

# MARKETS TODAY

## USD higher ahead of FOMC Minutes



### Good Morning

European and US equities have continued to edge higher amid a mild risk positive tone in the overnight session. US Treasury yields had a small sell off at the start of the NY session with the move higher in yields helping the USD perform across the board. Commodities had another mixed session, but oil prices have continued to climb higher ahead of OPEC meeting on Thursday. There has been little market reaction to Trump's budget, but questions remain on optimistic growth assumptions.

Solid data releases out of Europe help reverse yesterday's mild risk off tone triggered by the heart breaking news of a terrorist attack in Manchester. The German Ifo business climate index rose to a new all-time high - based on data back to 1991 while French services and German manufacturing flash May PMI readings also beat expectations. Notably, however, Europe's composite PMI reading was unchanged at 56.8, suggesting there may have been some offsetting weakness in other EZ countries that do not report flash estimates. Still reaction to the data saw European equities ex UK performed and helped the Euro climbed to an intraday high of 1.1268.

The positive mood in Europe helped US equities at the open with financial shares leading the way. After four consecutive gains, the S&P 500 climbed 0.2% overnight and now is within touching distance of its closing record of 2405.77. The Dow and NASDAQ also recorded modest gains on the day, up 0.21% and 0.08% respectively.

Just after the US open, 10y UST yields jumped over 5bps to an intraday high of 2.2869% and are currently trading at 2.2817%. Corporate issuance and a soft T bill auction were been cited by some as the trigger for the move higher in yields. Countering this argument, the 2 year bond auction was well received and we suspect the move probably has more to do with US equity performance and the ongoing rise in oil prices.

The move higher in UST yields has helped the USD performed against most currencies with NZD the exception in G10 (+0.23%) and ZAR (1.09%) the notable winner in EM. The Kiwi got a boost early this morning form better than expected milk forecast from Fronterra (\$6.50 17/18, adding 15c to current season). Meanwhile the Rand performance was triggered by reports that ANC Leaders plan to raise Zuma removal at a key meeting.

Looking at G10 currencies in more detail, the strength in the USD has dragged the Euro to the bottom of the pile, down 0.48% and back below the 1.12 mark. But after decent gains over the past fortnight (almost 4%), we suspect the move reflects some profit taking and bit of technical resistance above 1.1260. ECB's Coeure might have been a factor too noting there is no need to change policy exit sequencing at this stage. Other European currencies followed the EUR move lower and JPY underperformed in line with the move higher in UST yields (currently trading at ¥111.78). Meanwhile the AUD

is essentially unchanged seemingly aided by the risk positive tone (VIX still below 11) and rise in oil prices (WTI +0.7% and Brent 0.5%), despite softness in gold (-0.8% and iron ore -1.9%).

Market reaction to Trump's budget was fairly muted. The \$3.6tr spending cuts over 10y were already know and in addition to the growth forecast assumption, question marks still remain on the White House ability to gain approval from Congress.

### Coming Up

Australia's Q1 Construction Work Done is the data highlight in our time zone, RBNZ Wheeler speaks in Hamilton (non- public speech), BoJ Kuroda speaks in Tokyo and Australia also gets Leading Index and Skilled Vacancies figures for April. In Europe Germany releases its Consumer Confidence reading for June and ECB Draghi and Praet are on speech duties. House prices are out in the US and ahead of the May FOMC Meeting Minutes early tomorrow morning, the Bank of Canada makes its policy rate announcement.

In line with the market our economists' are calling for Construction Work Done to print a modest 0.5% in real terms in Q1. Road and rail public infrastructure spending has been rising and should help moderate the wind-down in spending on major resource projects. That said, Cyclone Debbie in Queensland and the exceptionally wet weather in Sydney during March, the wettest in 27 years, likely dragged spending down during the quarter.

The Bank of Canada is unanimously expected to stand pat tonight, but with core CPI trending lower we suspect the Bank will retain its easing bias.

As for the FOMC Meeting Minutes we think they will reiterate the consensus view within the Committee for two more hikes this year. However, the market is likely to be sensitive to any commentary on the inflation outlook. A June hike still looks like the base case scenario, but if there are any signs of doubts over the expected upward path on inflation this view may be challenged. After dipping into the mid-60s last week, pricing expectation for a June hike have edged higher again and currently sit at 75% while 35bps of tightening are priced by year end. Any commentary surrounding the Fed Balance sheet are likely to be limited to the Committee's preference for a passive strategy without any details on timing or magnitude.

### Overnight

On global stock markets, the S&P 500 was +0.18%. Bond markets saw US 10-years +2.62bp to 2.28%. In commodities, Brent crude oil +0.59% to \$54.19, gold-0.8% to \$1,251, iron ore -1.9% to \$62.00, steam coal -0.6% to \$74.35, met. coal +1.2% to \$174.00. AUD is at 0.7477 and the range since yesterday 5pm Sydney time is 0.7466 to 0.7517..

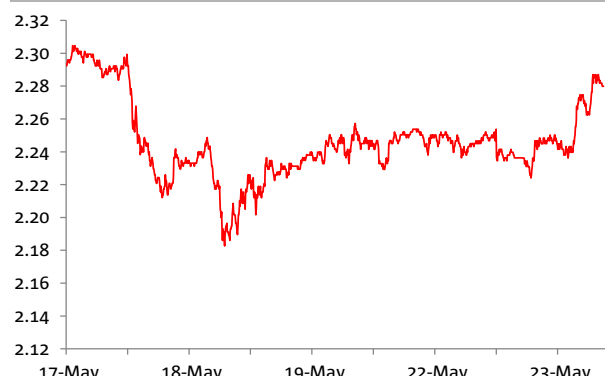
Markets

AUD/USD - past week



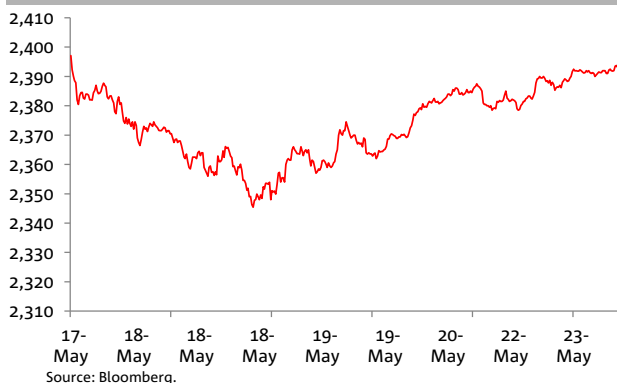
Source: Bloomberg.

US 10yr - past week



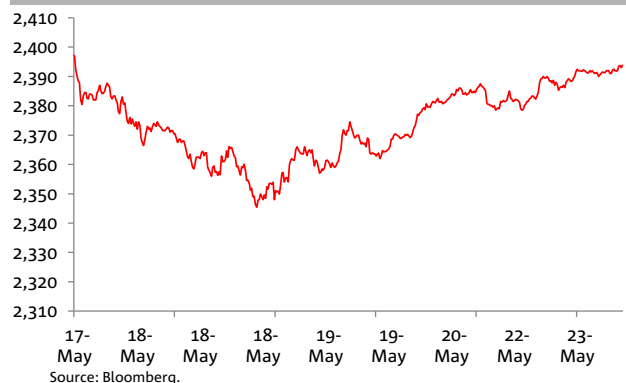
Source: Bloomberg.

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	0.7477	0.0	0.7466	0.7517	HKD	7.7880	0.0
NZD	0.7012	0.2	0.6990	0.7047	CNY	6.8852	0.0
EUR	1.1181	-0.5	1.1175	1.1268	SGD	1.3893	0.2
GBP	1.2960	-0.3	1.2953	1.3034	IDR	13,299	0.0
JPY	111.79	0.4	110.86	111.86	THB	34.44	0.4
CAD	1.3512	0.1	1.3456	1.3525	KRW	1,124	0.5
AUD/EUR	0.6688	0.5	0.6641	0.6696	TWD	30.16	0.4
AUD/JPY	83.59	0.5	82.82	83.67	PHP	49.82	0.1
AUD/GBP	0.5770	0.3	0.5746	0.5794	CHF	0.98	0.3
AUD/NZD	1.0663	-0.2	1.0646	1.0694	SEK	8.71	0.2
AUD/CNH	5.1639	0.3	5.1351	5.1726			

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spred
USD	1.00	1.19	1.54	2.22	USD 10	2.28	2.62
AUD	1.50	1.74	1.78	2.75	AUD 10	2.44	-4.40 0.16
NZD	1.75	1.97	2.26	3.27	NZD 10	2.85	-0.40 0.57
EUR	0.00	-0.33	-0.13	0.84	CAD 10	1.51	3.50 -0.77
GBP	0.25	0.30	0.55	1.16	EUR 10	0.41	1.30 -1.87
JPY	-0.06	-0.01	0.04	0.24	GBP 10	1.08	-0.60 -1.20
CAD	0.50	0.89	1.03	1.78	JPY 10	0.05	-0.40 -2.23

Equities

Major Indices			
	Last	% day	% y/y
Dow	20,938	0.21	19.7
S&P 500	2,398	0.18	17.1
Nasdaq	6,139	0.08	28.8
VIX	10.72	-1.92	-32.2
FTSE	7,485	-0.1	22.0
DAX	12,659	0.3	28.6
CAC 40	5,348	0.5	23.7
Nikkei	19,613	-0.3	18.9
Shanghai	3,062	-0.4	8.5
Hang Seng	25,403	0.0	28.1
ASX 200	5,760	-0.2	8.8

Commodities\*

	Last	% day
Oil (Brent)	54.19	0.6
Oil (WTI)	51.49	0.7
Oil (Tapis)	53.55	-1.3
Gold	1250.80	-0.8
CRB	185.06	-0.5
GS Metals	320.1	0.3
Aluminium	1937.5	0.3
Copper	5705.5	0.1
Nickel	9309.5	-0.6
Zinc	2653.0	1.0
Ch. steel	3301.0	-0.7
Iron ore	62.0	-1.9
St. Coal	74.4	-0.6
Met. coal	174.0	1.2
Wheat Chic.	444.0	-0.9
Sugar	15.9	-3.9
Cotton	77.2	-1.5
Coffee	130.3	-0.3

Overnight Futures

Australia		
	Last	Chge*
3 mth bill	98.27	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.48	-1.50
3/10 sprd	0.32	4.50
SPI	5782.0	0.0

\*Change in bps

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-1.0	-4.0%
FED	19	77.6%

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>Wednesday, 24 May 2017</b>								
NZ	Trade Balance NZD/YTD	Apr		266.5		332	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
AU	Skilled Vacancies MoM	Apr				-0.6	2.00	11.00
AU	Construction Work Done	1Q	-0.5	-0.5		-0.2	2.30	11.30
AU	NAB Consumer Behaviour Survey (Cons. Anxiety Index)	1Q				58.7	2.30	11.30
NZ	New Residential Lending YoY	Apr				-8.9	4.00	13.00
GE	GfK Consumer Confidence	Jun		10.2		10.2	7.00	16.00
EC	ECB's Praet (Chf Economist) speaks in Sofia						9.30	18.30
EC	ECB's Draghi speaks in Madrid						13.45	22.45
US	FHFA House Price Index MoM	Mar		0.5		0.8	14.00	23.00
US	House Price Purchase Index QoQ	1Q				1.5	14.00	23.00
CA	Bank of Canada Rate Decision	May 24		0.5		0.5	15.00	0.00
US	Existing Home Sales, #/MoM	Apr		5.65/-1.05		5.7/4.4	15.00	0.00
US	FOMC Meeting Minutes	May 3					19.00	4.00
<b>Thursday, 25 May 2017</b>								
US	Fed's Kaplan speaks in Toronto						23.00	8.00
US	Fed's Kashkari speaks in Wisconsin						23.30	8.30
CN	Swift Global Payments CNY	Apr				1.8	2.00	11.00
NZ	Government Budget						3.00	12.00
AU	RBA's Debelle Remarks in London at the launch of the FX Global Code, FX Week						9.00	18.00
UK	BBA Loans for House Purchase	Apr		40800		41061.0	9.30	18.30
UK	GDP QoQ/YoY (revision)	1Q P	0.3/2.1			0.3/2.1	9.30	18.30
UK	Index of Services MoM/ 3m/3M	Mar		0/0.3		0.2/0.5	9.30	18.30
UK	Total Business Investment QoQ/YoY	1Q P		0.3/		-0.9/-0.9	9.30	18.30
US	Advance Goods Trade Balance	Apr		-64.65		-64.2	13.30	22.30
US	Wholesale/Retail Inventories MoM	Apr P		0.2		0.2	13.30	22.30
US	Initial Jobless Claims	May 20		238		232	13.30	22.30
US	Bloomberg Consumer Comfort	May 21				50.2	14.45	23.45
US	Fed's Brainard Panel Discussion on Global Economy						15.00	0.00
US	Kansas City Fed Manf. Activity	May		8.5		7.0	16.00	1.00
EC	ECB's Constancio speaks in Lisbon						18.00	3.00
CA	Bank of Canada Deputy Governor Sylvain Leduc Speech						22.20	7.20
<b>Friday, 26 May 2017</b>								
JN	Natl CPI YoY	Apr		0.4		0.2	0.30	9.30
JN	Natl CPI Ex Fresh Food/Ex Fresh Food, Energy YoY	Apr		0.4/0		0.2/-0.1	0.30	9.30
JN	Tokyo CPI YoY	May		0		-0.1	0.30	9.30
JN	Tokyo CPI Ex-Fresh Food/Ex-Fresh Food, Energy YoY	May		0/-0.1		-0.1/-0.1	0.30	9.30
JN	PPI Services YoY	Apr		0.9		0.8	0.50	9.50
US	Fed's Bullard Speaks on U.S. economy in Tokyo						3.00	12.00
AU	RBA's Richards (Head of Payments Policy) Panel Participation at Australian Retail Banking Summit						5.30	14.30
US	GDP Annualized/Core PCE QoQ	1Q S		0.9/2		0.7/2.0	13.30	22.30
US	Durable Goods Orders/Core Orders	Apr P		-1.5/0.5		0.9/0.5	13.30	22.30
US	U. of Mich. Sentiment/5-10Yr Inflation	May F		97.5/		97.7/2.3	15.00	0.00
<b>Saturday, 27 May 2017</b>								
CH	Industrial Profits YoY	Apr				23.8	2.30	11.30
<b>Sunday, 28 May 2017</b>								
<b>Monday, 29 May 2017</b>								
US	Fed's Williams Speaks in Singapore						23.15	8.15
EC	ECB's Nowotny speaks at Austrian c.bank conference						8.15	17.15
<b>Tuesday, 30 May 2017</b>								
NZ	Building Permits MoM	Apr				-1.8	23.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	May 21				109.4	0.30	9.30
JN	Jobless Rate/Job-to-applicant ratio	Apr		/		2.8/1.5	0.30	9.30
JN	Overall Household Spending YoY	Apr				-1.3	0.30	9.30
JN	Retail Sales MoM/YoY	Apr		/		0.2/2.1	0.50	9.50
AU	Building Approvals MoM/YoY	Apr		/		-13.4/-19.9	2.30	11.30
EC	Business Climate Indicator	May				1.1	10.00	19.00
EC	ECB's Liikanen speaks at Austrian c.bank conference						11.15	20.15
GE	CPI MoM/YoY	May P		/		0.0/2.0	13.00	22.00
GE	CPI EU Harmonized MoM/YoY	May P		/		0.0/2.0	13.00	22.00
CA	Current Account Balance	1Q				-10.7	13.30	22.30
US	Personal Income/Spending	Apr		0.4/0.4		0.2/0.0	13.30	22.30
US	Real Personal Spending	Apr				0.3	13.30	22.30
US	PCE Deflator MoM/YoY	Apr		0.2/1.7		-0.2/1.8	13.30	22.30
US	PCE Core MoM/YoY	Apr		0.1/1.5		-0.1/1.6	13.30	22.30
CA	Industrial Product Price/Raw Materials Price MoM	Apr		/		0.8/-1.6	13.30	22.30
US	S&P CoreLogic CS 20-City MoM/YoY	Mar		/		0.7/5.9	14.00	23.00
US	Conf. Board Consumer Confidence	May		120		120.3	15.00	0.00
US	Dallas Fed Manf. Activity	May				16.8	15.30	0.30
<b>Upcoming Central Bank Interest Rate Announcements</b>								
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, Bol		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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