ZEW Survey Current Situation | Apr | | 77.5 | | 77.3 | 10.00 | 19.00 |
| EC | ZEW Survey Expectations | Apr | | | | 25.6 | 10.00 | 19.00 |
| GE | ZEW Survey Expectations | Apr | | 14.5 | | 12.8 | 10.00 | 19.00 |
| US | NFIB Small Business Optimism | Mar | | 104.9 | | 105.3 | 11.00 | 20.00 |
| US | JOLTS Job Openings | Feb | | | | 5626.0 | 15.00 | 0.00 |
| US | Fed's Kashkari speaks in Minneapolis in Q&A | | | | | | 18.45 | 3.45 |
| Wednesday, 12 April 2017 | | | | | | | | |
| NZ | ANZ Truckometer Heavy MoM | Mar | | | | 2.3 | 23.00 | 8.00 |
| JN | Machine Orders MoM | Feb | | 3.7 | | -3.2 | 0.50 | 9.50 |
| JN | PPI MoM | Mar | | 0.3 | | 0.2 | 0.50 | 9.50 |
| AU | Westpac Consumer Conf Index | Apr | | | | 99.7 | 1.30 | 10.30 |
| AU | Westpac Consumer Conf SA MoM | Apr | | | | 0.1 | 1.30 | 10.30 |
| CH | CPI YoY | Mar | | 1 | | 0.8 | 2.30 | 11.30 |
| CH | PPI YoY | Mar | | 7.5 | | 7.8 | 2.30 | 11.30 |
| UK | Average Weekly Earnings 3M/YoY | Feb | | 2.2 | | 2.2 | 9.30 | 18.30 |
| UK | ILO Unemployment Rate 3Mths | Feb | | 4.7 | | 4.7 | 9.30 | 18.30 |
| UK | Employment Change 3M/3M | Feb | | 70 | | 92.0 | 9.30 | 18.30 |
| US | MBA Mortgage Applications | Apr 7 | | | | -1.6 | 12.00 | 21.00 |
| US | Import Price Index MoM | Mar | | -0.2 | | 0.2 | 13.30 | 22.30 |
| CA | Teranet/National Bank HPI MoM | Mar | | | | 1.0 | 13.30 | 22.30 |
| US | Export Price Index MoM | Mar | | | | #N/A N/A | 13.30 | 22.30 |
| US | Export Price Index YoY | Mar | | | | #N/A N/A | 13.30 | 22.30 |
| CA | Bank of Canada Rate Decision | Apr 12 | | 0.5 | | 0.5 | 15.00 | 0.00 |
| US | Monthly Budget Statement | Mar | | -167 | | -192.0 | 19.00 | 4.00 |
| Thursday, 13 April 2017 | | | | | | | | |
| NZ | BusinessNZ Manufacturing PMI | Mar | | | | 55.2 | 23.30 | 8.30 |
| NZ | Food Prices MoM | Mar | | | | 0.2 | 23.45 | 8.45 |
| UK | RICS House Price Balance | Mar | | 22 | | 24.0 | 0.10 | 9.10 |
| JN | Money Stock M2 YoY | Mar | | 4.2 | | 4.2 | 0.50 | 9.50 |
| AU | Consumer Inflation Expectation | Apr | | | | 4.0 | 2.00 | 11.00 |
| AU | RBA Financial Stability Review | | | | | | | |
| AU | Employment Change | Mar | 20 | 20 | | -6.4 | 2.30 | 11.30 |
| AU | Unemployment Rate | Mar | 5.8% | 5.9 | | 5.9 | 2.30 | 11.30 |
| JN | Tokyo Avg Office Vacancies | Mar | | | | 3.7 | 3.00 | 12.00 |
| GE | CPI MoM | Mar F | | 0.2 | | 0.2 | 7.00 | 16.00 |
| GE | CPI YoY | Mar F | | 1.6 | | 1.6 | 7.00 | 16.00 |
| CA | New Housing Price Index MoM | Feb | | | | 0.1 | 13.30 | 22.30 |
| CA | New Housing Price Index YoY | Feb | | | | 3.1 | 13.30 | 22.30 |
| CA | Manufacturing Sales MoM | Feb | | -0.7 | | 0.6 | 13.30 | 22.30 |
| US | PPI Final Demand MoM | Mar | | 0 | | 0.3 | 13.30 | 22.30 |
| US | PPI Ex Food and Energy MoM | Mar | | 0.2 | | 0.3 | 13.30 | 22.30 |
| US | PPI Ex Food and Energy YoY | Mar | | 1.8 | | 1.5 | 13.30 | 22.30 |
| US | Initial Jobless Claims | Apr 8 | | 245 | | 234.0 | 13.30 | 22.30 |
| US | Continuing Claims | Apr 1 | | 2024 | | 2028.0 | 13.30 | 22.30 |
| US | Bloomberg Consumer Comfort | Apr 9 | | | | 50.2 | 14.45 | 23.45 |
| CH | Trade Balance CNY | Mar | | 75.8 | | -60.4 | unknown | unknown |
| CH | Imports YoY CNY | Mar | | 15 | | 44.7 | unknown | unknown |
| CH | Exports YoY CNY | Mar | | 8 | | 4.2 | unknown | unknown |
| CH | Imports YoY | Mar | | 15.5 | | 38.1 | unknown | unknown |
| CH | Exports YoY | Mar | | 3.4 | | -1.3 | unknown | unknown |
| CH | Trade Balance | Mar | | 12.5 | | -9.2 | unknown | unknown |
| GE | Wholesale Price Index MoM | Mar | | | | 0.5 | unknown | unknown |
| GE | Wholesale Price Index YoY | Mar | | | | 5.0 | unknown | unknown |
| US | U. of Mich. Sentiment | Apr P | | 96.5 | | 96.9 | 15.00 | 0.00 |
| US | U. of Mich. Current Conditions | Apr P | | | | 113.2 | 15.00 | 0.00 |
| US | U. of Mich. 5-10 Yr Inflation | Apr P | | | | 2.4 | 15.00 | 0.00 |
| Upcoming Central Bank Interest Rate Announcements | | | | | | | | |
| Australia, RBA | | 2-May | 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; AEDT: Australian Daylight Savings Time

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