

MARKETS TODAY

Split decision



Good morning

A split Bank of England (BoE) decision to keep rates unchanged and another fall in oil prices were the two big events overnight in an otherwise quiet night. In terms of market moves, equities were slightly lower (S&P500 -0.2%), the US dollar was stronger (+0.6%) while yields were mostly higher across the board.

The US dollar (DXY) rose 0.6% overnight and is up 1.0% since the FOMC meeting on Wednesday. US Treasury yields also rose with 10-years up 3.8 bps to 2.16%, and 2-year yields up 2.0 bps to 1.35%. Despite the US dollar reaction to the FOMC statement, the market still prices just under a 50% chance of another rate hike by December and less than 1½ are priced in through to the end of next year – this despite the Fed dot points pointing to four more rate hikes by the end of 2018. It is likely the market will require a pickup in inflation and wages growth to validate the Fed's rate track.

The two currencies most resilient to US dollar strength overnight were the Pound (+0.1%) and the Aussie (-0.1%). Down the bottom of the leader board were the Kiwi (-0.7%) and the Yen (-1.2%) while the Euro (-0.6%) reflected broad US dollar strength.

The Pound was a story of two halves with it initially dipping lower on a weak retail sales print (core -1.6% m/m against expectations of -1.0%), and then spiking 0.7% on the more hawkish Bank of England to finish at 1.2756. The Committee was more divided than expected with only 5 voting to hold versus 3 voting to raise (Forbes, McCafferty and Saunders). The BoE is currently balancing returning inflation back to target and supporting jobs and activity during Brexit. The dissenters argued this trade-off is lessening given growth in employment to date, while inflation has overshoot the target more than previously thought.

UK yields lifted across the curve in response, taking it as a sign that the BoE is slowly inching its way towards lifting rates. 10-year Gilt yields rose 10.4 bps to 1.03% and 2-years are up a similar 8.4 bps to 0.17%. The OIS market gives around a 50% chance of a rate raise by the beginning of 2018.

The Aussie was supported by an initial rally following yesterday's strong employment figures (+0.6% and hitting 0.7632) which provided some buffer to US dollar strength, ending down just 0.1% overnight to 0.7579. The employment figures shot the lights out up 42.0k m/m against expectations of a 10k outcome and the unemployment rate fell a full 0.2% points to 5.5% — its lowest since February 2013. The only soft bit to the release was persistently high underemployment at 8.8%, which still is indicative of greater labour market slack than suggested by the headline unemployment rate.

The Kiwi was dragged lower by a weaker than expected Q1 GDP report (0.5% q/q against 0.7% expected).

The other big move overnight was oil. WTI oil fell 1.1% to \$44.26 a barrel and since 25 May it has fallen 14.5%. Recent moves reflect Wednesday's build of US gasoline stockpiles to its highest levels since mid-March, while the International Energy Agency forecasts oil oversupply to persist with rising US shale oil production and production increases in other countries. Oil is also important for inflation expectations and the US 10-year inflation breakeven is now down to 1.69%, well below the 2.1% peak it reached during the Trump reflation trade. This also has implications for nominal yields, with the fall in breakevens accounting for most of the decline in US Treasury yields over the past couple of months.

Coming Up

It is a very quiet day domestically with nothing on the radar. Across the Ditch NZ has the BNZ PMI (8.30am AEST) which will be of interest following yesterday's softer than expected GDP print.

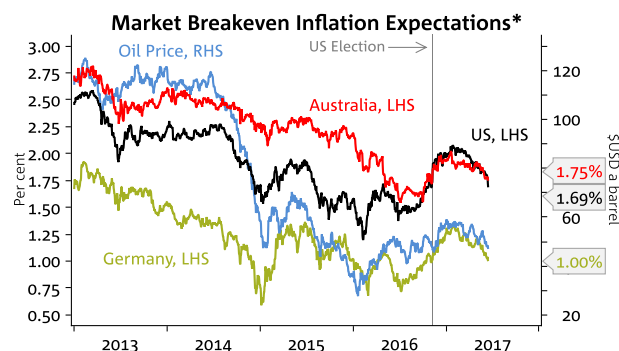
The Bank of Japan meeting is the only notable event in the Asian timezone, but this too likely to be a non-event and no change is widely expected; the Bank normally releases its statement in the early afternoon.

In Europe, EU Finance Ministers meet following last night's exclusive Eurozone FM's meeting. Europe also has the final read of May CPI with Headline expected to be 1.4% and Core at 0.9% y/y. In the US, the Fed Kaplan (voter) speaks and datawise we get Housing Starts and the Uni Michigan Consumer Sentiment for June – the market looking for a similar read to last month at 97.0.

Overnight

On global stock markets, the S&P 500 was -0.22%. Bond markets saw US 10-years +3.46bp to 2.16%. In commodities, Brent crude oil -0.57% to \$46.73, gold -1.6% to \$1,252, iron ore +1.5% to \$55.23, steam coal +0.4% to \$80.80, met. coal -0.3% to \$144.00. AUD is at 0.7581 and the range since yesterday 5pm Sydney time is 0.7568 to 0.7632.

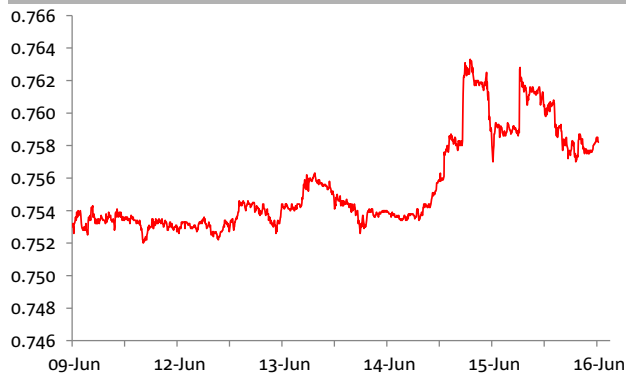
Chart: Oil weighs on inflation breakevens



* Implied by the difference between 10-year nominal bond yields and 10-year inflation indexed bond yields
Source: National Australia Bank, Bloomberg

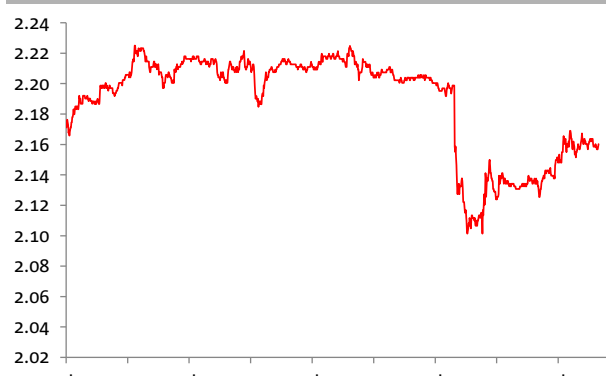
Markets

AUD/USD - past week



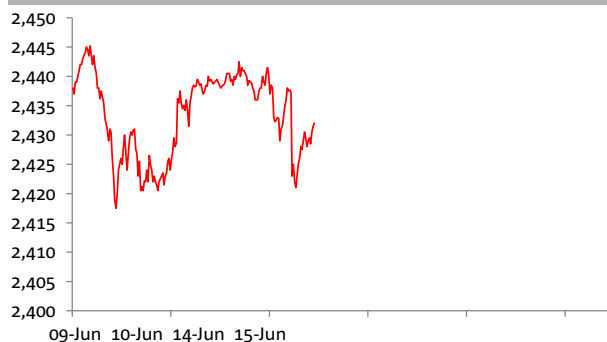
Source: Bloomberg.

US 10yr - past week



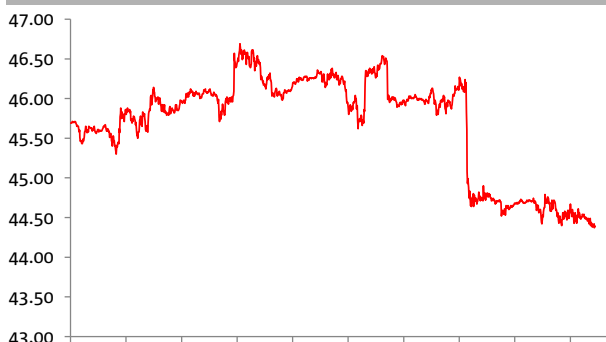
Source: Bloomberg.

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	0.7581	-0.1	0.7568	0.7632	HKD	7.8013 0.0
NZD	0.7206	-0.8	0.7186	0.7271	CNY	6.8078 0.2
EUR	1.1148	-0.6	1.1132	1.1229	SGD	1.3837 0.6
GBP	1.2756	0.0	1.2691	1.2795	IDR	13,286 0.1
JPY	110.91	1.2	109.27	110.98	THB	33.95 0.1
CAD	1.3271	0.2	1.3225	1.3308	KRW	1,124 0.0
AUD/EUR	0.6801	0.5	0.6758	0.6806	TWD	30.26 0.1
AUD/JPY	84.08	1.1	82.94	84.11	PHP	49.71 0.4
AUD/GBP	0.5943	-0.1	0.5927	0.5993	CHF	0.98 0.5
AUD/NZD	1.0520	0.7	1.0437	1.0551	SEK	8.75 0.5
AUD/CNH	5.1639	-0.2	5.1446	5.1767		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spnd
USD	1.25	1.25	1.54	2.14	USD 10	2.16	3.81
AUD	1.50	1.72	1.83	2.67	AUD 10	2.36	-4.50 0.19
NZD	1.75	1.94	2.18	3.12	NZD 10	2.75	-4.40 0.58
EUR	0.00	-0.33	-0.18	0.76	CAD 10	1.53	4.00 -0.63
GBP	0.25	0.29	0.53	1.10	EUR 10	0.28	5.60 -1.88
JPY	-0.06	-0.01	0.05	0.25	GBP 10	1.03	10.40 -1.13
CAD	0.50	0.91	1.25	1.85	JPY 10	0.05	-1.70 -2.11

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,360	-0.07	21.1
S&P 500	2,432	-0.22	17.4
Nasdaq	6,166	-0.47	27.5
VIX	10.90	2.44	-45.9
FTSE	7,419	-0.7	24.3
DAX	12,692	-0.9	32.1
CAC 40	5,217	-0.5	25.1
Nikkei	19,832	-0.3	28.5
Shanghai	3,132	0.1	9.0
Hang Seng	25,565	-1.2	27.6
ASX 200	5,763	-1.2	12.0

Commodities*

	Last	% day
Oil (Brent)	46.73	-0.6
Oil (WTI)	44.26	-1.1
Oil (Tapis)	46.98	-2.3
Gold	1252.20	-1.6
CRB	172.78	-0.1
GS Metals	311.4	-0.4
Aluminium	1859.3	-0.6
Copper	5637.8	-0.6
Nickel	8792.0	-1.1
Zinc	2489.5	0.5
Ch. steel	3110.0	3.7
Iron ore	55.2	1.5
St. Coal	80.8	0.4
Met. coal	144.0	-0.3
Wheat Chic.	469.0	2.6
Sugar	13.5	-1.1
Cotton	71.9	-2.2
Coffee	128.1	0.2

Overnight Futures

Australia		
	Last	Chge*
3 mth bill	98.28	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.56	0.50
3/10 sprd	0.24	2.50
SPI	5723.0	64.0

*Change in bps

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-0.5	-2.0%
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
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		1218/3.9		1172.0/-2.6	13.30	22.30
US	Building Permits/MoM	May		1249/1.7		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		97.1	15.00	0.00
US	Fed's Kaplan (voter) speaks in Dallas						17.45	2.45
Monday, 19 June 2017								
NZ	Performance Services Index	May				52.8	23.30	8.30
UK	Rightmove House Prices MoM/YoY	Jun		/		1.2/3.0	0.10	9.10
AU	RBA's Lowe Participates in Panel at 2017 Crawford Australian Leadership Forum in Canberra						0.30	9.30
JN	Trade Balance Adjusted	May				97.6	0.50	9.50
AU	New Motor Vehicle Sales MoM/YoY	May		/		0.3/0.1	2.30	11.30
CH	Property Prices	May					2.30	11.30
EC	Construction Output MoM/YoY	Apr		/		-1.1/3.6	10.00	19.00
US	Fed's Dudley Holds Business Roundtable in Plattsburgh, NY						13.00	22.00
NZ	Westpac Consumer Confidence	2Q				111.9	19-23 Jun release	
CA	Bloomberg Nanos Confidence	Jun 16				57.8	15.00	0.00
Tuesday, 20 June 2017								
US	Fed's Evans Speaks in New York						0.00	9.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jun 11				112.9	0.30	9.30
NZ	ANZ Consumer Confidence Index/MoM	Jun		/		123.9/1.8	2.00	11.00
AU	House Price Index QoQ/YoY	1Q		/		4.1/7.7	2.30	11.30
AU	RBA June Rate Meeting Minutes						2.30	11.30
EC	ECB Current Account SA	Apr				34.1	9.00	18.00
US	Fed's Fischer Speaks in Amsterdam						13.00	22.00
CA	Wholesale Trade Sales MoM	Apr				0.9	13.30	22.30
US	Current Account Balance (incl. revisions)	1Q		-124.9		-112.4	13.30	22.30
CH	Conference Board Leading Economic Index	May					14.00	23.00
US	Fed's Kaplan Speaks in San Francisco						20.00	5.00
Wednesday, 21 June 2017								
JN	BOJ Minutes of April 26-27 Meeting						0.50	9.50
AU	Westpac Leading Index MoM	May				-0.1	1.30	10.30
AU	Skilled Vacancies MoM	May				0.1	2.00	11.00
JN	All Industry Activity Index MoM	Apr				-0.6	5.30	14.30
JN	Machine Tool Orders YoY	May F				24.4	7.00	16.00
JN	BOJ Kuroda speaks in Tokyo						7.36	16.36
UK	Public Sector Net Borrowing	May				9.6	9.30	18.30
US	Existing Home Sales, #/MoM	May		5.55/-0.36		5.6/-2.3	15.00	0.00
Upcoming Central Bank Interest Rate Announcements								
UK BOE		15-Jun	0.25%	0.25%		0.25%		
US Federal Reserve		27-Jul			1.00-1.25%	0.75-1.00%		
Japan, BoJ		16-Jun	-0.1%	-0.1%		\		
New Zealand, RBNZ		22-Jun	1.75%	1.75%		1.75%		
Australia, RBA		4-Jul	1.50%	1.50%		1.50%		
Canada, BoC		13-Jul	0.5%	0.5%		0.5%		
Europe ECB		20-Jul	-0.4%	-0.4%		-0.4%		
US Federal Reserve		27-Jul				1.00-1.25%		

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

CONTACT DETAILS

Authors

David de Garis
Director, Economics
+61 3 8641 3045
david.degaris@nab.com.au

Ray Attrill
Global Co-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

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