

MARKETS TODAY

Budget Neutral



Good Morning

Virtually no market reaction in offshore markets to last night's Federal Budget, which has seen Fitch and Moody's quickly out affirming their prevailing AAA sovereign ratings. We haven't yet heard from Standard & Poor's.

There was a quick dip in AUD/USD at 7:30pm last night down through the lows seen shortly after yesterday's poor retail sales data, seemingly on the announcement that the current year 'underlying cash balance' and 'net operating balance' were both a bit more negative than in last December's MYEFO. But this quickly reversed when the numbers over the forward estimates (through 2021) were seen to ahead slightly better than MYEFO (and indeed the net operating balance is now projected to return to surplus in 2019-20 not 2020-21 – this is as the full effects of the additional revenue seen accruing from the extra Medicare surcharge from 2-2.5% and levy on the banks supports revenue, while additional infrastructure spending holds up the cash balance relative to the net operating balance since the latter only captures recurrent expenditure. The ratings affirmation also helped.

Yesterday's retail sales numbers, showing a 0.1% drop in March with February revised down to -0.2% and Q1 real spending of just 0.1%, suggest downside risk to earlier Q1 GDP estimates and took an immediate bite out the AUD. AUD/USD fell to 0.7364 immediately after the numbers and then leaked to 0.7335 ahead of the Budget following which we saw a low of 0.7329, the lowest since January 9th this year.

While commodity prices falls and then the weak retail sales numbers have been the local drivers of AUD's fall from grace, on-going revival in the US dollar's fortunes is also part of the story. The BBDXY dollar index added almost 0.5% over the course of Tuesday. The fresh grind higher in US treasury yields is the key driver (10s now back at 2.4%), alongside further slippage in EUR/USD post-Sunday's French election win for Emmanuel Macron. The Fed's tightening odds are now sitting at around 80%. The Fed's Esther George, a note hawk, last night said she saw risks in delaying rate hikes. Both she and Eric Rosengren said they favoured beginning the process of balance sheet normalisation this year.

US data saw the JOLTS (job-opening) unchanged but still at a very elevated level, while the NFIB small business optimism survey came in at a still very strong 104.5, down from 104.7 but above the 104.0 expected. The optimism of Donald Trump supporters, heavily represented in the NFIB survey, is so far undimmed.

Coming Up

Budget digestion might give way to indigestion at some point today. Market radars will though be attuned to any comment from Standard & Poor's on the sovereign

rating. After Fitch and Moody's were both quick to affirm the AAA rating last night and given the top line projections for return to surplus at or quicker than last December's MYEFO, we suspect that at worst S&P will merely reaffirm the negative outlook they put in place last July.

Data wise today, we get April consumer confidence, which will garner more than the usual amount of attention after the back-to-back weak retail sales numbers reported for both February and March. Will this be reflected in a still-subdued consumer confidence reading, in contrast to the on-going pick up in business confidence evident in the NAB surveys? See Chart of the Day.

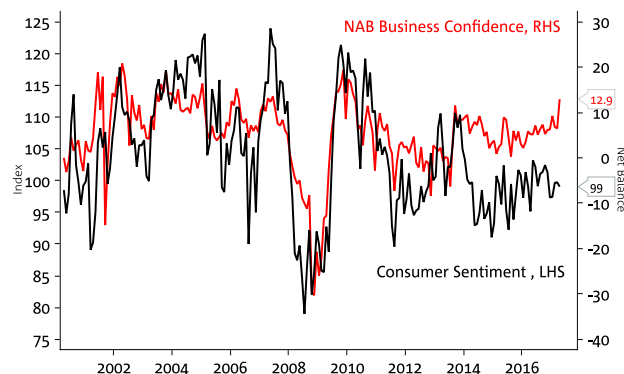
China is also a focus with latest CPI and PPI data this morning, which come as concerns that tighter monetary conditions in China are already being reflected in weaker (soft) activity readings such as the PMIs, and might be one of the underlying causes of recent commodity price weakness. An upside CPI surprises today would not be welcome in this respect, but a rise to just 1.1% from 0.9% as is the market consensus would hardly constitute a worry.

Offshore tonight, ECB President Mario Draghi is due to speak to the Dutch parliament though this is unlikely to be the place - or the time - to discuss shifting language on economic risks and ECB policy prospects.

Overnight

On global stock markets, the S&P 500 was -0.15%. Bond markets saw US 10-years +1.27bp to 2.40%. In commodities, Brent crude oil -0.47% to \$48.87, gold -0.6% to \$1,220, iron ore -1.6% to \$60.75, steam coal -0.5% to \$73.85, met.coal +1.4% to \$177.00. AUD is at 0.7341 and the range since yesterday 5pm Sydney time is 0.7329 to 0.7399.

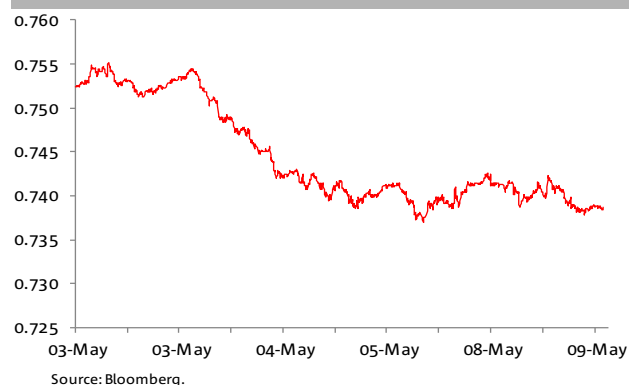
Chart of the Day – Business and Consumer Confidence



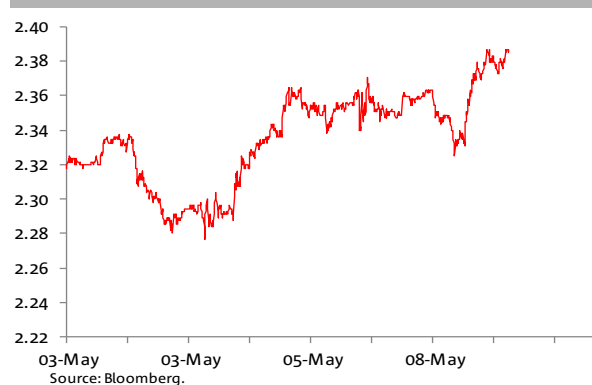
Source: National Australia Bank, Macrobond

Markets

AUD/USD - past week



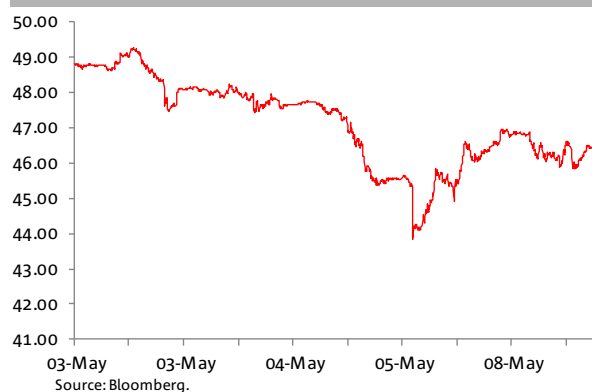
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7341	-0.6	0.7329	0.7399	HKD	7.7839 0.0
NZD	0.6893	-0.2	0.6880	0.6927	CNY	6.9074 0.1
EUR	1.0872	-1.1	1.0864	1.0933	SGD	1.4115 0.5
GBP	1.2932	-0.1	1.2903	1.2961	IDR	13,352 0.2
JPY	113.91	1.1	113.14	114.33	THB	34.78 0.3
CAD	1.3729	0.6	1.3671	1.3753	KRW	1,139 -0.1
AUD/EUR	0.6752	-0.1	0.6721	0.6771	TWD	30.26 0.3
AUD/JPY	83.63	0.0	83.20	84.04	PHP	49.95 0.0
AUD/GBP	0.5677	-0.7	0.5668	0.5714	CHF	1.01 2.0
AUD/NZD	1.0651	-0.8	1.0642	1.0695	SEK	8.89 1.1
AUD/CNH	5.0800	-0.7	5.0679	5.1268		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spdr
USD	1.00	1.18	1.62	2.33	USD 10	2.40	5.08
AUD	1.50	1.74	1.86	2.92	AUD 10	2.68	3.40 0.28
NZD	1.75	1.99	2.36	3.46	NZD 10	3.09	5.80 0.69
EUR	0.00	-0.33	-0.13	0.85	CAD 10	1.61	7.00 -0.79
GBP	0.25	0.32	0.60	1.26	EUR 10	0.43	1.20 -1.97
JPY	-0.06	0.00	0.04	0.24	GBP 10	1.20	8.50 -1.20
CAD	0.50	0.90	1.04	1.85	JPY 10	0.04	1.90 -2.36

Equities

Major Indices

	Last	% day	% y/y
Dow	20,961	-0.22	18.4
S&P 500	2,396	-0.15	16.4
Nasdaq	6,115	0.23	28.7
VIX	10	-6.24	-32.0
FTSE	7,342	0.6	20.1
DAX	12,749	0.3	27.7
CAC 40	5,398	-0.6	24.9
Nikkei	19,843	2.0	19.8
Shanghai	3,081	-0.7	8.8
Hang Seng	24,889	1.7	23.0
ASX 200	5,840	0.1	9.3

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.27	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.30	-1.50
3/10 sprd	0.50	4.50
SPI	5839.0	-22.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	48.87	-0.5
Oil (WTI)	46.05	-0.4
Oil (Tapis)	49.29	0.9
Gold	1220.00	-0.6
CRB	177.29	-0.4
GS Metals	310.6	-1.1
Aluminium	1864.3	-1.6
Copper	5489.8	-1.4
Nickel	9168.5	0.8
Zinc	2601.0	1.0
Ch. steel	3066.0	4.6
Iron ore	60.8	-1.6
St. Coal	73.9	-0.5
Met.coal	177.0	1.4
Wheat Chic.	429.5	-2.9
Sugar	15.4	0.8
Cotton	77.4	-2.9
Coffee	135.2	-0.4

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-0.5	-2.0%
FED	19	74.8%

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, 8 May 2017								
AU	Building Approvals MoM/YoY	Mar	-2	-4/-10		8.3/-4.9	2.30	11.30
AU	ANZ Job Advertisements MoM	Apr				0.3	2.30	11.30
AU	NAB Business Conditions/Confidence	Apr		/		14.0/6.0	2.30	11.30
CH	Trade Balance CNY	Apr		197.2		164.3	4.00	13.00
CH	Exports/Imports YoY CNY	Apr		16.8/29.3		22.3/26.3	4.00	13.00
CH	Trade Balance	Apr		35.2		23.9	4.00	13.00
CH	Exports/Imports YoY	Apr		11.3/18		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		1/2.3		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		24.65		23.9	9.30	18.30
CA	Housing Starts	Apr		220		253.7	13.15	22.15
US	Fed's Bullard Speaks on Panel on Interest Rate Policy						13.35	22.35
US	Fed's Mester Speaks at Chicago Council on Global Affairs						13.45	22.45
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
Tuesday, 9 May 2017								
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	0.3/0.4	0.3/0.5		-0.1/0.9	2.30	11.30
NZ	Credit Aggregates (new format)	Mar					4.00	13.00
GE	Industrial Production SA MoM/YoY	Mar		-0.6/2.4		2.2/2.5	7.00	16.00
GE	Current Account Balance	Mar				20.4	7.00	16.00
AU	Federal Budget, UCB 17-18 \$Abn		-23	-28		-28.7 (MYEFO)	10.30	19.30
US	NFIB Small Business Optimism	Apr		104.8		104.7	11.00	20.00
CA	Building Permits MoM	Mar				-2.5	13.30	22.30
US	Fed's Kashkari to speak to Minnesota High Tech Conference						14.00	23.00
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
US	Fed's Kaplan speaks to Dallas Regional Chamber						21.15	6.15
Wednesday, 10 May 2017								
NZ	ANZ Truckometer Heavy MoM	Apr				1.7	23.00	8.00
NZ	Crown Financial Accounts	Mar					23.00	8.00
NZ	Card Spending Retail MoM/YoY	Apr		0.6		-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		800/1127.5		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
Thursday, 11 May 2017								
NZ	RBNZ Official Cash Rate	May 11	1.75	1.75		1.75	22.00	7.00
NZ	Food Prices MoM	Apr				-0.3	23.45	8.45
UK	RICS House Price Balance	Apr				22.0	0.10	9.10
JN	BoP Current Account Adjusted	Mar		1731.9		2210.9	0.50	9.50
AU	Consumer Inflation Expectation	May				4.1	2.00	11.00
JN	Bankruptcies YoY	Apr				5.4	5.30	14.30
EC	ECB Publishes Economic Bulletin						9.00	18.00
UK	Industrial Production MoM/YoY	Mar		/		-0.7/2.8	9.30	18.30
UK	Construction Output SA MoM/YoY	Mar				-1.7	9.30	18.30
UK	Trade Balance	Mar				-3663.0	9.30	18.30
EC	European Commission Economic Forecasts						10.00	19.00
US/IN	Fed's Dudley speaks on Globalisation in Mumbai						11.25	20.25
UK	Bank of England Bank Rate	May 11				0.3	12.00	21.00
UK	BOE Asset Purchase Target/Corporate Bond Target	May		/		435.0/10.0	12.00	21.00
UK	Bank of England Inflation Report						12.00	21.00
UK	NIESR GDP Estimate	Apr				0.5	13.00	22.00
CA	New Housing Price Index MoM/YoY	Mar		/		0.4/3.3	13.30	22.30
US	PPI Final Demand/Ex Food & Energy MoM	Apr		0.2/0.2		-0.1/0.0	13.30	22.30
US	Initial Jobless Claims	May 6				238.0	13.30	22.30
US	Bloomberg Consumer Comfort	May 7				50.9	14.45	23.45
Upcoming Central Bank Interest Rate Announcements								
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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