

MARKETS TODAY

The inflation song



Good morning

It's been a rather listless overnight session, US data has been on the disappointing side, US equities have been headed sideways, the USD did not build further on yesterday's gains at the start to the week, while oil continues its march lower. Despite all that, the US Treasury curve is a little higher and a tad steeper. (There's more on that below.) The VIX index has eased further and has been trading below 10 intra-day in the US. (It was a holiday in much of Europe for the May 1 Labour Day; China too yesterday.)

Outperformers in the FX market have been the AUD and NZD, the Mexican Peso also stronger, funding for the "wall" not included in the funding bill to keep the US government functioning though September 30.

Not helping the tone of US equity markets was a report from President Trump that he's considering breaking up big banks. Even so, intra-session lows in bank stocks seems to have been unwound, statements one thing, getting it into passed law another.

Yesterday's announcement in Asia time that Congressional Republicans and Democrats had agreed on a \$1.1t omnibus spending package to fund the government through Sep 30 had initially provided the initial bid tone to the US\$, the US averting a government shutdown. But this did not carry on further through the overnight session. US data was on the disappointing side of expectations and the Citi Economic Surprise Index has headed back into negative territory for the first time since last November.

US nominal personal income and spending in March missed the consensus by 0.1-0.2 percentage points, with downward revisions also released. The US ISM Manufacturing index also missed consensus but remains at a solid level. The downward surprise in last week's CPI carried through into the headline and core PCE deflators, confirmed by the y/y rate in the core PCE deflator down to a 12 month low of 1.6% from 1.8% in February, emphasising the continued low inflation story and late inflation mail ahead of Thursday morning's expected no change from the FOMC.

That y/y rate was in line with expectations, supporting Treasuries, the rub coming when US Treasury Secretary Mnuchin saying that issuing ultra-long bonds "absolutely" makes sense. Though such a comment might not be all that surprising given the curve, it might have been enough to see traders pull back after what's been a strong rally, the US 10 year Treasury yield having rallied from 2.6% to 2.3%. It sits a little above that level this morning. The US ISM Manufacturing index came in at 54.8 from 57.2 (E: 56.5), with some easing in new orders and the employment components ahead of Friday's jobs report.

While the USD was languid, there has been carryover from yesterday with a still soft GBP after the Europeans made it clear that the divorce would have to be settled before the likes of trade deals could be negotiated.

With volatility ebbing even lower, the AUD and NZD have been the outperformers overnight. The AUD sits this morning back above 0.75, having traded up toward the figure during late Asia trade. It sits at 0.7526 in early trade, the NZD at just above 0.69. With China out yesterday, there's no update on iron ore. Elsewhere on the commodity front overnight, NY copper was up 2.11%, but oil was lower, WTI down \$0.58 to \$48.74 in the wake of a further lift in US rig counts and US production up to \$9.27mb as the OPEC May 25 meeting approaches amid softening prices.

Coming Up

The BoJ and the RBA are in focus today with BoJ Minutes and a speech from Governor Kuroda this morning and the RBA Board Statement this afternoon. As for the BoJ, they've recently downgraded their medium term inflation forecasts slightly (at the lower end of their expected ranges). The market expects that the BoJ will maintain its very accommodative monetary policy stance for a long time yet.

There's currently no monetary policy bias built into the RBA futures curve for this year, with less than 2 bps of easing "priced in" by December, an understandable less than 10% chance of a cut. Last week's CPI revealed somewhat higher than expected headline and underlying inflation, but the emphasis on "somewhat". And so if there's any recognition that last week's CPI might have done anything more than a tweak to the starting point, that could be material if it lessens the (slim) chances of any more easing. The full forecasts are released in Friday's quarterly Statement. We don't look for big changes. Governor Lowe might comment in his speech tomorrow.

Elsewhere today is the Caixin Manufacturing PMI (L: 51.7; E: 51.3; the official reading softened more than expected to 51.2 from 51.8).

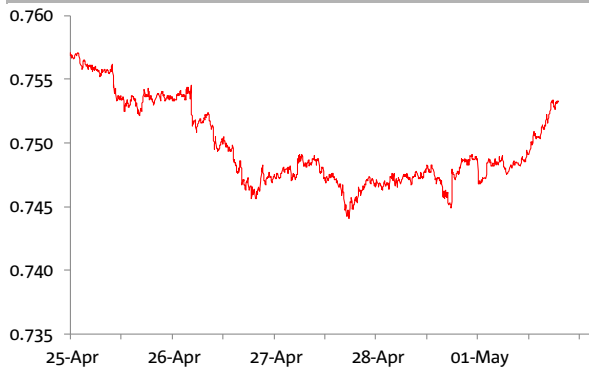
Tonight sees the final estimates of the Eurozone Manufacturing PMIs (with Europe coming back on line after the May Day holiday). The US released Auto Sales. For Kiwi watchers, there's the fortnightly dairy auction with a neutral result expected by our BNZ research brethren after the previous +3.7% outcome.

Overnight

On global stock markets, the S&P 500 was +0.17%. Bond markets saw US 10-years +3.78bp to 2.32%. In commodities, Brent crude oil -1.21% to \$51.42, gold -0.9% to \$1,257. AUD is at 0.7525 and the range since yesterday 5pm Sydney time is 0.7462 to 0.754.

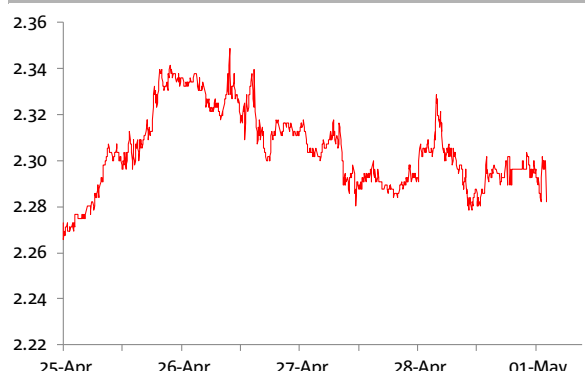
Markets

AUD/USD - past week



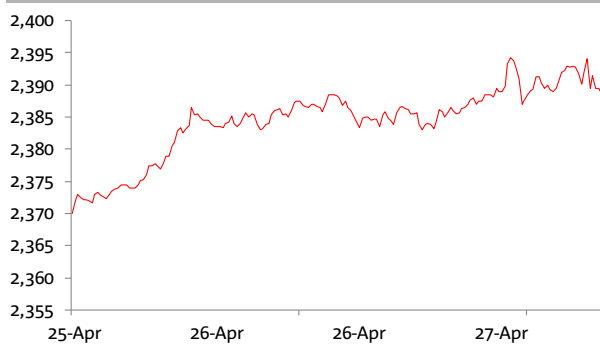
Source: Bloomberg.

US 10yr - past week



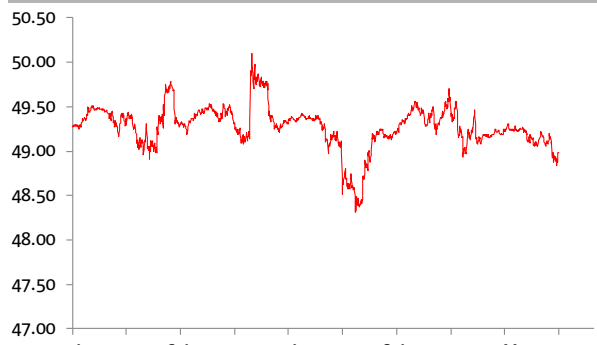
Source: Bloomberg.

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	0.7525	0.5	0.7462	0.7540	HKD	7.7785 0.0
NZD	0.6909	0.6	0.6844	0.6923	CNY	6.8929 0.0
EUR	1.0898	-0.4	1.0805	1.0925	SGD	1.3967 0.1
GBP	1.2884	-0.5	1.2880	1.2972	IDR	13,329 0.0
JPY	111.83	0.3	111.18	111.94	THB	34.60 0.0
CAD	1.3681	0.2	1.3636	1.3688	KRW	1,138 -0.1
AUD/EUR	0.6905	1.1	0.6839	0.6911	TWD	30.23 0.0
AUD/JPY	84.17	1.1	82.91	84.28	PHP	50.15 0.2
AUD/GBP	0.5840	1.2	0.5744	0.5847	CHF	1.00 0.6
AUD/NZD	1.0893	0.1	1.0859	1.0937	SEK	8.85 0.4
AUD/CNH	5.1893	0.7	5.1535	5.1851		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.00	1.17	1.58	2.28	USD 10	2.32	3.78
AUD	1.50	1.75	1.88	2.90	AUD 10	2.58	0.00 0.26
NZD	1.75	2.00	2.30	3.41	NZD 10	3.03	-0.90 0.72
EUR	0.00	-0.33	-0.15	0.79	CAD 10	1.58	2.90 -0.74
GBP	0.25	0.33	0.56	1.14	EUR 10	0.32	0.00 -2.00
JPY	-0.07	0.00	0.03	0.22	GBP 10	1.09	0.00 -1.23
CAD	0.50	0.92	1.07	1.82	JPY 10	0.01	-0.40 -2.30

Equities

Major Indices			
	Last	% day	% y/y
Dow	20,913	-0.13	17.7
S&P 500	2,388	0.17	15.6
Nasdaq	6,092	0.73	27.6
VIX	10	-6.56	-35.6
FTSE	7,204	0.0	15.4
DAX	12,438	0.0	23.9
CAC 40	5,267	0.0	18.9
Nikkei	19,311	0.6	19.6
Shanghai	3,155	0.0	7.4
Hang Seng	24,615	0.0	16.8
ASX 200	5,957	0.5	13.6

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.26	-1.00
3 Yr bond	97.8	0.00
10 Yr bond	97.36	-3.00
3/10 sprd	0.44	3.00
SPI	5944.0	-31.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	51.42	-1.2
Oil (WTI)	48.74	-1.2
Oil (Tapis)	52.01	0.0
Gold	1257.40	-0.9
CRB	181.59	-0.1
GS Metals	320.1	0.0
Aluminium	1904.0	0.0
Copper	5715.5	0.0
Nickel	9406.0	0.0
Zinc	2614.5	0.0
Ch. steel	3066.0	0.0
Iron ore	68.8	0.0
St. Coal	79.4	0.0
Met.coal	201.5	0.0
Wheat Chic.	468.8	5.2
Sugar	16.2	0.9
Cotton	80.5	0.3
Coffee	135.9	1.8

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

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
Monday, 1 May 2017								
UK/EC	May Day holiday							
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		0.3		-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		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		0.5		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		17.15		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		-11/5.8		-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		180		263.0	13.15	22.15
US	Markit US Services/Composite PMI	Apr F		52.5/		52.5/52.7	14.45	23.45
US	ISM Non-Manf. Composite	Apr		55.8		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	3250		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		54.5/54.5		55.0/54.9	9.30	18.30
UK	Mortgage Approvals	Mar		67.2		68.3	9.30	18.30
EC	Retail Sales MoM/YoY	Mar		0.1/2.1		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		0/2.7		1.3/1.7	13.30	22.30
US	Trade Balance	Mar		-44.5		-43.6	13.30	22.30
CA	Int'l Merchandise Trade	Mar		-1		-1.0	13.30	22.30
US	Initial Jobless Claims	Apr 29		249.5		257	13.30	22.30
US	Factory Orders/ex transport	Mar		0.4/		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		190/4.6		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		10/6.7		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, Bol		16-Jun	-0.1%	-0.1%		-0.1%		

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

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