

# MARKETS TODAY

## OPEC's oil Waterloo



### Good morning

The two big events overnight were a 4.8% slide in the oil price and a surge in European risk assets. The oil price is now back to its lowest point since mid-November with WTI oil sitting at \$45.51 a barrel and below the level that prevailed before OPEC's oil production ceiling. In the words of ABBA, it seems US shale oil production is presenting a [Waterloo](#) moment for OPEC.

A European song title is also a fitting tribute to the fortunes of Europe. European markets have been buoyed by the prospects of centrist Macron winning the second round in the French presidential election on Sunday (May 7). European equities rose 1.2% with the French CAC40 up 1.4% overnight. Betting markets currently ascribe Macron a 91% chance of winning against the Eurosceptic Le Pen while polls put Macron at 61% of the vote.

The Euro too is higher with the EUR up 0.9% overnight and at its highest level for 2017 at \$1.0984. Given the strength in European data to date and the abating of geopolitical risk, there is continued speculation that the ECB may communicate a change in its policy guidance at its upcoming June Meeting. ECB Board member Praet played into this tone overnight stating "this is a judgement which will be very much data-dependent". Consistent with this, 10-year Bund yields rose 6.9bps to 0.39%.

Strength in the Euro dragged down the US dollar with the BB DXY down 0.6% overnight. Other currency pairs were mixed with strength in the UK Pound (+0.4%) and Yen (+0.3%), but weakness in the commodity-linked currencies of Aussie, Kiwi, CAD and Norwegian Krone.

The Aussie fell 0.2% overnight to 0.7407. Since Tuesday the AUD has fallen 1.7% having broken through its 100 day moving average. The decline appears largely due to the fall in commodity prices – particularly oil and iron ore – with little reaction to the Trade Balance or Governor Lowe's speech. The Iron ore price fell 5.1% yesterday to \$65.2 a tonne, but coal prices have been more resilient with thermal coal unchanged overnight at \$78.0 a tonne and coking coal down 2.5% to \$175.5 a tonne. Driving weakness in commodities has been softer Chinese PMIs of late while the PBoC has also been engineering tighter liquidity conditions.

The surprise for your scribe has been the resilience in bond yields to the moves in the oil price. US 10-year bond yields actually rose 3.3bps overnight to 2.35% with a rise in the real component (+5.2bps to 0.48%) outpacing a fall in the breakeven (-1.7bps to 1.87%)

Part of the resilience in yields may be due to the market not willing to fade the post Fed optimism given payrolls tonight. Recall the FOMC statement yesterday viewed the slow Q1 GDP data as "likely to be transitory" and the Fed continues to expect gradual adjustments in policy with labour market conditions expected to strengthen further.

Consistent with this, the market is currently pricing in a 69% chance of a rate hike in June and 37bps of hikes are priced for the rest of the year – or 1.5 hikes left for the year.

Supporting the Fed's assertions of inflation picking up despite the moves lower in the oil price, unit labour cost (ULC) growth overnight was stronger than expected. ULC growth was 3% against expectations of a 2.7% outcome. Unit labour costs are a key driver and input into models of core inflation and would likely support the Fed's inflation forecasts; conversely any further acceleration in ULCs would likely see their models predicting a breakout of inflationary pressures.

Finally, the US House of Congress passed the Republican healthcare bill to replace Obamacare by a narrow margin – 217 to 213. It now heads to the Senate where most commentary suggests it has little chance of being passed in its current form and will have to be re-written. Estimates suggest the bill could deliver savings of \$150bn over 10 years and partly fund a tax cut plan.

### Coming Up

Domestic focus will be centred on the RBA Statement on Monetary Policy at 11.30am AEDT. Governor Lowe gave a preview of this yesterday, noting "overall, our latest forecast is for economic growth to pick up gradually and average around 3 per cent or so over the next few years". Dr Lowe however did note that employment would need to pick-up to deliver these growth outcomes which puts focus on upcoming labour market reports.

International focus will be on US Non-farm Payrolls and to what extent payrolls will rebound from the weather affected March read. The market expects a 190k payrolls print while the Atlanta Fed's jobs calculator suggests only 121k payrolls are needed to keep the unemployment unchanged assuming a constant participation rate. Nevertheless the market is expecting a slight change to the participation rate and expects the unemployment rate to tick-up to 4.6% from 4.5%. Jobless claims overnight were again at very low levels and are suggestive of a strong payrolls print. Focus will also be on the average hourly earnings component given the soft inflation numbers and the market expects average hourly earnings will increase 0.3% m/m which would give an annual rate of 2.7% y/y.

There are also a number of Fed speakers tonight with the ones to watch being Chair Yellen, Fischer, and Williams.

### Overnight

On global stock markets, the S&P 500 was +0.01%. Bond markets saw US 10-years +3.07bp to 2.35%. In commodities, Brent crude oil -4.63% to \$48.44, gold-1.5% to \$1,230, iron ore -5.1% to \$65.20, steam coal +0.0% to \$78.00, met.coal -2.5% to \$175.50. AUD is at 0.7407 and the range since yesterday 5pm Sydney time is 0.7383 to 0.7419.

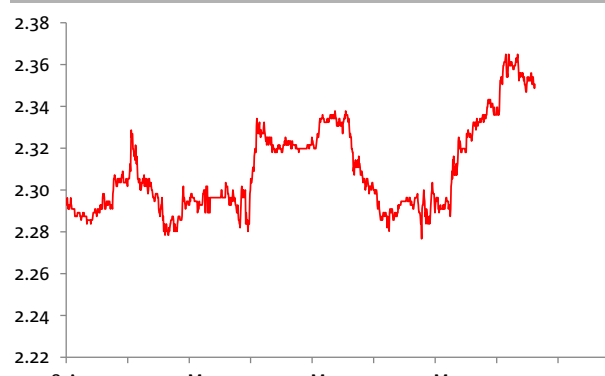
# Markets

AUD/USD - past week



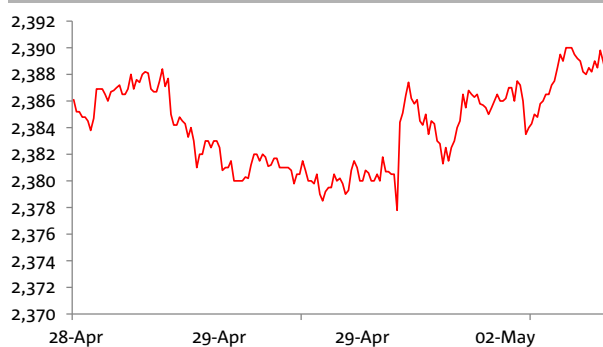
Source: Bloomberg.

US 10yr - past week



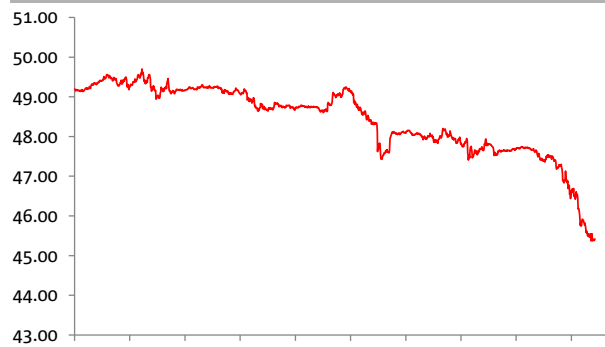
Source: Bloomberg.

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	0.7407	-0.2	0.7383	0.7430	HKD	7.7823	0.0
NZD	0.6867	-0.2	0.6840	0.6894	CNY	6.8960	0.0
EUR	1.0984	0.9	1.0875	1.0985	SGD	1.4003	0.2
GBP	1.2923	0.4	1.2831	1.2924	IDR	13,328	0.2
JPY	112.39	-0.3	112.32	113.05	THB	34.63	0.2
CAD	1.3764	0.2	1.3700	1.3776	KRW	1,133	0.1
AUD/EUR	0.6743	-1.1	0.6740	0.6823	TWD	30.15	0.4
AUD/JPY	83.24	-0.5	83.13	83.84	PHP	49.88	-0.2
AUD/GBP	0.5732	-0.6	0.5719	0.5773	CHF	0.99	-0.8
AUD/NZD	1.0786	-0.1	1.0760	1.0802	SEK	8.83	-0.2
AUD/CNH	5.0979	-0.8	5.0895	5.1984			

## Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spnd
USD	1.00	1.17	1.60	2.30	USD 10	2.35	3.25
AUD	1.50	1.74	1.88	2.91	AUD 10	2.64	5.10 0.29
NZD	1.75	1.98	2.31	3.40	NZD 10	3.02	4.30 0.67
EUR	0.00	-0.33	-0.14	0.83	CAD 10	1.53	-0.90 -0.82
GBP	0.25	0.32	0.58	1.19	EUR 10	0.39	6.80 -1.96
JPY	-0.06	0.00	0.03	0.22	GBP 10	1.12	4.30 -1.23
CAD	0.50	0.91	1.03	1.78	JPY 10	0.02	0.00 -2.33

## Equities

Major Indices	Last	% day	% y/y
	Dow	20,949	-0.04
S&P 500	2,388	0.01	16.4
Nasdaq	6,076	0.06	28.6
VIX	10	-3.18	-35.6
FTSE	7,248	0.2	18.6
DAX	12,648	1.0	28.7
CAC 40	5,372	1.3	24.2
Nikkei	19,446	0.0	20.4
Shanghai	3,127	-0.3	4.3
Hang Seng	24,684	0.0	20.7
ASX 200	5,876	-0.3	11.3

## Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.27	2.00
3 Yr bond	97.8	3.00
10 Yr bond	97.32	-7.50
3/10 sprd	0.48	10.50
SPI	5858.0	19.0

\*Change in bps

## Commodities\*

	Last	% day
Oil (Brent)	48.44	-4.6
Oil (WTI)	45.53	-4.8
Oil (Tapis)	50.88	-1.1
Gold	1229.60	-1.5
CRB	177.01	-1.9
GS Metals	313.3	-0.8
Aluminium	1905.5	-0.6
Copper	5521.0	-1.0
Nickel	8966.5	-2.3
Zinc	2557.3	-0.2
Ch. steel	2936.0	-6.0
Iron ore	65.2	-5.1
St. Coal	78.0	0.0
Met.coal	175.5	-2.5
Wheat Chic.	437.8	-3.6
Sugar	15.4	-2.5
Cotton	80.8	0.2
Coffee	135.0	-1.8

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	AEST	
<b>Thursday, 4 May 2017</b>									
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	<b>RBA Governor Lowe Speech: Household Debt, Housing Prices and Resilience, Economic Society (QLD) Business Lunch</b>						<b>4.10</b>	<b>13.10</b>	
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		-0.1/2.7		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		248		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	
<b>Friday, 5 May 2017</b>									
AU	AiG Perf of Construction Index	Apr				51.2	0.30	9.30	
AU	<b>RBA Statement on Monetary Policy</b>						<b>2.30</b>	<b>11.30</b>	
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	<b>Fed's Yellen Speaks at Brown University</b>						<b>18.30</b>	<b>3.30</b>	
US	Consumer Credit	Mar		14		15.2	20.00	5.00	
US	Fed's Williams Speaks in Stanford						20.00	5.00	
<b>Sunday, 7 May 2017</b>									
FR	French Presidential Election - final round								
<b>Monday, 8 May 2017</b>									
AU	Building Approvals MoM/YoY	Mar		/		8.3/-4.9	2.30	11.30	
AU	ANZ Job Advertisements MoM	Apr				0.3	2.30	11.30	
AU	<b>NAB Business Conditions/Confidence</b>						<b>14.0/6.0</b>	<b>2.30</b>	<b>11.30</b>
CH	Trade Balance CNY	Apr		161.2		164.3	4.00	13.00	
CH	Exports/Imports YoY CNY	Apr		13.35/30.15		22.3/26.3	4.00	13.00	
CH	Trade Balance	Apr		32		23.9	4.00	13.00	
CH	Exports/Imports YoY	Apr		10/18		16.4/20.3	4.00	13.00	
CH	Foreign Direct Investment YoY CNY	Apr				6.7	4.00	13.00	
JN	Consumer Confidence Index	Apr				43.9	6.00	15.00	
GE	Factory Orders MoM/YoY	Mar		/		3.4/4.6	7.00	16.00	
EC	Bank of Portugal Governor Speaks at Conference in Lisbon						9.30	18.30	
CH	BoP Current Account Balance	1Q P				11.8	9.00	18.00	
EC	Sentix Investor Confidence	May				23.9	9.30	18.30	
US	Fed's Mester Speaks at Chicago Council on Global Affairs						11.45	20.45	
CA	Housing Starts	Apr				253.7	13.15	22.15	
US	Fed's Bullard Speaks on Panel on Interest Rate Policy						13.35	22.35	
CA	Bloomberg Nanos Confidence	May 5				59.4	15.00	0.00	
US	Labor Market Conditions Index Change	Apr				0.4	15.00	0.00	
<b>Tuesday, 9 May 2017</b>									
UK	BRC Sales Like-For-Like YoY	Apr				-1.0	0.10	9.10	
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May 7				111.3	0.30	9.30	
JN	Labor Cash/Real Cash Earnings YoY	Mar		0.4/		0.4/0.0	1.00	10.00	
AU	Retail Sales MoM/Ex Inflation QoQ	Mar		/		-0.1/0.9	2.30	11.30	
GE	Industrial Production SA MoM/YoY	Mar		/		2.2/2.5	7.00	16.00	
GE	Current Account Balance	Mar				20.4	7.00	16.00	
AU	<b>Federal Budget, UCB 17-18 \$Abn</b>		<b>23-25</b>			<b>-28.7 (MYEFO)</b>	<b>10.30</b>	<b>19.30</b>	
US	NFIB Small Business Optimism	Apr				104.7	11.00	20.00	
CA	Building Permits MoM	Mar				-2.5	13.30	22.30	
US	JOLTS Job Openings	Mar				5743.0	15.00	0.00	
US	Wholesale Trade Sales/Inventories MoM	Mar				0.6/-0.1	15.00	0.00	
US	Fed's Rosengren Speaks at NYU Conference on Risk Management						18.00	3.00	
<b>Wednesday, 10 May 2017</b>									
NZ	ANZ Truckometer Heavy MoM	Apr				1.7	23.00	8.00	
NZ	Card Spending Retail MoM/YoY	Apr				-0.3	23.45	8.45	
JN	BOJ Summary of Opinions at April 26-27 Meeting						0.50	9.50	
AU	Westpac Consumer Conf Index/MoM%	May				99.0/-0.7	1.30	10.30	
CH	CPI/PPI YoY	Apr		1.1/6.7		0.9/7.6	2.30	11.30	
JN	Leading/Coincident Index CI	Mar P		105.5/114.7		104.8/115.3	6.00	15.00	
EC	ECB's Draghi Speaks in Dutch Parliament						12.00	21.00	
US	Import Price Index MoM/YoY	Apr		0.2/		-0.2/4.2	13.30	22.30	
US	Export Price Index MoM/YoY	Apr		/		0.2/3.6	13.30	22.30	
CH	New Yuan Loans/Aggregate Financing CNY	Apr		800/1102.5		1020/2120	10-15 May release		
US	Fed's Rosengren to Speak on Economy at Vermont Business Group						17.00	2.00	
US	Monthly Budget Statement	Apr				-176.2	19.00	4.00	
<b>Upcoming Central Bank Interest Rate Announcements</b>									
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%			
Australia, RBA		6-Jun	1.50%	1.50%		1.50%			
Europe ECB		8-Jun	-0.4%	-0.4%		-0.4%			
US Federal Reserve		15-Jun	0.75-1.00%	0.75-1.00%		0.75-1.00%			
Japan, BoJ		16-Jun	-0.1%	-0.1%		-0.1%			

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

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