

MARKETS TODAY

Euro love or a beautiful mess?



Good Morning

The two most significant development overnight were a 1.0% surge in the Euro (Euro now fetches 1.1089 – the highest since November 9 2016), and continued weakness in the US dollar with the DXY down 0.7% overnight and at its lowest point since just after the US the election. Given the dream run for Europe recently you will have to forgive me for drawing on Eurovision song titles as inspiration for today's daily. As an avid watcher I thought the winner and runner-up this year were a fitting tribute: Amar Pelos Dois (translated as "[Love for Both of Us](#)") by Salvador Sobral and "[Beautiful Mess](#)" by Kristian Kostov, though I do prefer the later.

The big secular theme over the past couple of months has been long Europe. European data continues to be broadly positive, reinforced overnight with the German ZEW index rising to 20.6 from 19.5 and the Trade Balance coming in better than expected with the surplus rising to €23.1bn from €18.8bn. Those prints also likely helped set the tone for the Euro's rise overnight, but it is important to note this is part of a trend that emerged following the first round of the French presidential election. Abating political risk is also driving speculation that 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. Our view of the Euro trading around €1.10 in June is now clearly tilted to the upside. Optimism has also spread to other European currencies: Franc (+1.2%) and Norwegian Krone (+1.1%) all higher.

US dollar weakness extended overnight with the DXY now at 98.12, around the lowest levels since November 9 (the US election was held on Nov 8). The dollar was weaker against all G10 currencies. The soft CPI figures last week set the tone, while the notion that Trump's tax plan and infrastructure packages could be delayed or watered down has grown – especially given recent political distractions such as Trump's disclosure of classified information to Russia's foreign minister.

Highlighting investors' concerns around Trump's policies, the inflation outlook has moderated with the 10-year inflation breakeven now falling to 1.84% - just near the levels following the US election. Breakeven inflation rates did peak at around 2%, so this suggests investors' inflation expectations are moderating despite oil prices stabilising. Nevertheless, nominal bond yields remain resilient with US Treasury yields at 2.32% (down 1.9bps overnight), while markets are still pricing in a 70% chance the Fed will hike rates in June.

Given a more positive Europe, German Bund yields rose overnight, up 1.5 bps to 0.44%. With Bund yields rising and US Treasury yields falling the Bund-UST spread has fallen to a fresh 2017 low.

Supporting a June rate hike, Industrial Production figures were better than expected, up 1.0% in April and well

above the consensus of a 0.4% rise. Although the market hardly moved on the data, it does suggest some of the "hard" data is starting to catch up to the more optimistic "soft" data - the manufacturing component in particular now looks broadly consistent with that implied by the ISM. Nevertheless, the overall run of data continues to be patchy with Housing Starts overnight disappointing (1,172k v expectations of 1,260k).

The Aussie and the Kiwi were the underperformers overnight. The Aussie rose 0.2% while the Kiwi was unchanged against a US dollar that fell 0.7% across the board. The Aussie hardly moved on the RBA Minutes yesterday with the RBA continuing to watch the labour and housing markets closely. NAB sees the RBA on hold in 2017 and 2018.

Finally UK CPI came in a touch stronger overnight at 2.7% y/y against expectations of a 2.6% outcome. Nevertheless there was little reaction given the Bank of England seems content to allow inflation to return to target in a somewhat longer timeframe.

Coming Up

Domestic focus will be on the Wage Price Index (11.30am AEST) and the Westpac-MI Consumer Confidence survey (10.30am AEST). There is little on the international calendar today with the highlights being Japanese Industrial Production and Machine Orders, UK Labour Market Statistics (where focus will be on wages – markets expect a 2.4% y/y outcome), and the final reading on April Eurozone CPI.

For the Wage Price Index, NAB is similar to the market in expecting still soft wages growth of 0.5% q/q, which would keep the annual pace unchanged at 1.9% y/y. Such an outcome could signal the bottoming out of wages growth which has been consistently surprising to the downside and is important for the RBA with the Bank assuming wages growth "to remain at around its current rate over the next year..[and] then expected to pick up gradually over 2018 and 2019". Today's wages numbers will also be watched closely by those in Treasury who are expecting wages growth to pick up to a 3¼% by 2020-21.

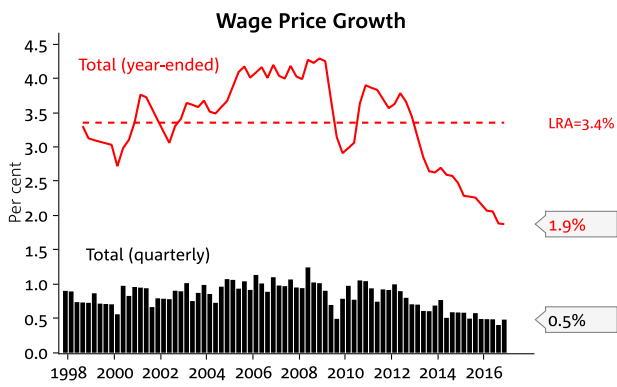
Although Consumer Confidence does not typically ruffle any feathers, this month's read will be looked through the prism of the Federal Budget and taken as whether consumers endorse the Budget or not. Yesterday's weekly measure suggests not – this measure fell to its lowest level since September 2015 and is also indicative of slight downside risks to the monthly measure.

Overnight

On global stock markets, the S&P 500 was -0.08%. Bond markets saw US 10-years -1.94bp to 2.32%. In commodities, Brent crude oil -0.48% to \$51.57, gold+0.5% to \$1,236, iron ore +0.6% to \$61.17, steam coal -0.1% to \$73.25, met.coal -0.9% to \$172.50. AUD is at

0.743 and the range since yesterday 5pm Sydney time is 0.7395 to 0.7437.

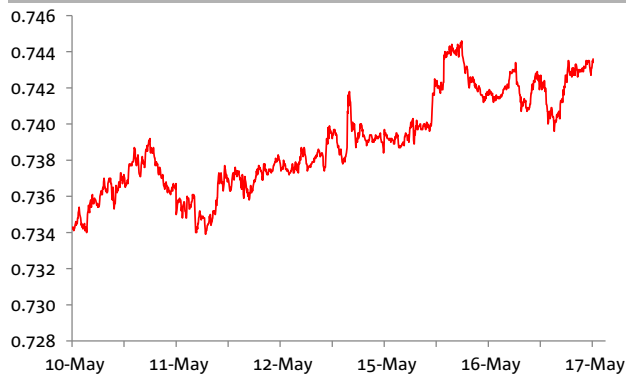
Chart 1: Has wages growth reached the low point yet?



Source: National Australia Bank, ABS

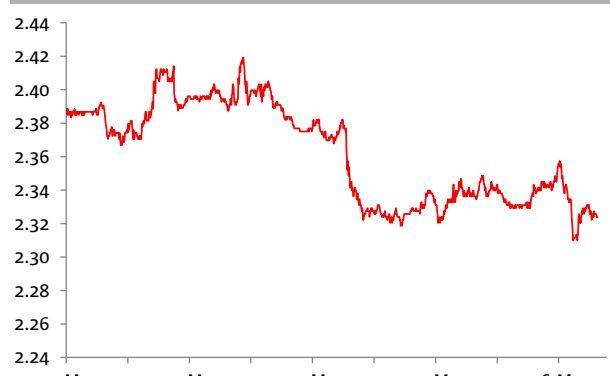
Markets

AUD/USD - past week



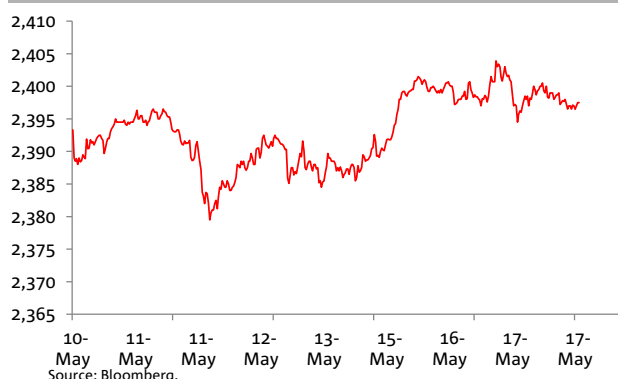
Source: Bloomberg.

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	0.7430	0.2	0.7395	0.7438	HKD	7.7879	0.0
NZD	0.6884	0.0	0.6863	0.6906	CNY	6.8867	-0.1
EUR	1.1085	1.0	1.0975	1.1097	SGD	1.3947	-0.2
GBP	1.2920	0.2	1.2866	1.2958	IDR	13,300	0.0
JPY	113.05	-0.7	112.93	113.80	THB	34.47	-0.2
CAD	1.3590	-0.3	1.3575	1.3659	KRW	1,116	-0.7
AUD/EUR	0.6703	-0.8	0.6689	0.6768	TWD	30.10	0.0
AUD/JPY	83.99	-0.4	83.94	84.52	PHP	49.72	0.1
AUD/GBP	0.5751	0.0	0.5726	0.5768	CHF	0.99	-1.1
AUD/NZD	1.0792	0.2	1.0746	1.0800	SEK	8.78	-0.6
AUD/CNH	5.1178	0.0	5.0924	5.1304			

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Spnd
USD	1.00	1.18	1.54	2.24	USD 10	2.32	-1.94	
AUD	1.50	1.74	1.82	2.80	AUD 10	2.58	-0.50	0.26
NZD	1.75	1.99	2.23	3.31	NZD 10	2.93	0.70	0.61
EUR	0.00	-0.33	-0.14	0.83	CAD 10	1.57	-2.30	-0.75
GBP	0.25	0.32	0.55	1.20	EUR 10	0.44	1.50	-1.89
JPY	-0.04	-0.01	0.04	0.25	GBP 10	1.13	-0.70	-1.19
CAD	0.50	0.89	1.01	1.80	JPY 10	0.05	0.20	-2.28

Equities

Major Indices			
	Last	% day	% y/y
Dow	20,980	-0.01	18.5
S&P 500	2,400	-0.08	16.1
Nasdaq	6,170	0.33	29.2
VIX	11	1.34	-28.1
FTSE	7,522	0.9	22.3
DAX	12,805	0.0	28.7
CAC 40	5,406	-0.2	25.4
Nikkei	19,920	0.3	19.6
Shanghai	3,113	0.7	9.5
Hang Seng	25,336	-0.1	25.9
ASX 200	5,851	0.2	8.4

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.28	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.40	1.50
3/10 sprd	0.40	1.50
SPI	5855.0	-37.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	51.57	-0.5
Oil (WTI)	48.58	-0.6
Oil (Tapis)	52.25	0.0
Gold	1236.40	0.5
CRB	182.14	-0.3
GS Metals	314.3	-0.1
Aluminium	1917.8	0.8
Copper	5598.3	0.1
Nickel	9084.5	-1.0
Zinc	2538.0	-0.9
Ch. steel	3058.0	2.6
Iron ore	61.2	0.6
St. Coal	73.3	-0.1
Met.coal	172.5	-0.9
Wheat Chic.	438.3	0.1
Sugar	15.9	1.7
Cotton	81.3	-4.7
Coffee	131.5	-1.5

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
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

CONTACT DETAILS

Authors

David de Garis
Senior Economist
+61 3 8641 3045
david.degaris@nab.com.au

Ray Attrill
Head of FX Strategy
+61 2 9237 1848
ray.attrill@nab.com.au

Rodrigo Catril
Currency Strategist
+61 2 9293 7109
rodrigo.h.catril@nab.com.au

Tapas Strickland
Economist
+61 2 9237 1980
tapas.strickland@nab.com.au

Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406
peter.jolly@nab.com.au

Group Economics

Alan Oster
Chief Economist
+61 3 8634 2927
alan_oster@national.com.au

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.