

MARKETS TODAY

Confessions Part II



Good morning

It's been a real night of risk-off emanating from the US and the Twitter sphere going into overdrive over speculation around whether the President pressured James Comey – then FBI Director - to drop his investigation into Mike Flynn, former National Security Adviser, with Russia in the mix. This news is not going to go away with the Democrats agitating for copies of memos. This all comes on the heels of the sharp dive in the US Economic Surprise Index, last week's further softness in US inflation, now politics intervening to add more noise into a market already wondering whether the US economy is slowing or not.

The market overnight has seen a sharp dive in US stocks, the Trump reflation trade now totally unwound as far as the big dollar and US Treasury yields are concerned. The USD is under pressure, while the VIX is up sharply, closing at 15.59, up 4.49 index points, or 46.4%. US bonds have rallied sharply, and gold is higher.

The market is holding – at least for now - to an above 50% view that the Fed will still hike at the June 14 FOMC, but that priced-in probability is naturally under pressure too. The market understands that the Fed policy is very sensitive to any material lift in market volatility. Were such volatility to continue, at the minimum the Fed would be delaying a rate rise beyond June.

The Dow has dropped 374 points, down 1.78%, with a similar story for the S&P 500, the Nasdaq down a larger 2.6%. All sectors bar Utilities have declined in the S&P, while the KBW bank index down 4.08% and the Dow Transport Index down 3.08%. US Treasury yields have slumped, 10s down a cool 10bps to 2.22%, 2s holding up relatively, down 5.3bps to 2.22%. Gold has risen \$24.80/oz to \$US 1261.20, up 2.01%, WTI oil up \$0.30 to \$48.96.

The Bloomberg spot dollar index is down 0.50%, the largest gainers on the FX leader board being the yen (+1.47%) and interestingly the Kiwi (+0.78%). The Euro is up 0.47%, while Sterling and the Aussie have flat lined. The AUD has continued to trade in the lowish 0.74s ahead of today's employment report and even after yesterday's statement from S&P affirming Australia's AAA sovereign rating and maintaining the negative outlook. Spot iron ore was up \$1.03/t yesterday to \$62.20, with met coal and steaming coal up, though somewhat less.

European economic news saw mixed news from the UK labour market report with faster than expected employment growth, record low unemployment but with slower growth in wages. Sterling rallied a little from that, also supported by USD subsequent weakness. Euro CPI rose from 1.5% to 1.9% as expected, core CPI also in line at a steady 1.2%. There was no significant US economy news.

Coming Up

First up today is Japanese GDP, the market expecting to see growth for Q1 of 0.5% q/q, up slightly from 0.3% in Q4. The bigger picture for the USD/JPY remains the volatility in the USD.

Today's AU labour market report for April should, if the leading indicators of labour demand are at all right, be consistent with some further return of a lift in the trend rate of employment growth. ABS employment has been under-clubbing relative to such indicators for quite some months and a complete reversal of last month's for once stronger than expected +61K rise would be a disappointment to the market. NAB's "pick" is a gain of 10K in total employment, sufficient to push the unemployment rate back to 5.8%. We'll be alert to any potential noticeable impact from Cyclone Debbie on Qld and (north coast) NSW.

Also out this morning are NZ Consumer Confidence and AU Consumer Inflationary Expectations for May. Last month, consumer inflationary expectations were stable at 4.1%, with the mean of responses in the 0-5% range stable at 2.5%, bang in line with the middle of the RBA's 2-3% target band. Another such sign in May would be a little more reassurance for the RBA expectations that core inflation and wages growth remain stable.

Tonight's UK retail sales will be the second leg of key consumer-related reports after last night's labour market report. ECB President Draghi is speaking in the wake of the French Presidential election, though we expect him to remain quite cautious rather than spooking markets too much by sending the Euro higher on any firmer hints of slowing down ECB QE.

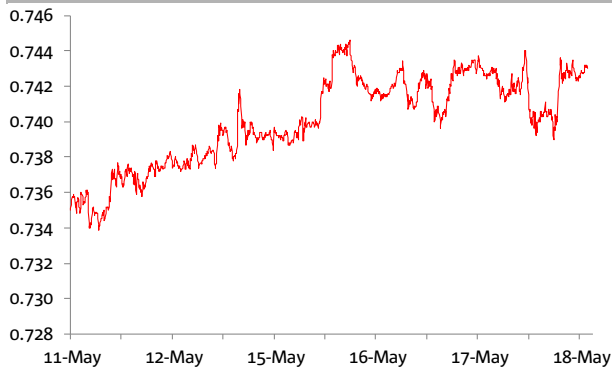
There's also a smattering of US reports, including weekly jobless claims, running of late at multi-decade lows, the Philly Fed survey, and Fed President Mester speaking. And there's always the potential (likelihood?) for more news from the White House. Treasury Secretary Mnuchin is speaking so the market will be alert to any views he has to offer on the economy, trade, currencies and indeed the Administration's tax and infrastructure plans, all being put to one side for now it seems.

Overnight

On global stock markets, the S&P 500 was -1.82%. Bond markets saw US 10-years -10.14bp to 2.22%. In commodities, Brent crude oil +0.66% to \$51.99, gold+2.0% to \$1,261, iron ore +1.7% to \$62.20, steam coal +0.8% to \$73.80, met. coal +0.3% to \$173.00. AUD is at 0.7433 and the range since yesterday 5pm Sydney time is 0.7389 to 0.7444.

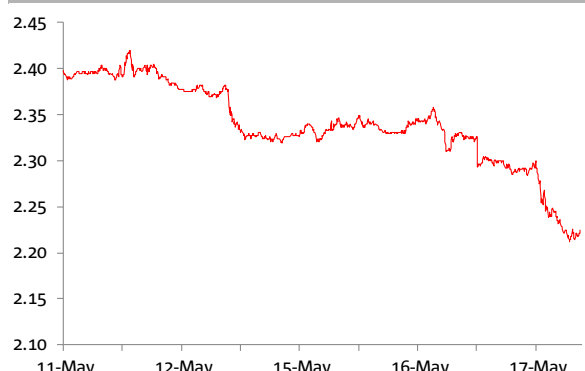
Markets

AUD/USD - past week



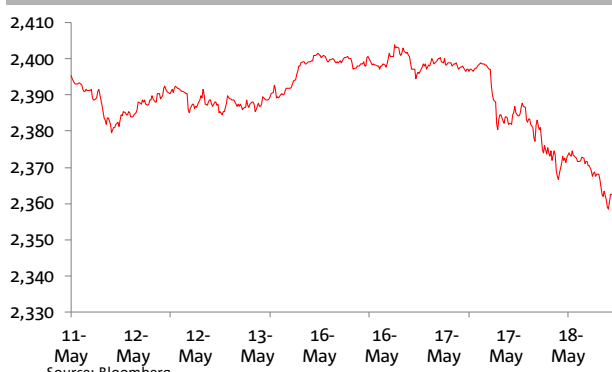
Source: Bloomberg.

US 10yr - past week



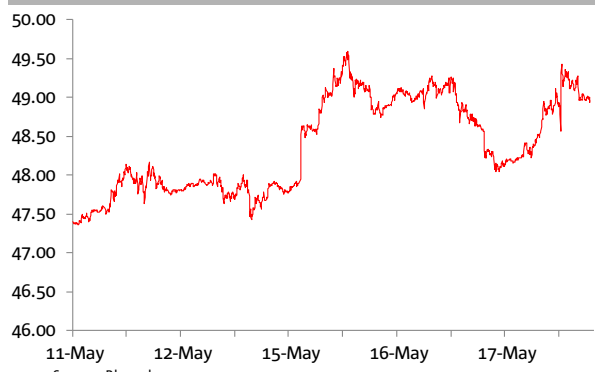
Source: Bloomberg.

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	0.7433	0.1	0.7389	0.7444	HKD	7.7849 -0.1
NZD	0.6940	1.0	0.6867	0.6946	CNY	6.8685 -0.3
EUR	1.1160	1.0	1.1050	1.1167	SGD	1.3908 -0.5
GBP	1.2974	0.6	1.2873	1.2992	IDR	13,324 0.2
JPY	110.80	-2.5	110.66	113.74	THB	34.48 -0.2
CAD	1.3602	-0.3	1.3572	1.3649	KRW	1,123 0.5
AUD/EUR	0.6659	-0.6	0.6647	0.6720	TWD	30.13 0.1
AUD/JPY	82.35	-2.1	82.24	84.41	PHP	49.76 0.2
AUD/GBP	0.5729	-0.2	0.5698	0.5768	CHF	0.98 -1.2
AUD/NZD	1.0709	-0.6	1.0697	1.0801	SEK	8.73 -0.9
AUD/CNH	5.1049	0.1	5.0815	5.1196		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.00	1.18	1.47	2.14	USD 10	2.22	-10.14
AUD	1.50	1.74	1.78	2.72	AUD 10	2.53	-5.20 0.30
NZD	1.75	1.98	2.21	3.22	NZD 10	2.87	-5.90 0.65
EUR	0.00	-0.33	-0.15	0.77	CAD 10	1.45	-12.30 -0.78
GBP	0.25	0.31	0.53	1.12	EUR 10	0.38	-5.70 -1.85
JPY	-0.05	-0.01	0.04	0.25	GBP 10	1.07	-6.30 -1.16
CAD	0.50	0.89	0.99	1.72	JPY 10	0.05	0.00 -2.18

Equities

Major Indices			
	Last	% day	% y/y
Dow	20,607	-1.78	17.6
S&P 500	2,357	-1.82	15.1
Nasdaq	6,011	-2.57	27.5
VIX	15.59	46.38	0.1
FTSE	7,503	-0.2	21.7
DAX	12,632	-1.4	27.7
CAC 40	5,318	-1.6	23.7
Nikkei	19,815	-0.5	19.0
Shanghai	3,104	-0.3	10.6
Hang Seng	25,294	-0.2	27.6
ASX 200	5,786	-1.1	8.0

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.28	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.51	13.50
3/10 sprd	0.30	-10.50
SPI	5720.0	134.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	51.99	0.7
Oil (WTI)	48.96	0.6
Oil (Tapis)	51.75	-1.0
Gold	1261.20	2.0
CRB	183.24	0.6
GS Metals	315.2	0.3
Aluminium	1919.3	0.1
Copper	5600.5	0.0
Nickel	9182.0	1.1
Zinc	2553.8	0.6
Ch. steel	3120.0	4.6
Iron ore	62.2	1.7
St. Coal	73.8	0.8
Met.coal	173.0	0.3
Wheat Chic.	440.3	0.5
Sugar	16.3	2.6
Cotton	80.2	-1.4
Coffee	134.4	2.2
Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-1.0	-4.0%
FED	14	56.0%

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
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
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
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
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 Dombrovskis 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		0.3/0.2		-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 19				58.1	15.00	0.00
AU	RBA's Debelle Speech in Basel						18.30	3.30
Tuesday, 23 May 2017								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May 21				109.4	0.30	9.30
JN	All Industry Activity Index MoM	Mar				0.7	5.30	14.30
JN	Machine Tool Orders YoY	Apr F				34.7	7.00	16.00
GE	GDP SA QoQ/YoY	1Q F		/		0.6/1.7	7.00	16.00
GE	IFO Business Climate	May				112.9	9.00	18.00
GE	IFO Current Assessment/Expectations	May				121.1	9.00	18.00
UK	Public Finances (PSNCR)	Apr				34.3	9.30	18.30
UK	CBI Retailing/Distributive Reported Sales	May				38.0	11.00	20.00
CA	Wholesale Trade Sales MoM	Mar				-0.2	13.30	22.30
US	New Home Sales, #/MoM	Apr		625/0.6		621.0/5.8	15.00	0.00
US	Richmond Fed Manufact. Index	May		15		20.0	15.00	0.00
Wednesday, 24 May 2017								
NZ	Trade Balance NZD/YTD	Apr				332.0	23.45	8.45
NZ	RBNZ Governor Wheeler Speaks in Hamilton (Not Public)						1.00	10.00
JN	BOJ Kuroda speaks in Tokyo						1.00	10.00
AU	Westpac Leading Index MoM	Apr				0.1	1.30	10.30
JN	Nikkei Japan PMI Mfg	May P				52.7	1.30	10.30
AU	Skilled Vacancies MoM	Apr				-0.6	2.00	11.00
AU	Construction Work Done	1Q				-0.2	2.30	11.30
GE	GfK Consumer Confidence	Jun				10.2	7.00	16.00
GE	Markit/BME Germany Manufacturing PMI	May P		/		58.2/55.4	8.30	17.30
GE	Markit Germany Services/Composite PMI	May P				55.4	8.30	17.30
EC	Markit Eurozone Manufacturing PMI	May P		/		56.7/56.4	9.00	18.00
EC	Markit Eurozone Services/Composite PMI	May P				56.4	9.00	18.00
US	FHFA House Price Index MoM	Mar				0.8	14.00	23.00
US	House Price Purchase Index QoQ	1Q				1.5	14.00	23.00
US	Markit US Manufacturing PMI	May P				52.8	14.45	23.45
US	Markit US Services/Composite PMI	May P		/		53.1/53.2	14.45	23.45
CA	Bank of Canada Rate Decision	May 24		0.5		0.5	15.00	0.00
US	Existing Home Sales, #/MoM	Apr		5.67/-0.65		5.7/4.4	15.00	0.00
US	FOMC Meeting Minutes	May 3					19.00	4.00
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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