

# MARKETS TODAY

## Strong enough



### Good morning

Sheryl Crow's hit "strong enough" finds Crow frustrated in a relationship and asking the question, "Are you strong enough to be my man?". Well Friday night was all about the US jobs report and no doubt a similar question (without the man bit of course) crossed investors' mind. In the end the numbers were solid enough to keep the Fed on track for a June hike, but not strong enough to erase uncertainties over the future Fed funds rate's path beyond June. US equities indices made new fresh highs, but the lack of wage inflation in the report triggered a rally in US Treasury yields and saw the USD fall across the board. NZD and AUD were the top performers on Friday, but terrible news of another terrorist attack in the UK has seen both currencies open a little bit softer this morning.

US non-farm payrolls rose to 138k in May against expectations for a 182k rise, net revision also disappointed shaving 66k jobs from previous readings. The unemployment rate fell to 4.3% from 4.4%, largely driven by a decline in the participation rate by 2 tenths to 62.7%. Hourly earnings rose 0.2% mom, in line with consensus, but the yoy reading stayed at 2.5% against expectations of 2.6%. The lack of wage growth was seen as the major driver for the rally in UST yields and broad USD sell off.

Reading through commentaries on the report, seasonal factors were raised by many as one major reason for the softness in the numbers. Jim O'sullivan from HFE noted last year payrolls rose just 38K in May, but the weak reading was followed by a surge over the following months. Three more job reports will be released before the September FOMC meeting, so probably enough data points to prove if the recent slowdown in wage growth was just a blip or the start of a new trend.

On Friday all three major US equity indices made fresh new highs with the jobs report leaving equity investors with the impression that future Fed hikes are unlikely to be anything but gradual. The Dow rose 62.11 pts (0.3%) to 21206.29, the S&P 500 climbed 9.01 pts (0.4%) to 2439.07 and the Nasdaq added 58.97 (0.9%) to 6305.80. Early in the session European equity indices also closed higher with the Stoxx Euro 600 index +0.23%, CAC 40 +0.47%, DAX 1.25% and FTSE100 0.005%.

Meanwhile the jobs report triggered a selloff in the US dollar across the board with DXY dropping 0.5% to 96.715 and BBDX shaving 0.41% to 1196.41. Both indices are now well through levels seen when President Trump won the election on November 8 last year.

The NZD and AUD closed Friday at the top of the G10 leader board, up 1.16% and 0.94% respectively. NZD closed the week at 0.7142, its highest level since March 2 and looks to have a fair bit of room to trade above 0.72. Meanwhile the AUD regained all the lost ground post last's week China's PMI induced sell off and closed the week at 0.7443. After the terrible news from London over

the weekend both currencies have opened the week a little bit lower. The AUD is at 0.7425 and NZD is at 0.7132.

USD/JPY is back below the ¥111 mark, but at ¥ 110.37 it remains contained within its recent ¥110.24 to ¥112.13 range held since mid-May. The euro has retained its upward trend, against the USD, climbing 70pips on Friday and closing the week at 1.1274. The ECB meeting next week will be crucial for the prospect of further near term EUR appreciation. We expect the central bank to remove its commitment to the possibility of lower rates in the future as it gradually prepares the market to the notion of QE tapering later in the year.

The US jobs report triggered a rally in US Treasury yields with the move led by the back end of the curve. 10y and 30y yields fell 5.2 and 5.3bps to 2.16% and 2.81% respectively. Pricing expectations for a Fed hike in June were little changed at 84%, but looking at expectation for the end of 2018, last week the market was pricing a Fed Funds rate at 1.54% and now that level is seen at 1.47%. This implies that by the end of 2018 the market is looking for 2 more 25bps Fed hikes, compared to 5 hikes denoted by the Fed median dot plot.

Looking at commodities, oil prices fell around 1.4% on Friday with WTI closing the week at \$47.66 while Brent ended at \$49.95. It was a better end to the week for iron ore which gained 3.3%, gold climbed 0.8% to \$1276.8 and both steam and metallurgical coal climbed on Friday, up 2 and 6.2% respectively.

President Trump is considering nominating Marvin Goodfriend, a former Fed economist, for a spot on the Fed's board of governors. Mr Goodfriend was the intellectual architect of Fed QE and he is a highly credible academic/Fed economist. He has been critical of Fed MBS purchases but not Treasuries. He is also in favour of more Fed oversight from Congress to enhance its credibility and he supports the need of Fed officials to compare their policy decisions against a mathematical rule such as the Taylor rule. In short, he is unlikely to be a big deviation from the current core thinking within the Fed.

### Coming Up

Monday morning (11:45am Sydney) brings the China's Caixin services and composite PMI prints for May and another round of soft numbers, after last week's soft manufacturing reading, could set the tone at the start of the week for the AUD. US ISM non-manufacturing on Monday night is the other notable data release. Market is looking for a small pull back to 57.1 from 57.5 with details on hiring intentions on the report likely to get a fair bit of scrutiny. The UK services PMI is also due out later today.

Looking at the week's highlights in Australia we have the RBA on Tuesday and GDP on Wednesday. The market is looking for a 0.3% GDP outcome, but our economists are

eying a negative print of -0.1%. If correct, it could be another factor likely to weigh on the currency this week.

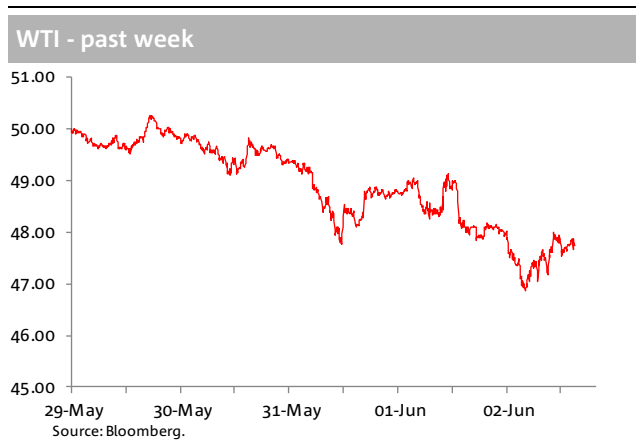
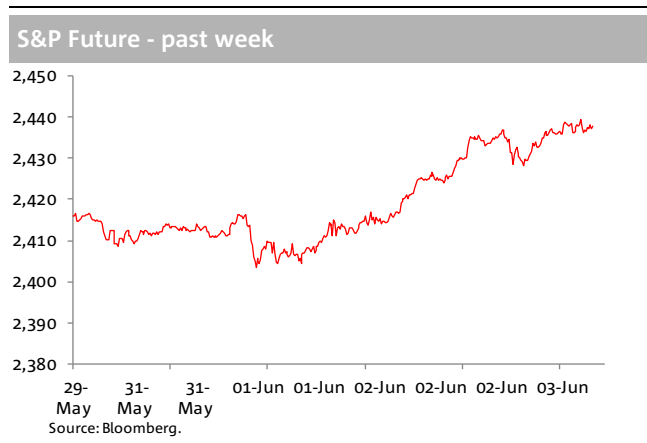
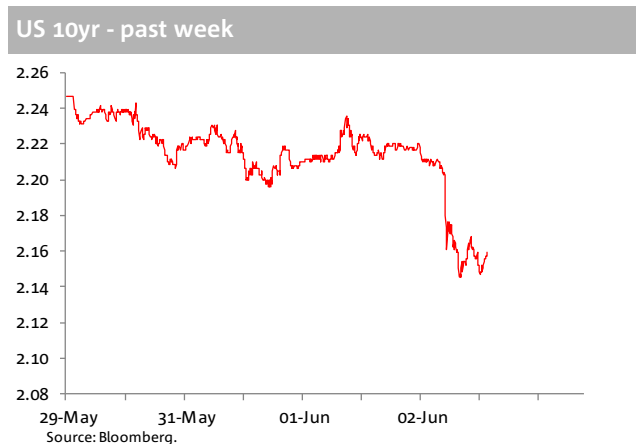
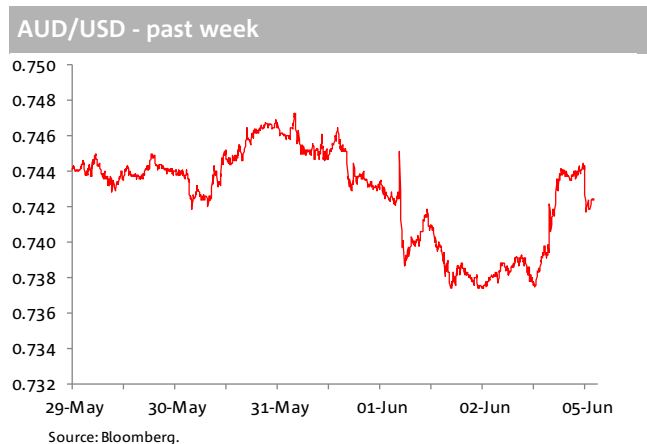
As for offshore markets the big events for the week are the ECB meeting, UK election and former FBI Director Comey appearance in front of the Senate Intelligence Committee (if the White House does not block his testimony). All happening on Thursday.

See our What to Watch publication for more details.

## Overnight

On global stock markets, the S&P 500 was +0.37%. Bond markets saw US 10-years -5.23bp to 2.16%. In commodities, Brent crude oil -1.34% to \$49.95, gold+0.8% to \$1,277, iron ore +3.3% to \$57.79, steam coal +2.0% to \$76.00, met. coal +6.2% to \$155.00. AUD is at 0.743 and the range since Friday 5pm Sydney time is 0.7373 to 0.7447.

# Markets



Foreign Exchange						
		Indicative 24hr ranges (**)		Other FX		
	Last	% chge	Low	High	Last	% chge
AUD	0.7430	0.8	0.7373	0.7447	HKD	7.7908 0.0
NZD	0.7135	1.1	0.7060	0.7147	CNY	6.8100 0.0
EUR	1.1283	0.6	1.1205	1.1285	SGD	1.3821 -0.3
GBP	1.2867	-0.1	1.2846	1.2904	IDR	13,315 0.1
JPY	110.48	-0.8	110.26	111.71	THB	34.05 -0.3
CAD	1.3493	-0.2	1.3481	1.3547	KRW	1,122 0.0
AUD/EUR	0.6575	0.0	0.6571	0.6603	TWD	30.12 0.0
AUD/JPY	82.10	0.0	81.78	82.55	PHP	49.51 -0.5
AUD/GBP	0.5757	0.6	0.5721	0.5780	CHF	0.96 -0.8
AUD/NZD	1.0413	-0.3	1.0391	1.0454	SEK	8.62 -0.8
AUD/CNH	5.0671	0.7	4.9757	5.0455		

Interest Rates							
Indicative Swap Rates				Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.00	1.22	1.51	2.11	USD 10	2.16	-5.23
AUD	1.50	1.73	1.73	2.64	AUD 10	2.41	1.60 0.25
NZD	1.75	1.96	2.21	3.20	NZD 10	2.77	3.50 0.61
EUR	0.00	-0.33	-0.17	0.77	CAD 10	1.40	-2.60 -0.76
GBP	0.25	0.29	0.52	1.13	EUR 10	0.27	-3.10 -1.89
JPY	-0.03	-0.01	0.04	0.24	GBP 10	1.04	-3.50 -1.12
CAD	0.50	0.90	1.02	1.71	JPY 10	0.06	0.80 -2.10

Equities			
Major Indices			
	Last	% day	% y/y
Dow	21,206	0.29	19.1
S&P 500	2,439	0.37	16.2
Nasdaq	6,306	0.94	27.6
VIX	9.75	-1.42	-27.6
FTSE	7,548	0.1	21.5
DAX	12,823	1.2	26.9
CAC 40	5,343	0.5	20.8
Nikkei	20,177	1.6	21.2
Shanghai	3,106	0.1	5.7
Hang Seng	25,924	0.4	23.8
ASX 200	5,788	0.9	8.8

Commodities*		
	Last	% day
Oil (Brent)	49.95	-1.3
Oil (WTI)	47.66	-1.4
Oil (Tapis)	49.27	-3.3
Gold	1276.80	0.8
CRB	177.96	-0.6
GS Metals	315.4	-0.3
Aluminium	1924.3	0.3
Copper	5648.0	-0.6
Nickel	8876.8	0.9
Zinc	2517.5	-1.7
Ch. steel	3031.0	-2.0
Iron ore	57.8	3.3
St. Coal	76.0	2.0
Met.coal	155.0	6.2
Wheat Chic.	443.8	0.1
Sugar	13.7	-3.4
Cotton	76.7	-1.2
Coffee	125.6	-1.7

Prob. of 25bps hike/cut at next meeting	
bps	%
RBA	-1.0 -4.0%
FED	22 86.4%

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>Monday, 5 June 2017</b>								
NZ	<i>Holiday - Queen's Birthday</i>							
AU	AiG Perf of Services Index	May				53.0	0.30	9.30
JN	Nikkei Japan PMI Services/Composite	May		/		52.2/52.6	1.30	10.30
AU	Melbourne Institute Inflation MoM/YoY	May		/		0.5/2.6	2.00	11.00
AU	Inventories/Company Operating profits QoQ	1Q	0.3/8.0	0.5/5		0.3/20.1	2.30	11.30
AU	ANZ Job Advertisements MoM	May				1.4	2.30	11.30
CH	Caixin China PMI Services/Composite	May		/		51.5/51.2	2.45	11.45
UK	New Car Registrations YoY	May				-19.8	9.00	18.00
UK	Markit/CIPS UK Services/Composite PMI	May		54.8/55.5		55.8/56.2	9.30	18.30
US	Markit US Services/Composite PMI	May F		/		54.0/53.9	14.45	23.45
CA	Bloomberg Nanos Confidence	Jun 2				58.5	15.00	0.00
US	ISM Non-Manf. Composite	May		57		57.5	15.00	0.00
US	Factory Orders/ex-Trans	Apr		-0.2/		0.2/-0.3	15.00	0.00
<b>Tuesday, 6 June 2017</b>								
NZ	Crown Financial Accounts	Apr					23.00	8.00
NZ	Value of All Buildings SA QoQ	1Q	0 (downside risk)	0.3		1.9	23.45	8.45
NZ	Wholesale Trade QoQ	1Q	1.7			0.7	23.45	8.45
UK	BRC Sales Like-For-Like YoY	May				5.6	0.10	9.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jun 4				112.2	0.30	9.30
JN	Labor Cash/Real Earnings YoY	Apr		0.3/		-0.4/-0.8	1.00	10.00
NZ	ANZ Commodity Price	May	2.9			-0.2	2.00	11.00
AU	BoP Current Account Balance/Net exports % of GDP	1Q		-1/-0.4		-4.0/0.2	2.30	11.30
AU	Government spending	1Q	1.2			1.4	2.30	11.30
AU	RBA Cash Rate Target	Jun 6		1.5		1.5	5.30	14.30
GE	Markit Germany Services/Composite PMI	May F		55.2/57.3		55.2/57.3	8.55	17.55
EC	Markit Eurozone Services/Composite PMI	May F		56.2/56.8		56.2/56.8	9.00	18.00
FR	OECD Economic Outlook						9.30	18.30
EC	Sentix Investor Confidence	Jun		27.15		27.4	9.30	18.30
EC	Retail Sales MoM/YoY	Apr		0/2		0.3/2.3	10.00	19.00
US	JOLTS Job Openings	Apr				5743.0	15.00	0.00
CA	Ivey Purchasing Managers Index SA	May				62.4	15.00	0.00
US	Labor Market Conditions Index Change	May				3.5		
NZ	Dairy Auction, GDT-weighted price index		broadly steady			3.2	early am NZT	
<b>Wednesday, 7 June 2017</b>								
NZ	ANZ Job Advertisements MoM	May				2.8	23.00	8.00
NZ	Mfg Activity Volume/sa QoQ	1Q		/		-1.8/0.8	23.45	8.45
AU	AiG Perf of Construction Index	May				51.9	0.30	9.30
AU	GDP SA QoQ/YoY	1Q		0.3/1.6		1.1/2.4	2.30	11.30
CH	Foreign Reserves	May		3045		3029.5	3.30	12.30
JN	Leading Index CI	Apr P		104.3		105.5	6.00	15.00
GE	Factory Orders MoM/YoY	Apr		0/4.8		1.0/2.4	7.00	16.00
GE	Markit Germany Construction PMI	May				54.6	8.30	17.30
UK	Halifax House Prices MoM	May		-0.2		-0.1	8.30	17.30
UK	Halifax House Price 3Mths/Year	May		2.9		3.8	8.30	17.30
EC	OECD Economic Outlook						10.00	19.00
EC	GDP SA QoQ/YoY	1Q F		0.5/1.7		0.5/1.7	10.00	19.00
CA	Building Permits MoM	Apr				-5.8	13.30	22.30
US	Consumer Credit	Apr		15		16.4	20.00	5.00
<b>Thursday, 8 June 2017</b>								
NZ	ANZ Truckometer Heavy MoM	May				-1.8	23.00	8.00
UK	RICS House Price Balance	May		20		22.0	0.10	9.10
JN	GDP SA QoQ/YoY	1Q F		0.6/2.4		0.5/2.2	0.50	9.50
JN	BoP Current Account Adjusted	Apr		1624.4		1731.2	0.50	9.50
AU	Trade Balance	Apr	1000	1950		3107	2.30	11.30
CH	Trade Balance CNY	May		336		262.3	4.20	13.20
CH	Trade Balance	May		47.8		38.1	4.40	13.40
CH	<i>Foreign Direct Investment YoY CNY</i>	May	<i>To be released 8-18 June</i>			-4.3	5.40	14.40
JN	Eco Watchers Survey Current/Outlook SA	May		48.5/49.3		48.1/48.8	6.00	15.00
GE	Industrial Production SA MoM/YoY	Apr		0.5/2.3		-0.4/1.9	7.00	16.00
EC	ECB Deposit Facility Rate/Asset Purchase Target	Jun 8		0.3/4.5		-0.3/3.9	12.45	21.45
CA	Housing Starts	May		205		214.1	13.15	22.15
CA	New Housing Price Index MoM/YoY	Apr		0.3/4.5		-0.3/3.9	13.30	22.30
EC	ECB President Mario Draghi Holds Press Conference						13.30	22.30
US	Initial Jobless Claims	Jun 3				248.0	13.30	22.30
US	Ex-FBI Director Comey testifies before Senate Intelligence Committee						15.00	0.00
CA	BoC Financial Stability Review (Poloz/Wilkins press conference 45 mins later)						15.30	0.30
<b>Friday, 9 June 2017</b>								
UK	General election (voting ends 22.00 London time; 7am AEST)							
CH	CPI/PPI YoY	May		1.5/5.7		1.2/6.4	2.30	11.30
AU	Home Loans # MoM/Investment lending \$ MoM	Apr	-0.8	-1/		-0.5/0.8	2.30	11.30
JN	Tertiary Industry Index MoM	Apr		0.5		-0.2	5.30	14.30
GE	Current Account Balance	Apr				30.2	7.00	16.00
GE	Labor Costs SA QoQ/YoY	1Q		/		1.5/3.0	7.00	16.00
UK	Industrial Production MoM/YoY	Apr		0.8/-0.1		-0.5/1.4	9.30	18.30
UK	Construction Output SA MoM/YoY	Apr		0.1/-0.4		-0.7/2.4	9.30	18.30
UK	Trade Balance	Apr		-3400		-4900	9.30	18.30
UK	BoE/TNS Inflation Next 12 Mths	May				2.9	9.30	18.30
UK	NIESR GDP Estimate	May				0.2	13.00	22.00
CA	Net Change in Employment/Unemployment Rate	May		11.3/6.6		3.2/6.5	13.30	22.30
CA	Capacity Utilization Rate	1Q				82.2	13.30	22.30
US	Wholesale Trade Sales/Inventories MoM	Apr		/-0.3		0.0/-0.3	15.00	0.00
<b>Saturday, 10 June 2017</b>								
CH	<i>New Yuan Loans/Aqqreqate Financing CNY</i>	May	<i>For release 10-15 June</i>	1000/1200		1100.0/1390.0	9.00	18.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
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%		
Canada, BoC		13-Jul	0.5%	0.5%		0.5%		

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

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