

MARKETS TODAY

Fuel



Good Morning

Wow! If you are looking for a quick wake me up antidote, try playing Metallica at 5:30 in the morning, trust me you won't go wrong. Fuel is a track from the band's critically acclaimed and massively successful 1997 album Reload and why am I telling you this? Well in a night devoid of major data releases, oil has been the main catalyst for the overnight moves in markets.

It all started yesterday around midday with the release of a joint statement from the energy ministers of Saudi Arabia and Russia concluding that the current production cuts agreement should be extended until Q1 2018. WTI and Brent jumped over 1.5% on the news and then continued to rally for most of the overnight session gaining over 3% at one point. Prices have eased a little over the past few hours however, capping the gains to 2%. Copper (+1%), Aluminium (+0.9%) and gold (+0.25%) have followed the move in oil, but iron ore has been one exception, down 0.9%, closing the day at \$60.8. Equities also benefited from the move with energy, materials and financial sectors leading the gains on both side of the Atlantic.

The news has helped commodity linked currencies outperform while softer US data also played a part for the broad USD weakness. The CAD is at the top of the G 10 leader board +0.56% while the AUD (+0.40%) and NZD (+0.20%) have also outperformed, but looking at the tick chart with oil prices easing over the past few hours both currencies have given up a big part of their overnight gains. AUD traded to an overnight high of 0.7446 and now is trading at 0.7413 and NZD reached a high of 0.6918, but now is back below the mark at 0.6880.

The Euro has also been one of the major USD outperformers, up 0.40%. Yesterday the Euro was trading at 1.0858 around 5pm Sydney time and now the pair is trading at 1.0976, after reaching an overnight high of 1.099. The softer than expected Empire State Manufacturing Index (-1 vs 7.5 exp. and 5 prev.) weighed on the USD and gave the Euro an initial lift which was further compounded by a rise in EU bond yields while US treasuries were little changed. 10y Bunds closed the day 3.8bps higher while 10y UST yields are currently trading at 2.34%, 1bps higher relative to Sydney's closing level.

Other news boosting the Euro came from ECB Praet commenting that the central bank will assess the balance of risk at the June meeting, noting however that the Euro Area still needs 'high degree' of stimulus. Ahead of the Bank's June meeting we would not be surprised to hear similar commentary from other ECB board members. Amid a buoyant economy and dissipation of political risk after the French election, we think the ECB will slightly alter its guidance at the June meeting by removing the words 'or lower' from the pledge to have unchanged or lower rates for the foreseeable future. We see the Euro trading around the 1.10 in June forecasting higher levels thereafter.

Author **Rodrigo Catril**, FX Strategist

Sticking with Europe, Emmanuel Macron has named Edouard Philippe as PM. Philippe is a 46-year old centre-right former mayor of the port city of Le Havre. Philippe is thought to be pro-business and a liberal on social issue. Meanwhile Merkel and Macron have also vow to create a roadmap to revive the bloc and have planned joint german-french cabinet talks for July. A more united Europe is unlikely to make the Brexit process easier for the UK.

Coming Up

On paper the RBA May Policy Meeting Minutes is the domestic calendar highlight today, but given the Minutes pre date the Statement on Monetary Policy and follow up speech from RBA Governor Lowe we are doubtful they will shed more light on the current RBA thinking. For now the RBA is firmly on hold, but trends in the housing and labour markets remains the principal areas of concern.

Australia's weekly consumer confidence reading and new motor vehicle sales are the two domestic data releases. Looking at offshore markets, the UK CPI release (Apr) is the data highlight in Europe with Germany's Zew survey also likely to garner some market's attention. Europe's Q1 GDP second reading is also due for release. Moving on to the US, housing starts and Industrial production (both for April) are the main data releases and there are no Fed speakers on the roster today or tomorrow.

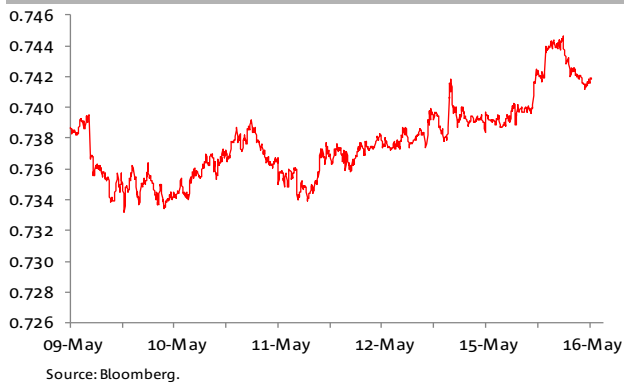
Last week we learned that the BoE is expecting inflation to peak later this year at just under 3% and we also know that the majority of MPC members think it is appropriate to return inflation to target over a somewhat longer period than usual. The market is expecting both the headline and core reading to rise in April. In addition to the pass-through from a weaker pound, the Easter break holiday and rise in utility bills are seen as the main drivers for the rise in the headline number from 2.3% to 2.7% while the core reading is expected to climb to 2.3% from 1.8%. Given this backdrop, we probably need to see an inflation print closer to 3% if we are to see a material move in GBP tonight.

Overnight

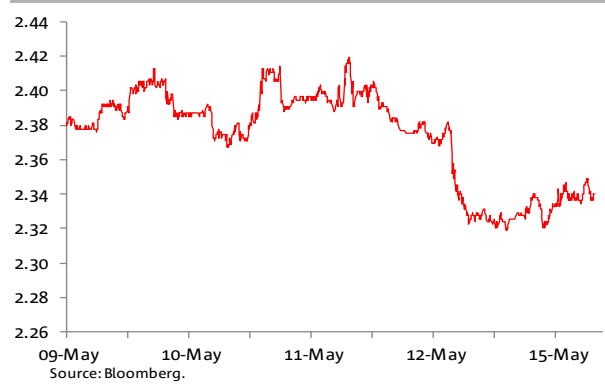
On global stock markets, the S&P 500 was +0.48%. Bond markets saw US 10-years +1.76bp to 2.34%. In commodities, Brent crude oil +1.87% to \$51.79, gold +0.2% to \$1,231, iron ore -0.9% to \$60.80, steam coal -0.4% to \$73.30, met.coal -0.3% to \$174.00. AUD is at 0.7414 and the range since yesterday 5pm Sydney time is 0.7385 to 0.7446.

Markets

AUD/USD - past week



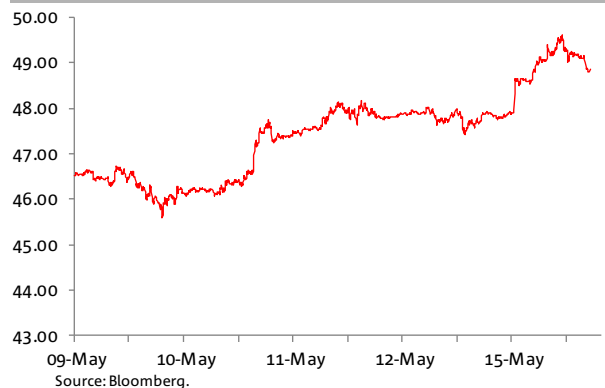
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

| | Indicative 24hr ranges (**) | | | | Other FX | |
|---------|-----------------------------|--------|--------|--------|----------|-------------|
| | Last | % chge | Low | High | Last | % chge |
| AUD | 0.7414 | 0.4 | 0.7385 | 0.7446 | HKD | 7.7877 -0.1 |
| NZD | 0.6882 | 0.2 | 0.6846 | 0.6918 | CNY | 6.8935 -0.1 |
| EUR | 1.0977 | 0.4 | 1.0923 | 1.0990 | SGD | 1.3979 -0.4 |
| GBP | 1.2896 | 0.0 | 1.2872 | 1.2941 | IDR | 13,303 -0.2 |
| JPY | 113.67 | 0.3 | 113.12 | 113.85 | THB | 34.55 -0.3 |
| CAD | 1.3633 | -0.6 | 1.3602 | 1.3723 | KRW | 1,124 -0.3 |
| AUD/EUR | 0.6755 | 0.0 | 0.6751 | 0.6795 | TWD | 30.10 -0.2 |
| AUD/JPY | 84.28 | 0.6 | 83.60 | 84.51 | PHP | 49.68 -0.2 |
| AUD/GBP | 0.5749 | 0.3 | 0.5725 | 0.5765 | CHF | 1.00 -0.4 |
| AUD/NZD | 1.0774 | 0.1 | 1.0753 | 1.0798 | SEK | 8.83 0.0 |
| AUD/CNH | 5.1184 | 0.3 | 5.0947 | 5.1304 | | |

Interest Rates

| | Indicative Swap Rates | | | | Benchmark 10 Year Bonds | | |
|-----|-----------------------|-------|-------|------|-------------------------|------|-------------|
| | Cash | 3mth | 2Yr | 10Yr | Last | chge | Sprd |
| USD | 1.00 | 1.18 | 1.53 | 2.25 | USD 10 | 2.34 | 1.76 |
| AUD | 1.50 | 1.74 | 1.82 | 2.83 | AUD 10 | 2.59 | -4.90 0.24 |
| NZD | 1.75 | 1.98 | 2.23 | 3.29 | NZD 10 | 2.93 | -4.30 0.58 |
| EUR | 0.00 | -0.33 | -0.15 | 0.82 | CAD 10 | 1.59 | 2.20 -0.75 |
| GBP | 0.25 | 0.31 | 0.55 | 1.21 | EUR 10 | 0.42 | 2.90 -1.92 |
| JPY | -0.04 | -0.01 | 0.04 | 0.24 | GBP 10 | 1.14 | 5.20 -1.21 |
| CAD | 0.50 | 0.89 | 1.01 | 1.83 | JPY 10 | 0.04 | -0.30 -2.30 |

Equities

| Major Indices | | | |
|---------------|--------|-------|-------|
| | Last | % day | % y/y |
| Dow | 20,982 | 0.41 | 19.7 |
| S&P 500 | 2,402 | 0.48 | 17.4 |
| Nasdaq | 6,150 | 0.46 | 30.4 |
| VIX | 10 | 0.19 | -30.7 |
| FTSE | 7,454 | 0.3 | 21.4 |
| DAX | 12,807 | 0.3 | 28.7 |
| CAC 40 | 5,417 | 0.2 | 25.4 |
| Nikkei | 19,870 | -0.1 | 20.7 |
| Shanghai | 3,090 | 0.2 | 8.4 |
| Hang Seng | 25,372 | 0.9 | 27.6 |
| ASX 200 | 5,838 | 0.0 | 8.9 |

Overnight Futures

| | Last | Chge* |
|------------|--------|-------|
| Australia | | |
| 3 mth bill | 98.28 | 0.00 |
| 3 Yr bond | 97.8 | 0.00 |
| 10 Yr bond | 97.37 | 4.50 |
| 3/10 sprd | 0.43 | -4.50 |
| SPI | 5835.0 | -24.0 |

*Change in bps

Commodities*

| | Last | % day |
|-------------|---------|-------|
| Oil (Brent) | 51.79 | 1.9 |
| Oil (WTI) | 48.82 | 2.0 |
| Oil (Tapis) | 52.27 | 2.8 |
| Gold | 1230.50 | 0.2 |
| CRB | 182.74 | 0.6 |
| GS Metals | 314.5 | 0.7 |
| Aluminium | 1902.3 | 0.9 |
| Copper | 5593.3 | 1.0 |
| Nickel | 9177.0 | -1.0 |
| Zinc | 2561.3 | 0.5 |
| Ch. steel | 2997.0 | -0.1 |
| Iron ore | 60.8 | -0.9 |
| St. Coal | 73.3 | -0.4 |
| Met.coal | 174.0 | -0.3 |
| Wheat Chic. | 438.0 | 1.2 |
| Sugar | 15.6 | 0.6 |
| Cotton | 85.3 | 3.8 |
| Coffee | 133.5 | -1.1 |

| Prob. of 25bps hike/cut at next meeting | | |
|---|------|-------|
| | bps | % |
| RBA | -1.0 | -4.0% |
| FED | 18 | 70.0% |

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 |
|--|---|--------|------------|----------------|--------|-------------|-------|-------|
| Tuesday, 16 May 2017 | | | | | | | | |
| AU | ANZ Roy Morgan Weekly Consumer Confidence Index | May 14 | | | | 112.3 | 0.30 | 9.30 |
| AU | New Motor Vehicle Sales MoM/YoY | Apr | | / | | 1.9/-3.0 | 2.30 | 11.30 |
| AU | RBA May Rate Meeting Minutes | | | | | | 2.30 | 11.30 |
| NZ | Household Inflation Expectations, 1 year median | 2Q | | | | 2.0 | 4.00 | 13.00 |
| JN | Tertiary Industry Index MoM | Mar | | 0.1 | | 0.2 | 5.30 | 14.30 |
| UK | CPI MoM/YoY | Apr | | 0.4/2.6 | | 0.4/2.3 | 9.30 | 18.30 |
| UK | CPI Core YoY | Apr | | 2.3 | | 1.8 | 9.30 | 18.30 |
| UK | PPI Input NSA MoM/YoY | Apr | | 0/17 | | 0.4/17.9 | 9.30 | 18.30 |
| UK | PPI Output NSA MoM/YoY | Apr | | 0.2/3.4 | | 0.4/3.6 | 9.30 | 18.30 |
| UK | PPI Output Core NSA MoM/YoY | Apr | | 0.2/2.5 | | 0.3/2.5 | 9.30 | 18.30 |
| UK | House Price Index YoY | Mar | | 5.3 | | 5.8 | 9.30 | 18.30 |
| EC | Trade Balance SA | Mar | | 18.7 | | 19.2 | 10.00 | 19.00 |
| GE | ZEW Survey Current Situation/Expectations | May | | 82 | | 80.1 | 10.00 | 19.00 |
| EC | ZEW Survey Expectations | May | | | | 26.3 | 10.00 | 19.00 |
| EC | GDP SA QoQ/YoY | 1Q P | | 0.5/1.7 | | 0.5/1.7 | 10.00 | 19.00 |
| US | Housing Starts, #/MoM | Apr | | 1260/3.7 | | 1215.0/-6.8 | 13.30 | 22.30 |
| US | Building Permits, #/MoM | Apr | | 1270/0.2 | | 1260.0/3.6 | 13.30 | 22.30 |
| US | Industrial Production MoM/Capacity utilisation | Apr | | 0.4/76.3 | | 0.5/76.1 | 14.15 | 23.15 |
| US | Manufacturing (SIC) Production | Apr | | 0.4 | | -0.4 | 14.15 | 23.15 |
| US | ECB's Nowotny Speaks in Vienna | | | | | | 16.30 | 1.30 |
| NZ | Global Dairy Auction, GDT-weighted price index (early AM, NZT) | | | broadly steady | | 3.6 | | |
| Wednesday, 17 May 2017 | | | | | | | | |
| NZ | PPI Input/Output QoQ | 1Q | | / | | 1.0/1.5 | 23.45 | 8.45 |
| NZ | Concrete production | 1Q | | | | | 23.45 | 8.45 |
| JN | Machine Orders MoM/YoY | Mar | | 2.5/1.2 | | 1.5/5.6 | 0.50 | 9.50 |
| AU | Westpac Consumer Conf Index/MoM | May | | / | | 99.0/-0.7 | 1.30 | 10.30 |
| AU | Wage Price Index QoQ/YoY | 1Q | 0.5/1.9 | 0.5/1.9 | | 0.5/1.9 | 2.30 | 11.30 |
| JN | Industrial Production MoM/YoY | Mar F | | / | | -2.1/3.3 | 5.30 | 14.30 |
| UK | Jobless Claims Change | Apr | | | | 25.5 | 9.30 | 18.30 |
| UK | Average Weekly Earnings/ex bonus 3M/YoY | Mar | | 2.4/2.1 | | 2.3/2.2 | 9.30 | 18.30 |
| UK | Employment Change 3M/3M/Unemployment rate 3M | Mar | | 21/4.7 | | 39.0/4.7 | 9.30 | 18.30 |
| EC | Construction Output MoM/YoY | Mar | | / | | 6.9/7.1 | 10.00 | 19.00 |
| EC | CPI MoM/YoY | Apr | | 0.4/1.9 | | 0.8/1.5 | 10.00 | 19.00 |
| EC | CPI Core YoY | Apr F | | 1.2 | | 1.2 | 10.00 | 19.00 |
| CA | Manufacturing Sales MoM | Mar | | | | -0.2 | 13.30 | 22.30 |
| US | NY Fed's Household Debt and Credit report | 1Q | | | | | 16.00 | 1.00 |
| CH | FX Net Settlement - Clients CNY | Apr | | | | -48.3 | | |
| Thursday, 18 May 2017 | | | | | | | | |
| NZ | Net Migration SA | Apr | | | | 6,100 | 23.45 | 8.45 |
| JN | GDP SA QoQ/saar QoQ | 1Q P | | 0.5/1.7 | | 0.3/1.2 | 0.50 | 9.50 |
| JN | GDP Deflator YoY | 1Q P | | -0.7 | | -0.1 | 0.50 | 9.50 |
| NZ | ANZ Consumer Confidence Index/MoM | May | | / | | 121.7/-2.8 | 2.00 | 11.00 |
| AU | Consumer Inflation Expectation | May | | | | 4.1 | 2.00 | 11.00 |
| AU | RBA FX Transactions Market | Apr | | | | 1248 | 2.30 | 11.30 |
| CH | China Property Prices | Apr | | | | | 2.30 | 11.30 |
| AU | Employment Change/Unemployment Rate | Apr | 10/5.8 | 5/5.9 | | 60.9/5.9 | 2.30 | 11.30 |
| AU | Participation Rate | Apr | 64.7 | 64.7 | | 64.8 | 2.30 | 11.30 |
| NZ | Credit Card Billings | Apr | | | | 0.8 | 4.00 | 13.00 |
| US | Fed's Bullard to Brief Press With Bank of England's Forbes | | | | | | 5.00 | 14.00 |
| UK | Retail Sales Ex/Incl Auto Fuel MoM | Apr | | 1/2.6 | | -1.5/2.6 | 9.30 | 18.30 |
| UK | Retail Sales Inc Auto Fuel MoM | Apr | | 1.1/2.1 | | -1.8/1.7 | 9.30 | 18.30 |
| CA | Int'l Securities Transactions | Mar | | | | 38.8 | 13.30 | 22.30 |
| US | Initial Jobless Claims | May 13 | | 240 | | 236 | 13.30 | 22.30 |
| US | Philadelphia Fed Business Outlook | May | | 18.5 | | 22.0 | 13.30 | 22.30 |
| EC | ECB's Lautenschlaeger speaks in Berlin | | | | | | 13.45 | 22.45 |
| EC | ECB's Nowotny speaks in Vienna | | | | | | 13.50 | 22.50 |
| US | Leading Index | Apr | | 0.4 | | 0.4 | 15.00 | 0.00 |
| EC | ECB's Draghi speaks in Tel Aviv | | | | | | 18.00 | 3.00 |
| US | Fed's Mester Speaks on Economy and Monetary Policy | | | | | | 18.15 | 3.15 |
| Friday, 19 May 2017 | | | | | | | | |
| NZ | Net Migration SA | Apr | | | | 6100 | 23.45 | 8.45 |
| NZ | Credit Card Spending MoM/YoY | Apr | | / | | 0.8/7.1 | 4.00 | 13.00 |
| EC | ECB Current Account SA | Mar | | | | 37.9 | 9.00 | 18.00 |
| EC | EU's Dombrowskis speaks at ECB-EU Conference in Brussels | | | | | | 9.00 | 18.00 |
| EC | ECB's Praet (Chf Economist) moderates panel at Conference in Brussels | | | | | | 10.00 | 19.00 |
| UK | CBI Trends Total Orders/Selling Prices | May | | 4/29 | | 4.0/29.0 | 11.00 | 20.00 |
| EC | ECB's Constancio speaks at Conference in Brussels | | | | | | 13.00 | 22.00 |
| CA | Retail Sales/ex autos MoM | Mar | | 0.4/0.2 | | -0.6/-0.1 | 13.30 | 22.30 |
| CA | CPI NSA MoM/YoY | Apr | | 0.5/1.7 | | 0.2/1.6 | 13.30 | 22.30 |
| CA | CPI Core- Common/Trim YoY% | Apr | | 1.4/ | | 1.3/1.4 | 13.30 | 22.30 |
| CA | CPI Core- Median YoY% | Apr | | | | 1.7 | 13.30 | 22.30 |
| US | Fed's Bullard to Speak about U.S. Economy and Monetary Policy | | | | | | 14.15 | 23.15 |
| EC | Consumer Confidence | May A | | -3 | | -3.6 | 15.00 | 0.00 |
| Monday, 22 May 2017 | | | | | | | | |
| JN | Trade Balance Adjusted | Apr | | | | 172.2 | 0.50 | 9.50 |
| JN | Leading Index CI | Mar F | | | | 105.5 | 6.00 | 15.00 |
| US | Chicago Fed Nat Activity Index | Apr | | | | 0.1 | 13.30 | 22.30 |
| CH | Conference Board China April Leading Economic Index | | | | | | 14.00 | 23.00 |
| CA | Bloomberg Nanos Confidence | May 12 | | | | 59.0 | 15.00 | 0.00 |
| AU | RBA's Debelle Speech in Basel | | | | | | 18.30 | 3.30 |
| Upcoming Central Bank Interest Rate Announcements | | | | | | | | |
| 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% | | |
| UK BOE | | 15-Jun | 0.25% | 0.25% | | 0.25% | | |
| 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% | | |
| New Zealand, RBNZ | | 22-Jun | 1.75% | 1.75% | | 1.75% | | |

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

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