

MARKETS TODAY

The Price You Pay



Good Morning

News of North Korea conducting another (apparently failed) ballistic missile test crossed the wires about 30 minutes prior to the NY close. 10 year Treasuries lost 2bps during this short window but FX markets were little moved (USD/JPY actually tracked north during the last half hour of trade) while US stock markets had already closed, ending the day down smalls. It not being a nuclear test (currently the main source of U.S. and China angst) it is unlikely to resonate in markets this week.

Earlier, rather than respond in ritualistic fashion to the small downside surprise in Q1 US GDP (+0.7% against the +1.0% consensus) markets seemed to take more notice of the strength in the PCE deflator (headline 2.3% against 2.0% expected, core PCE deflator 2.0% as expected) and too the strong Q1 Employment Cost index (+0.8% Q/Q against 0.6% expected). Treasury yields were thus slightly higher post the data and prior to the North Korea news, though the US dollar was little moved.

In FX, the narrow DXY index ended just 0.03% down at 99.05 and is 0.9% lower on the week despite US Treasury yields being higher (EUR/USD gains and related yield spread compression over Bunds is the main story here). The broader BBDXY lost 0.14% but is only 0.2% lower on the week. Sterling was the biggest G10 mover against the dollar, +0.36% to \$1.2951 despite the slight downside surprise on UK Q1 GDP (0.3% versus 0.4% expected). Over the weekend EU President Donald Tusk affirmed that the rights of EU citizens living in the UK, Britain's financial obligations to the EU, and the status of the Northern/Southern Irish border took precedence over talks on trade relations. This might see GBP give back a little of its recent gains in upcoming sessions.

AUD/USD was the next best performing G10 currency on Friday, up 0.3% to close the week at 0.7488 (for a weekly loss of 0.7%) but it has given some of that back already this morning following Sunday's weaker China PMI data showing (manufacturing 51.2 down from 51.8 and services 54.0 from 55.1). It is currently at 0.7475. EUR/USD gained 0.2% to 1.0895, the slightly higher than expected EZ preliminary April CPI read at 1.9%, helping here. All other G10 currencies lost a bit of ground, including NZD -0.15% to 0.6866 (now 0.6864).

Stock markets went out on Friday and for the month on a quiet note but mostly down smalls, the S&P500 -0.19% to 2,384.2 but still 1.5% up on the week. The VIX pulled up from its near record low close of Thursday to be 0.46 higher at 10.82 – that's still 3.8 points down on the week. In US rates markets, 2 year Treasuries finished 0.4bp higher at 1.264% to be 8.2bps higher on the week and 10s -1.4bps to 2.281% and +3.2bps on the week. The 10yr German Bund added another 2.1bps to 0.317% and is 6.4bps up on a week ago (so the gap to Treasuries has compressed by about 3bps on the week).

Author Ray Attrill, Head of FX Strategy

In commodities, oil prices were 20-30 cents firmer, gold gained \$4 and iron ore rose by \$2.40 to \$68.80 (so ending 59 cents up on the week).

Coming Up

US political shenanigans aren't over, with Friday night's Congressional action only keeping the government lights on until Friday morning. One of the obstacles to safe passage of a so-called omnibus spending bill that will fund the government through September is health care reform (to which Democrats are implacably opposed). Yesterday, US VP Mike Pence said that reform might not now come until later this year. So, if not new reform bill is tabled this week, this improves chances of a new spending bill being approved by Friday.

Politics aside, market direction this week should still be emanating largely from the US with latest ISM data for both manufacturing (tonight) and non-manufacturing (Wednesday), latest payrolls data on Friday and the FOMC due to deliver its latest decision and statement on Wednesday. Fed officials come out of pre-FOMC purdah and a whole heap of them are scheduled to speak towards the end of the week (including Yellen). This week's data, the FOMC statement and then Fed speak will all have bearing on June rate hike expectations. The next (12th May) CPI report is also going to be more than usually important after last month's big downside surprise but evidence in Friday's PCE and ECI data of rising inflation pressure.

Locally, it's the RBA on Tuesday and SoMP on Friday. No-one is picking a rate change from the RBA and nothing is priced in, but analysts and the market will be looking for nuances from the Bank on the balance of risks and with the benefit of a more positive March labour market report. There may well be more clues from RBA Governor Lowe's Wednesday lunchtime speech, titled "Household Debt, Housing Prices and Resilience". Any changes to growth or inflation forecasts in the SoMP should be at most marginal. Trade figures are the main data interest, on Thursday, expected to print of \$3bn+ surplus.

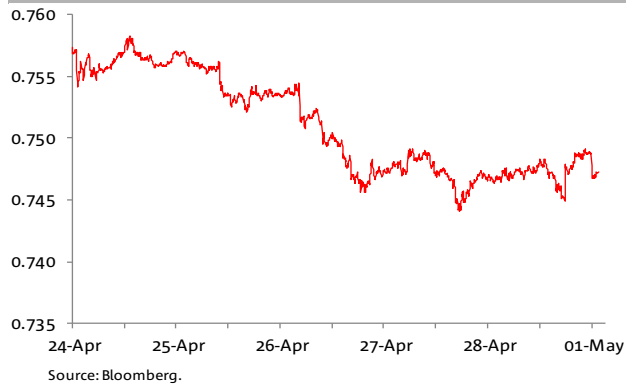
Elsewhere, Caixin PMIs on Tuesday and Thursday follow yesterday's softer official numbers; Eurozone Q1 GDP is on Wednesday, as too is Q1 NZ labour market data. Europe and China are out today for the May Day holiday. Sunday sees the second and final round of the French presidential election and where Emmanuel Macron is confidently expected to emerge as the victor.

Overnight

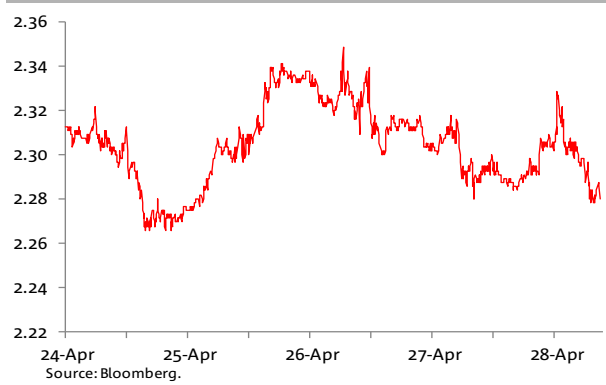
On global stock markets, the S&P 500 was -0.19%. Bond markets saw US 10-years -1.44bp to 2.28%. In commodities, Brent crude oil +0.44% to \$52.05, gold +0.2% to \$1,268, iron ore +3.6% to \$68.80, steam coal -0.8% to \$83.55, met.coal -0.5% to \$201.50. AUD is at 0.7475 and the range since Friday 5pm Sydney time is 0.7448 to 0.7491.

Markets

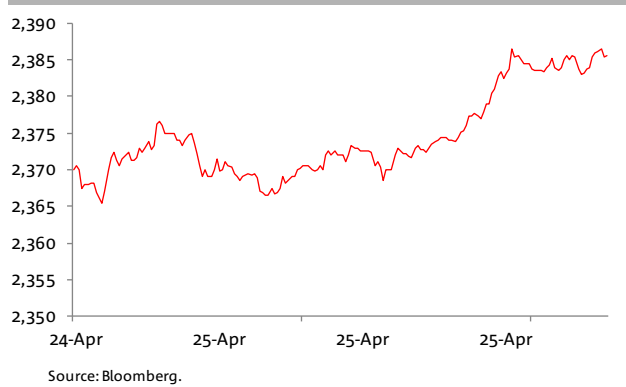
AUD/USD - past week



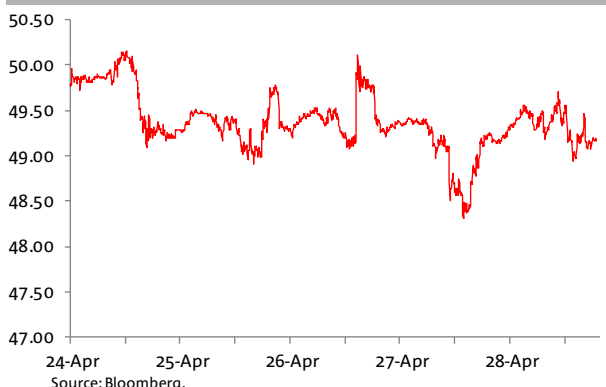
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7473	0.1	0.7448	0.7491	HKD	7.7781 0.0
NZD	0.6864	-0.2	0.6849	0.6891	CNY	6.8935 -0.1
EUR	1.0913	0.4	1.0857	1.0947	SGD	1.3972 0.0
GBP	1.2939	0.3	1.2889	1.2966	IDR	13,329 0.1
JPY	111.25	0.0	111.07	111.72	THB	34.59 0.0
CAD	1.3662	0.2	1.3625	1.3697	KRW	1,138 0.7
AUD/EUR	0.6845	-0.3	0.6825	0.6883	TWD	30.21 0.2
AUD/JPY	83.14	0.1	82.91	83.54	PHP	50.11 0.0
AUD/GBP	0.5764	-0.4	0.5747	0.5798	CHF	0.99 -0.1
AUD/NZD	1.0888	0.3	1.0840	1.0925	SEK	8.83 0.0
AUD/CNH	5.1516	0.2	5.1411	5.1700		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.00	1.17	1.57	2.25	USD 10	2.28	-1.44
AUD	1.50	1.75	1.83	2.85	AUD 10	2.58	-3.80 0.29
NZD	1.75	1.99	2.31	3.38	NZD 10	3.04	-3.40 0.76
EUR	0.00	-0.33	-0.14	0.79	CAD 10	1.55	-3.00 -0.73
GBP	0.25	0.33	0.56	1.14	EUR 10	0.32	2.10 -1.96
JPY	-0.07	0.00	0.03	0.22	GBP 10	1.09	2.10 -1.20
CAD	0.50	0.92	1.07	1.78	JPY 10	0.02	-0.50 -2.26

Equities

Major Indices	Last	% day	% y/y
Dow	20,941	-0.19	17.8
S&P 500	2,384	-0.19	15.4
Nasdaq	6,048	-0.02	26.6
VIX	11	4.44	-31.1
FTSE	7,204	-0.5	15.4
DAX	12,438	0.0	23.9
CAC 40	5,267	-0.1	18.9
Nikkei	19,197	-0.3	15.2
Shanghai	3,155	0.1	7.4
Hang Seng	24,615	-0.3	16.8
ASX 200	5,924	0.0	12.8

Commodities*

	Last	% day
Oil (Brent)	52.05	0.4
Oil (WTI)	49.33	0.7
Oil (Tapis)	52.01	0.3
Gold	1268.30	0.2
CRB	181.73	0.7
GS Metals	320.1	0.4
Aluminium	1904.0	-0.6
Copper	5715.5	0.7
Nickel	9406.0	1.2
Zinc	2614.5	1.0
Ch. steel	3066.0	2.7
Iron ore	68.8	3.6
St. Coal	83.6	-0.8
Met.coal	201.5	-0.5
Wheat Chic.	432.3	0.2
Sugar	16.0	5.7
Cotton	80.2	1.1
Coffee	133.4	3.0

Prob. of 25bps hike/cut at next meeting	
bps	%
RBA	-0.2 -0.8%
FED	-0 -0.4%

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.28	1.00
3 Yr bond	97.8	0.00
10 Yr bond	97.41	3.00
3/10 sprd	0.39	-3.00
SPI	5905.0	4.0

*Change in bps

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
Sunday, 30 April 2017								
CH	Manufacturing PMI	Apr		51.7		51.8	2.00	11.00
CH	Non-manufacturing PMI	Apr				55.1	2.00	11.00
Monday, 1 May 2017								
<i>UK/EC May Day holiday</i>								
AU	AiG Perf of Mfg Index	Apr				57.5	0.30	9.30
AU	CoreLogic House Px MoM	Apr				1.4	1.00	10.00
JN	Nikkei Japan PMI Mfg	Apr F				52.8	1.30	10.30
AU	Melbourne Institute Inflation MoM/YoY	Apr		/		0.1/2.2	2.00	11.00
NZ	New Residential Lending YoY	Mar				15.2	4.00	13.00
AU	Commodity Index AUD/SDR YoY	Apr		/		138.5/50.1	7.30	16.30
CA	MLI Leading Indicator MoM	Mar				0.4	12.00	21.00
US	Personal Income/Spending	Mar		0.3/0.2		0.4/0.1	13.30	22.30
US	Real Personal Spending	Mar		0.5		-0.1	13.30	22.30
US	PCE Deflator MoM/YoY	Mar		-0.2/1.9		0.1/2.1	13.30	22.30
US	PCE Core MoM/YoY	Mar		-0.1/1.6		0.2/1.8	13.30	22.30
CA	Markit Canada Manufacturing PMI	Apr				55.5	14.30	23.30
US	Markit US Manufacturing PMI	Apr F				52.8	14.45	23.45
CA	Bloomberg Nanos Confidence	Apr 28				59.1	15.00	0.00
US	ISM Manufacturing/ISM Employment	Apr		56.5/		57.2/58.9	15.00	0.00
US	Construction Spending MoM	Mar		0.4		0.8	15.00	0.00
Tuesday, 2 May 2017								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Apr 30				111.2	0.30	9.30
JN	BOJ Minutes of March 15-16 Meeting						0.50	9.50
JN	BOJ Kuroda speaks at Global Think Tank Summit in Yokohama						1.20	10.20
JN	Nikkei Japan PMI Services/Composite	Apr				52.9	1.30	10.30
CH	Caixin China PMI Mfg	Apr		51.3		51.7	2.45	11.45
AU	RBA Cash Rate Target	May 2		1.5		1.5	5.30	14.30
GE	Markit/BME Germany Manufacturing PMI	Apr F		58.2		58.2	8.55	17.55
EC	Markit Eurozone Manufacturing PMI	Apr F		56.8		56.8	9.00	18.00
UK	Markit UK PMI Manufacturing SA	Apr		54		54.2	9.30	18.30
EC	Unemployment Rate	Mar		9.4		9.5	10.00	19.00
US	Wards Total Vehicle Sales	Apr		17.1		16.5		
EC	ECB's Nowotny Speaks at Vienna University						17.00	2.00
NZ	Global Dairy Auction, GDT-weighted price index (early AM, NZT)			neutral		+3.1		
Wednesday, 3 May 2017								
NZ	QV House Prices YoY	Apr				12.9	18.00	3.00
NZ	Unemployment Rate	1Q	5.2	5.1		5.2	23.45	8.45
NZ	Employment Change QoQ/YoY	1Q	0.8/5.3	0.8/5.3		0.8/5.8	23.45	8.45
NZ	Pvt Wages Ex/Incl Overtime QoQ	1Q	0.4/..	0.4/0.5		0.4/0.4	23.45	8.45
AU	AiG Perf of Services Index	Apr				51.7	0.30	9.30
GE	Unemployment Change (000's)/Claims Rate	Apr		-10.5/5.8		-30.0/5.8	8.55	17.55
UK	Markit/CIPS UK Construction PMI	Apr		52		52.2	9.30	18.30
EC	GDP SA QoQ/YoY	1Q A		0.5/1.7		0.4/1.7	10.00	19.00
US	ADP Employment Change	Apr		175		263.0	13.15	22.15
US	Markit US Services/Composite PMI	Apr F		/		52.5/52.7	14.45	23.45
US	ISM Non-Manf. Composite	Apr		56		55.2	15.00	0.00
US	FOMC Rate Decision (Lower/Upper Bound)	May 3		0.75/1		0.8/1.0	19.00	4.00
Thursday, 4 May 2017								
NZ	ANZ Job Advertisements MoM	Apr				1.6	23.00	8.00
NZ	ANZ Commodity Price	Apr				0.4	2.00	11.00
AU	HIA New Home Sales MoM	Mar				0.2	2.00	11.00
AU	Trade Balance	Mar	3350	3300		3574	2.30	11.30
CH	Caixin China PMI Composite/Services	Apr		/		52.1/52.2	2.45	11.45
AU	RBA Governor Lowe Speech: Household Debt, Housing Prices and Resilience, Economic Society (QLD) Business Lunch						4.10	13.10
GE	Markit Germany Services/Composite PMI	Apr F		54.7/56.3		54.7/56.3	8.55	17.55
EC	Markit Eurozone Services/Composite PMI	Apr F		56.2/56.7		56.2/56.7	9.00	18.00
UK	Markit/CIPS UK Services/Composite PMI	Apr		54.6/55		55.0/54.9	9.30	18.30
UK	Mortgage Approvals	Mar		67.5		68.3	9.30	18.30
EC	Retail Sales MoM/YoY	Mar		0.1/		0.7/1.8	10.00	19.00
US	Challenger Job Cuts YoY	Apr				-2.0	12.30	21.30
US	Nonfarm Productivity/Unit Labour costs	1Q P		0/2.5		1.3/1.7	13.30	22.30
US	Trade Balance	Mar		-45.2		-43.6	13.30	22.30
CA	Int'l Merchandise Trade	Mar				-1.0	13.30	22.30
US	Initial Jobless Claims	Apr 29				257	13.30	22.30
US	Factory Orders/ex transport	Mar		0.6/		1.0/0.4	15.00	0.00
EC	ECB's Draghi Speaks in Lausanne, Switzerland						16.30	1.30
CA	Bank of Canada Governor Stephen Poloz Speech in Mexico						21.25	6.25
Friday, 5 May 2017								
AU	AiG Perf of Construction Index	Apr				51.2	0.30	9.30
AU	RBA Statement on Monetary Policy						2.30	11.30
NZ	RBNZ Survey of Inflation Expectations (2y ahead CPI expectations)					1.92	4.00	13.00
US	Change in Nonfarm Payrolls/Unemployment rate	Apr		193/4.6		98.0/4.5	13.30	22.30
US	Average Hourly Earnings MoM/YoY	Apr		0.3/2.7		0.2/2.7	13.30	22.30
CA	Net Change in Employment/Unemployment rate	Apr		20/6.7		19.4/6.7	13.30	22.30
CA	Ivey Purchasing Managers Index SA	Apr				61.1	15.00	0.00
US	Fed's Fischer Speaks at Hoover Event in Stanford						16.30	1.30
US	Fed's Williams Speaks in Keynote in New York						17.45	2.45
US	Fed's Rosengren, Evans and Bullard on Hoover Institution Panel						18.30	3.30
US	Fed's Yellen Speaks at Brown University						18.30	3.30
US	Consumer Credit	Mar		14		15.2	20.00	5.00
US	Fed's Williams Speaks in Stanford						20.00	5.00
Sunday, 7 May 2017								
FR	French Presidential Election - final round							
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		2-May	1.50%	1.50%		1.50%		
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%		
Canada, BoC		25-May	0.5%	0.5%		0.5%		
Europe ECB		8-Jun	-0.4%	-0.4%		-0.4%		
Japan, BoJ		16-Jun	-0.1%	-0.1%		-0.1%		

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

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