

MARKETS TODAY

Mayday



Good morning

Since most Australian states went home for the three day weekend the main market price action has been a fairly sharp fall in the NASDAQ of some 2.5%, seemingly driven by a succession of negative analyst reports on valuations, renewed selling of Sterling on Monday after a reprieve in offshore market on Friday, and a jump in the Canadian dollar after Senior Deputy Governor or Carolyn Wilkins gave a fairly strong hint that the Bank of Canada is shifting to a 'tightening bias' given recent improvements in the economic data.

US bond markets have been treading water in front of the two day FOMC meeting that commences tonight, 10s stuck around 2.2%, while the Australian dollar has been spent most of its time meandering within a narrow 0.7420-0.7445 range. In Europe, the first round of voting for the French National Assembly has produced indications for a strong working majority for President Macron's 'Republic on the Move' party. At this stage, this is showing up in a fall in French government bond yields rather than a firmer Euro.

Selling pressure on all things GBP re-emerged on Monday, with GBP/USD falling to a fresh low of \$1.2640 and AUD/GBP to the intra-day highs above 0.5950 seen during our session on Friday when the news of the indecisive election results was first absorbed. PM May's two senior advisers – whose advice was presumably the reason for calling the election in the first place - were on Friday the first victims of the result.

After markets on Friday entertained thoughts of a softer Brexit, focus Monday turned to the unstable nature of the new government and the precarious position of PM May, an unfriendly backdrop for spending and investment. With open speculation of a second election this year, one opinion poll published on Monday puts Labour ahead of the Conservatives. There has also been no indication as yet from 10 Downing Street that a change of tack on the government's Brexit position is imminent.

Sterling weakness Monday contrasts with Canadian dollar strength, after the BoC's Wilkins said that "As growth continues and, ideally, broadens further, Governing Council will be assessing whether all of the considerable monetary policy stimulus presently in place is still required," USD/CAD is currently down 1.1% to 1.3325 and AUD/CAD -0.9% to 1.0049. The Bank of Canada doesn't meet for another month.

A steady AUD has come despite the latest drop in iron ore prices on Friday, to \$54.41 and the lowest levels since 1st July 2016. The small recovery overnight still leaves then sub-\$55. Other commodity prices, including oil, are quite narrowly mixed since we went home on Friday.

Coming Up

It's a holiday shortened week but a big one both domestically and internationally, featuring the Fed, latest Australian labour market data, the NAB business survey and consumer confidence – alongside the on-going legal travails of the Trump administration and how that plays into confidence – or lack thereof – in fiscal and regulatory aspects of the Trump agenda (including the timely lifting of the debt ceiling). US data includes CPI, retail sales, and industrial production. NZ has Q1 GDP data on Thursday, Wednesday sees the mid-month slug of China activity readings for May, covering industrial production, retail sales and fixed asset investment.

For the Fed, where the outcomes will be known at 04:00 AEST Thursday morning our time, a quarter-point lift to the Fed Funds rate (to 1.0-1.25%) looks nailed on and anything other than retention of the end-2017 median 'dot' at 1.375% (i.e., a 1.25-1.50% Fed Funds rate target) would also be a major surprise. If no upsets here, then what happens to the 2018 dots could be important, as too any further guidance on balance sheet reduction. Were we to see a lowering of the 2018 median dot (not our view) then even though the market is currently more than 50bps behind the Fed, the USD would likely still fall.

The NAB Business Survey is today, Employment (Thursday); Consumer Sentiment is on Wednesday and Consumer Inflation Expectations Thursday. We make no comment on the NAB Business Survey as usual apart from stating what it did last month. In April the survey remained well above its long-run average levels with conditions at +14, while the employment sub-index rose to +8, the later consistent with official employment growth of around 20k a month.

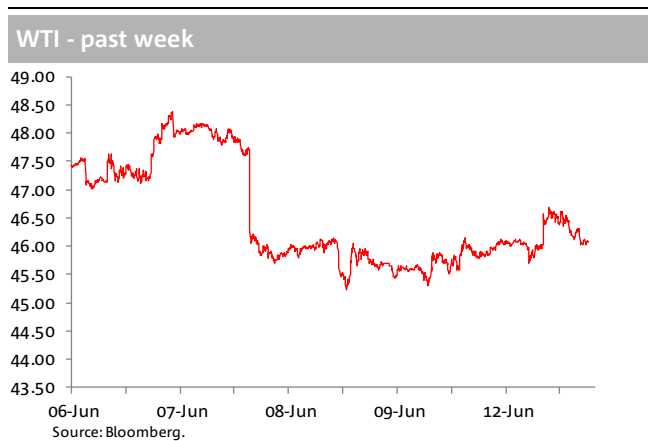
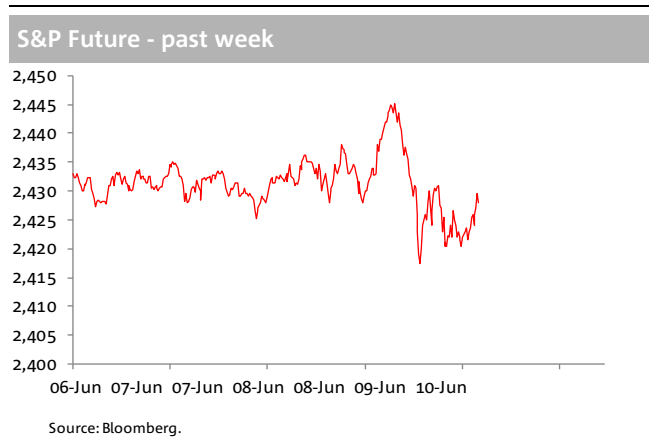
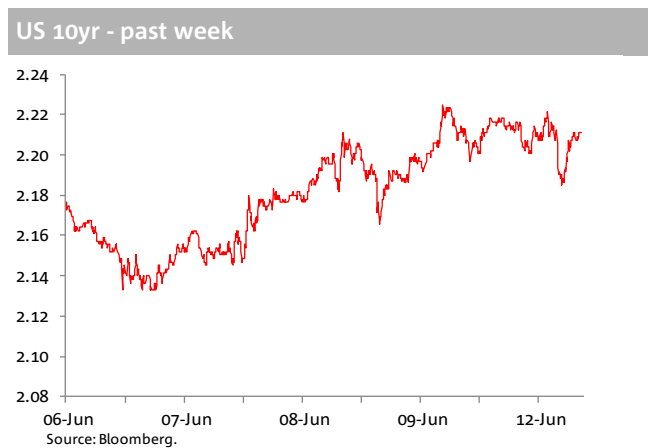
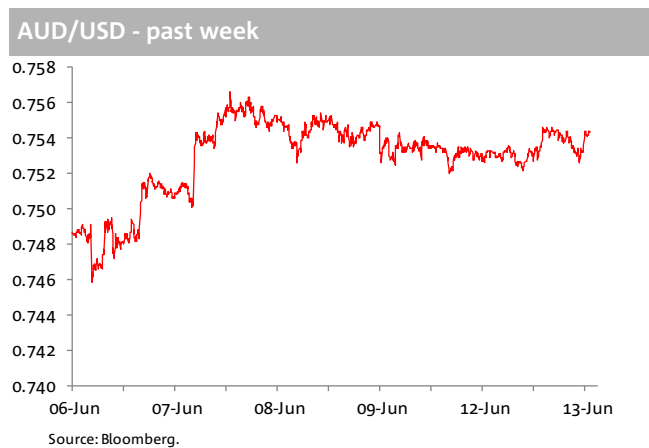
Employment Thursday is the likely focal point for markets domestically. The market consensus looks for employment growth +10k m/m after two consecutive months of strong reads (Chart 1). NAB's read of the leading indicators suggests upside risk to the market consensus with our models pointing to a +21.3k m/m outcome, informed by our own business survey from April as well as the pace of job advertisements which has picked up in recent months.

For the unemployment rate, both NAB and the market are expecting an unchanged 5.7% outcome. Such an outcome would be slightly better than the RBA's unemployment track from the May SoMP.

Overnight

On global stock markets, the S&P 500 was -0.10%. Bond markets saw US 10-years +1.05bp to 2.21%. In commodities, Brent crude oil +0.29% to \$48.29, gold -0.3% to \$1,265, iron ore +0.8% to \$54.87, steam coal +0.0% to \$79.45, met. coal +0.2% to \$144.00. AUD is at 0.7541 and the range since yesterday 5pm Sydney time is 0.7522 to 0.7547.

Markets



Foreign Exchange						
Indicative 24hr ranges (**)				Other FX		
	Last	% chge	Low	High	Last	% chge
AUD	0.7543	0.2	0.7522	0.7547	HKD	7.7995 0.0
NZD	0.7203	-0.1	0.7171	0.7214	CNY	6.7982 0.0
EUR	1.1205	0.1	1.1192	1.1232	SGD	1.3846 0.0
GBP	1.2656	-0.7	1.2639	1.2770	IDR	13,308 0.1
JPY	109.93	-0.4	109.63	110.44	THB	34.06 0.0
CAD	1.3327	-1.1	1.3322	1.3470	KRW	1,127 0.4
AUD/EUR	0.6732	0.3	0.6704	0.6737	TWD	30.19 0.2
AUD/JPY	82.92	-0.2	82.59	83.19	PHP	49.59 0.1
AUD/GBP	0.5960	0.9	0.5889	0.5963	CHF	0.97 -0.1
AUD/NZD	1.0471	0.4	1.0434	1.0499	SEK	8.74 0.3
AUD/CNH	5.1240	0.0	5.1064	5.1213		

Interest Rates							
Indicative Swap Rates				Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr	Last	chge	Spred
USD	1.00	1.24	1.55	2.16	USD 10	2.21	1.05
AUD	1.50	1.73	1.79	2.67	AUD 10	2.40	-0.30 0.19
NZD	1.75	1.97	2.20	3.17	NZD 10	2.77	1.30 0.56
EUR	0.00	-0.33	-0.19	0.75	CAD 10	1.49	6.20 -0.73
GBP	0.25	0.29	0.46	1.05	EUR 10	0.25	-1.50 -1.96
JPY	-0.05	-0.01	0.05	0.25	GBP 10	0.97	-3.80 -1.24
CAD	0.50	0.89	1.17	1.81	JPY 10	0.06	0.20 -2.15

Equities			
Major Indices	Last	% day	% y/y
Dow	21,236	-0.17	18.9
S&P 500	2,429	-0.10	15.9
Nasdaq	6,175	-0.52	26.2
VIX	11.42	6.73	-32.9
FTSE	7,512	-0.2	22.8
DAX	12,690	-1.0	29.0
CAC 40	5,241	-1.1	21.7
Nikkei	19,909	-0.5	24.3
Shanghai	3,140	-0.6	10.8
Hang Seng	25,708	-1.2	25.3
ASX 200	5,678	0.0	6.9

Commodities*		
	Last	% day
Oil (Brent)	48.29	0.3
Oil (WTI)	46.08	0.5
Oil (Tapis)	48.29	0.6
Gold	1264.50	-0.3
CRB	175.93	-0.5
GS Metals	314.2	-1.0
Aluminium	1876.0	-1.1
Copper	5748.3	-0.6
Nickel	8741.5	-2.1
Zinc	2478.0	-1.5
Ch. steel	3032.0	1.3
Iron ore	54.9	0.8
St. Coal	79.5	0.0
Met. coal	144.0	0.2
Wheat Chic.	448.5	-2.5
Sugar	14.0	-1.8
Cotton	75.1	-0.7
Coffee	129.8	0.7

Overnight Futures		
	Last	Chge*
Australia		
3 mth bill	98.28	-1.00
3 Yr bond	97.8	0.00
10 Yr bond	97.55	-0.50
3/10 sprd	0.25	0.50
SPI	5676.0	-6.0

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-1.0	-4.0%
FED	23	91.6%

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
Tuesday, 13 June 2017								
JN	BSI Large All/Manufacturing Industry QoQ	2Q		/		1.3/1.1	0.50	9.50
AU	NAB Business Conditions/Confidence	May		/		14.0/13.0	2.30	11.30
UK	CPI MoM/YoY	May		0.2/2.7		0.5/2.7	9.30	18.30
UK	CPI Core YoY	May		2.3		2.4	9.30	18.30
UK	PPI Input NSA MoM/YoY	May		-0.3/13.7		0.1/16.6	9.30	18.30
UK	PPI Output NSA MoM/YoY	May		0.1/3.6		0.4/3.6	9.30	18.30
UK	PPI Output Core NSA MoM/YoY	May		/		0.5/2.8	9.30	18.30
UK	House Price Index YoY	Apr		4		4.1	9.30	18.30
GE	ZEW Survey Current Situation/Expectations	Jun		85.4/21.5		83.9/20.6	10.00	19.00
EC	ZEW Survey Expectations	Jun				35.1	10.00	19.00
US	NFIB Small Business Optimism	May		105		104.5	11.00	20.00
US	PPI Final Demand MoM/YoY	May		0/2.3		0.5/2.5	13.30	22.30
US	PPI Ex Food and Energy MoM/YoY	May		0.2/2		0.4/1.9	13.30	22.30
US	PPI Ex Food, Energy, Trade MoM/YoY	May		0.1/		0.7/2.1	13.30	22.30
Wednesday, 14 June 2017								
NZ	Food Prices MoM	May				-0.8	23.45	8.45
NZ	BoP Current Account Balance NZD/% of GDP YTD	1Q		1/-2.7		-2.3/-2.7	23.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jun 11				112.9	0.30	9.30
AU	Westpac Consumer Conf Index/MoM	Jun		/		98.0/-1.1	1.30	10.30
CH	Retail Sales YoY/YTD YoY	May		10.7/10.3		10.7/10.2	3.00	12.00
CH	Industrial Production YoY/YTD YoY	May		6.4/6.6		6.5/6.7	3.00	12.00
CH	Fixed Assets Ex Rural YTD YoY	May		8.8		8.9	3.00	12.00
JN	Industrial Production MoM/YoY	Apr F		/		4.0/5.7	5.30	14.30
GE	CPI EU Harmonized MoM/YoY	May F		-0.2/1.4		-0.2/1.4	7.00	16.00
UK	Jobless Claims Change	May				19.4	9.30	18.30
UK	Average Weekly Earnings/ex bonus 3M/YoY	Apr		2.4/2		2.4/2.1	9.30	18.30
UK	Employment Change/Unemployment rate 3M/3M	Apr		135/4.6		122.0/4.6	9.30	18.30
EC	Industrial Production SA MoM/YoY	Apr		0.5/1.4		-0.1/1.9	10.00	19.00
EC	Employment QoQ/YoY	1Q		/		0.3/1.1	10.00	19.00
US	CPI MoM/YoY	May		0/2		0.2/2.2	13.30	22.30
US	CPI Ex Food and Energy MoM/YoY	May		0.2/1.9		0.1/1.9	13.30	22.30
US	Real Avg Weekly/Hourly Earnings YoY	May		/		0.3/0.4	13.30	22.30
US	Retail Sales Advance MoM	May		0.1		0.4	13.30	22.30
US	Retail Sales Ex Auto and Gas/Control Group	May		0.3/0.3		0.3/0.2	13.30	22.30
US	Business Inventories	Apr		-0.1		0.2	15.00	0.00
US	FOMC Rate Decision (Lower/Upper Bound)	Jun 14		1/1.25		0.75/1.00	19.00	4.00
US	FOMC Rate Decision (Upper Bound)	Jun 14		1.25		1.00	19.00	4.00
Thursday, 15 June 2017								
NZ	GDP SA QoQ/YoY	1Q		0.7		0.4	23.45	8.45
AU	Consumer Inflation Expectation	Jun				4.0	2.00	11.00
AU	RBA FX Transactions Market	May				441.0	2.30	11.30
AU	Employment Change/Unemployment rate	May		10		37.4	2.30	11.30
AU	Participation Rate	May		64.8		64.8	2.30	11.30
JN	Tokyo Condominium Sales YoY	May				38.6	5.00	14.00
AU	RBA's Debelle Speech in Sydney						8.40	17.40
UK	Retail Sales Ex Auto Fuel MoM/YoY	May		-0.8/1.9		2.0/4.5	9.30	18.30
UK	Retail Sales Inc Auto Fuel MoM/YoY	May		-0.7/1.7		2.3/4.0	9.30	18.30
EC	Trade Balance SA	Apr				23.1	10.00	19.00
UK	Bank of England Bank Rate	Jun 15		0.25		0.3	12.00	21.00
UK	BOE Asset Purchase/Corporate Bond Target	Jun		435/10		435.0/10.0	12.00	21.00
CA	Manufacturing Sales MoM	Apr				1.0	13.30	22.30
US	Import Price Index MoM	May		-0.1		0.5	13.30	22.30
US	Empire Manufacturing	Jun		5		-1.0	13.30	22.30
US	Initial Jobless Claims	Jun 10				245.0	13.30	22.30
US	Philadelphia Fed Business Outlook	Jun		25		38.8	13.30	22.30
CA	Existing Home Sales MoM	May				-1.7	14.00	23.00
US	Industrial Production MoM	May		0.1		1.0	14.15	23.15
US	Bloomberg Consumer Comfort	Jun 11				49.9	14.45	23.45
US	NAHB Housing Market Index	Jun		70		70.0	15.00	0.00
US	Total Net/Long term TIC Flows	Apr		/		-0.7/59.8	21.00	6.00
Friday, 16 June 2017								
NZ	BusinessNZ Manufacturing PMI	May				56.8	23.30	8.30
NZ	ANZ Consumer Confidence Index/MoM	Jun		/		123.9/1.8	2.00	11.00
NZ	Non Resident Bond Holdings	May				61.5	4.00	13.00
EC	Labour Costs YoY	1Q				1.6	10.00	19.00
EC	CPI MoM/YoY	May		-0.1/1.4		0.4/1.9	10.00	19.00
EC	CPI Core YoY	May F		0.9		0.9	10.00	19.00
CA	Int'l Securities Transactions	Apr				15.1	13.30	22.30
US	Housing Starts/MoM	May		1223/4.3		1172.0/-2.6	13.30	22.30
US	Building Permits/MoM	May		1250/1.8		1229.0/-2.5	13.30	22.30
CH	FX Net Settlement - Clients CNY	May				-88.1		
JN	BOJ Policy Balance Rate	Jun 16		-0.1		-0.1	4.15	13.15
JN	BOJ 10-Yr Yield Target	Jun 16		0		0.0	4.15	13.15
US	U. of Mich. Sentiment/5-10yr Inflation expectations	Jun P		97.1		97.1	15.00	0.00
US	Fed's Kaplan (voter) speaks in Dallas						17.45	2.45
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		4-Jul	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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