19 July 2016

Markets Today

National Australia Bank

Quiet times

In a quiet session US and UK equity indices edged a little bit higher buoyed by technology and financial shares while European indices drifted lower weighted down by energy shares following a sharp drop in oil prices. The lack of major data releases has kept G10 currencies contained within recent ranges and in EM, the Turkish Lira recovered some ground after sliding 4.6% on Friday following news of the attempted coupe.

News of softBank Group agreement to buy ARM Holdings boosted technology stocks while bank shares got a lift following better than expected earnings results from Bank of America. Meanwhile the fall in oil prices weighted down on energy stocks. WTI and Brent fell 3.1% and 2.9% respectively amid concerns of a growing glut in product markets, particularly gasoline, suggesting a decline in demand for oil by refineries.

As for currencies, GBP has made a rare appearance at the top of the G10 leader board, gaining 0.54% against the USD. The GBP 24bln takeover of ARM by Japanese tech giant Softbank gave the Pound an initial boost while hawkish comments from BoE's Weale also boosted the currency. Weale said that he wanted to see concrete evidence of a Brexit inspired economic slowdown before considering cutting rates, noting that "I do not have any sense that either consumer or businesses are panic-struck".

JPY is the weakest G10 currencies in the past 24 hrs despite the fact that markets in Japan were closed for a public holiday. A reversal of safe haven bid post the fail attempted coup in Turkey as well as comments from Suga (chief cabinet secretary) suggesting that the government has no plans to issue deficits bonds for stimulus package appear to have been the main drives for the JPY weakness. Meanwhile the AUD traded sideways overnight and after having a little pop above 76c and it is currently trading at 0.7594.

Core global yields also had a relatively steady overnight session. 10y USTs drifted a little higher to 1.58%, 10y Bunds ended the day 2bps lower at -0.018% and 10y UK Gilts closed practically unchanged at 0.82%.

Coming Up

Australia's weekly consumer confidence reading kicks off the data/events for the day, followed by the RBA July Meeting Minutes at 11:30 AEST.

As for the minutes, we know from the Statement, early in July, that the Board was waiting for further information that should allow it to "refine its assessment of the outlook for growth and inflation and make any adjustment to the stance of policy that may be appropriate". Since then key data releases, such as the solid NAB survey and moderate employment growth revealed in the June labour force report suggest the RBA should be comfortably on hold over the near term. However, we also know the RBA is an inflation targeter and following the low Q1 print, the Q2 inflation report due for release next week will be important for the Bank's assessment of its policy setting.

Later in Europe the ECB releases its Bank lending survey and the German ZEW survey is also due out. The ZEW report is a survey of opinion among finance professionals and given the Brexit outcome from the UK referendum, the current situation indicator is expected to have slipped from 54.5 to 51.8.

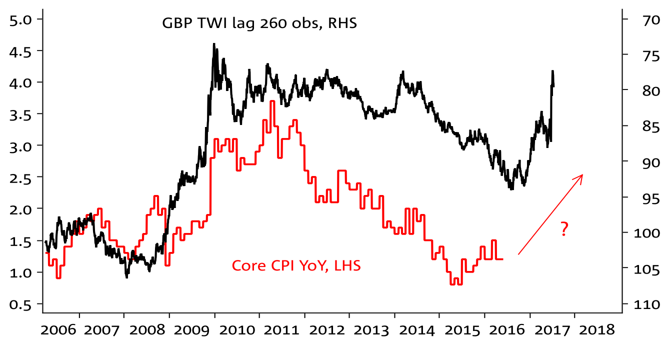
Across the Channel, the UK publishes its CPI inflation report for June. The market is looking for a Core CPI print of 1.3% yoy, up from 1.2% previously, so no major inflationary pressures are expected as of yet. However, the sharp drop in the Pound seen post the UK decision to leave the EU suggest the UK inflationary pressures are likely to accelerate as we head towards the end of the year.

The US gets housing starts and building permits for June and the IMF releases its global growth update. Lastly and for New Zealand in particular a GDT dairy auction is due to take place in the early hours of tomorrow morning.

Overnight

On global stock markets, the S&P 500 was +0.24%. Bond markets saw US 10-years +3.78bp to 1.58%. In commodities, Brent crude oil -2.35% to $46.96, gold-0.6% to $1,329, iron ore -2.7% to $56.86. AUD is at 0.7591 and the range since yesterday 5pm Sydney time is 0.7576 to 0.7606.

Chart of the day: UK inflation heading higher?

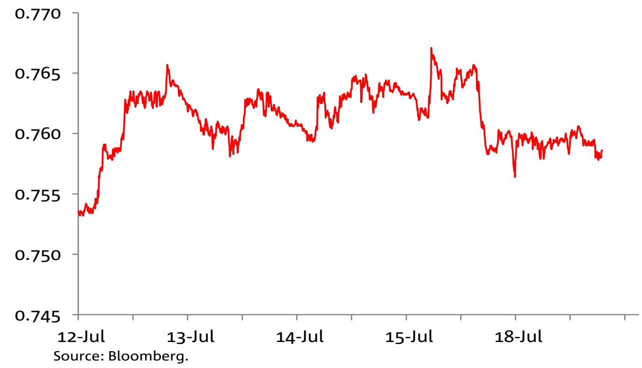


Source: National Australia Bank, Macrobond

Author:
Rodrigo Catril FX Strategist

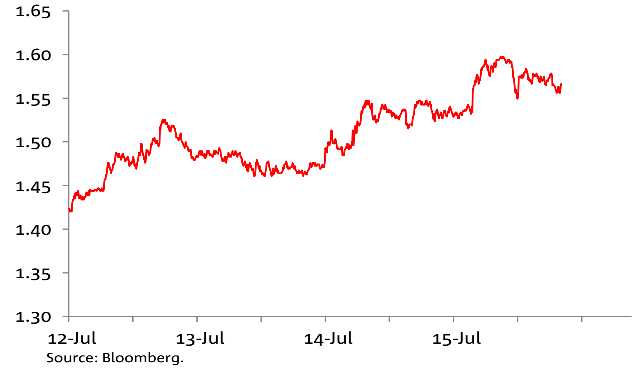
Markets

AUD/USD - past week



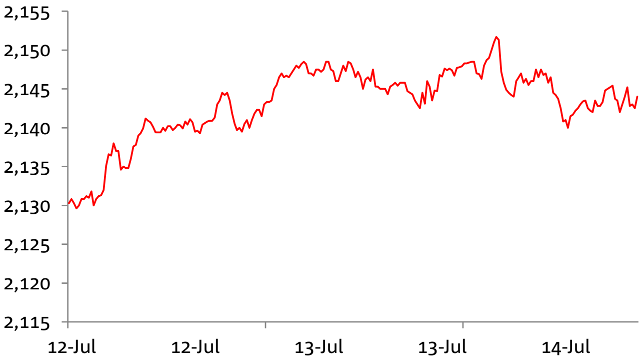
Source: Bloomberg.

US 10 yr - past week



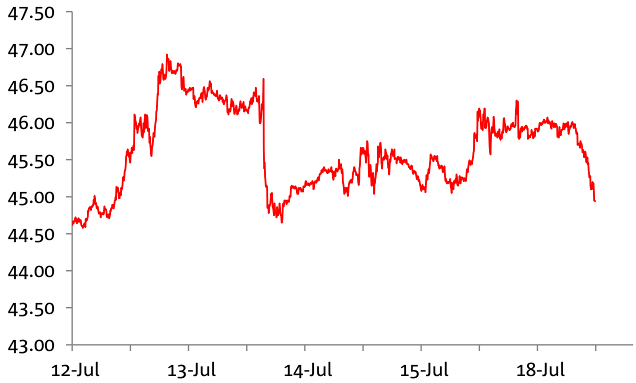
Source: Bloomberg.

S&P Futures - past week



Source: Bloomberg.

WTI - past week



Source: Bloomberg.

Foreign Exchange

			Indicative 24hr ranges (**)	
	Last	% chge	Low	High
AUD	0.7580	0.0	0.7576	0.7592
NZD	0.7058	-0.8	0.7046	0.7117
EUR	1.1077	0.4	1.1072	1.1078
GBP	1.3255	0.5	1.3250	1.3258
JPY	106.19	1.2	106.14	106.24
CAD	1.2958	-0.1	1.2941	1.2961
AUD/EUR	0.6843	-0.3	0.6840	0.6856
AUD/JPY	80.49	1.3	80.44	80.61
AUD/GBP	0.5719	-0.3	0.5716	0.5731
AUD/NZD	1.0740	0.8	1.0667	1.0755
AUD/CNH	5.0897	0.2	5.0824	5.1051

Other FX	Last	% chge
HKD	7.7544	0.0
CNY	6.7045	0.2
SGD	1.3480	0.0
IDR	13,087	-0.1
THB	34.94	-0.1
KRW	1,137	0.3
TWD	31.98	0.4
PHP	46.72	0.0
CHF	0.98	0.0
SEK	8.55	-0.4

Equities

Major Indices	Last	% day	% y/y
Dow	18,533	0.1	2.5
S&P 500	2,167	0.2	1.9
Nasdaq	5,056	0.5	-3.0
VIX	12	-1.8	4.1
FTSE	6,695	0.4	-1.2
DAX	10,063	0.0	-13.8
CAC 40	4,358	-0.3	-15.0
Nikkei	16,498	0.0	-20.1
Shanghai	3,044	-0.4	-23.1
Hang Seng	21,803	0.7	-14.2
ASX 200	5,458	0.5	-3.7

Commodities*

	Last	% day
Oil (Brent)	46.99	-2.3
Oil (WTI)	45.20	-2.3
Oil (Tapis)	46.70	1.1
Gold	1329.10	-0.6
CRB	188.19	-0.4
GS Metals	279.3	0.1
Aluminium	1645.0	-1.5
Copper	4839.0	-2.0
Nickel	10304.0	0.6
Zinc	2207.0	0.3
Ch. steel	2334.0	-7.6
Iron ore	56.9	-2.7
Coal	60.9	-0.7
Wheat Chic.	453.3	0.6
Sugar	19.5	0.4
Cotton	74.4	0.6
Coffee	149.4	1.5

CO_2 Emissions - Euros

	Last	% day
Dec-2016	4.85	-2.4
Jun-2017	4.87	-2.2
Dec-2017	4.87	-1.6

* clsd = market holiday

Interest Rates

Indicative Swap Rates	Cash	3mth	2Yr	10Yr
USD	0.50	0.69	0.90	1.43
AUD	1.75	1.95	1.77	2.17
NZD	2.25	2.37	2.12	2.56
EUR	0.00	-0.30	-0.23	0.33
GBP	0.50	0.53	0.52	0.93
JPY	-0.04	-0.05	-0.14	-0.03
CAD	0.50	0.88	0.92	1.33

Benchmark 10 Year Bonds	Last	chge	Sprd
USD 10	1.58	3.09	
AUD 10	1.99	1.80	0.41
NZD 10	2.33	-1.40	0.75
CAD 10	1.10	1.90	-0.48
EUR 10	-0.02	-2.20	-1.60
GBP 10	0.82	-1.00	-0.76
JPY 10	-0.23	0.00	-1.81

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.12	2.00
3 Yr bond	97.8	3.00
10 Yr bond	98.01	1.50
3/10 sprd	-0.20	1.50
SPI	5418.0	-29.0

*Change in bps

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, 19 July 2016								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 17				115.2	23.30	9.30
AU	RBA July Meeting Minutes						1.30	11.30
AU	CBA/HIA House Affordability	2Q				80.9	1.45	11.45
EC	ECB Bank Lending Survey						8.00	18.00
UK	CPI MoM/YoY	Jun		0.2/0.4		0.2/0.3	8.30	18.30
UK	CPI Core YoY	Jun		1.3		1.2	8.30	18.30
UK	PPI Input NSA MoM/YoY	Jun		1.1/-0.7		2.6/-3.9	8.30	18.30
UK	PPI Output NSA MoM/YoY	Jun		0.2/-0.5		0.1/-0.7	8.30	18.30
UK	PPI Output Core NSA MoM/YoY	Jun		0.1/0.6		0.0/0.5	8.30	18.30
UK	House Price Index YoY	May					8.30	18.30
EC	Construction Output MoM/YoY	May		/		-0.2/-0.4	9.00	19.00
GE	ZEW Survey Current Situation/Expectations	Jul		51.8/9		54.5/19.2	9.00	19.00
EC	ZEW Survey Expectations	Jul				20.2	9.00	19.00
US	Housing Starts, #/MoM	Jun		1165/0.1		1164/-0.3	12.30	22.30
US	Building Permits, #/MoM	Jun		1150/1.2		1138/0.7	12.30	22.30
US	IMF releases WEO Global Growth Update						13.00	23.00
NZ	GDT Dairy Auction					flat	early AM NZT	
Wednesday, 20 July 2016								
AU	Westpac Leading Index MoM	Jun				0.2	0.30	10.30
AU	Skilled Vacancies MoM	Jun				1.0	1.00	11.00
JN	Convenience Store Sales YoY	Jun				-0.3	7.00	17.00
EC	ECB Current Account SA	May				36.2	8.00	18.00
UK	Jobless Claims Change/Claimant Count Rate	Jun		3/2.2		-0.4/2.2	8.30	18.30
UK	Average Weekly Earnings 3M/YoY, ex bonus 3M/YoY	May		2.3/2.4		2.0/2.3	8.30	18.30
UK	ILO Unemployment Rate/Employment change 3Mths	May		5/71		5.0/55.0	8.30	18.30
CH	Conference Board Leading Economic Index	Jun					13.00	23.00
Thursday, 21 July 2016								
NZ	RBNZ Update on Economic Assessment ahead of 11 August MPS						21.00	7.00
NZ	Net Migration SA	Jun				5500	22.45	8.45
AU	NAB Business Confidence	2Q				3.7	1.30	11.30
AU	RBA FX Transactions Market	Jun				909.0	1.30	11.30
AU	RBA FX Transactions Government	Jun				-916.0	1.30	11.30
AU	RBA FX Transactions Other	Jun				25.0	1.30	11.30
NZ	Credit Card Spending MoM/YoY	Jun				0.0/5.9	3.00	13.00
JN	All Industry Activity Index MoM	May		-1.1		1.3	4.30	14.30
JN	Machine Tool Orders YoY	Jun F				-19.9	6.00	16.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Jun		-0.6/4.8		1.0/5.7	8.30	18.30
UK	Retail Sales Inc Auto Fuel MoM/YoY	Jun		-0.5/5.1		0.9/6.0	8.30	18.30
UK	Public Finances (PSNCR)/Net Borrowing	Jun		/9.3		3.4/9.1	8.30	18.30
EC	Euro Area Government Deficit/Debt	Q1					9.00	19.00
EC	ECB Main Refinancing Rate/Deposit Facility Rate	Jul 21		0/-0.4		0.0/-0.4	11.45	21.45
US	Chicago Fed Nat Activity Index	Jun		-0.2		-0.5	12.30	22.30
CA	Wholesale Trade Sales MoM	May		0.3		0.1	12.30	22.30
US	Initial Jobless Claims	Jul 16		265		254.0	12.30	22.30
US	Philadelphia Fed Business Outlook	Jul		4.5		4.7	12.30	22.30
US	FHFA House Price Index MoM	May		0.4		0.2	13.00	23.00
US	Existing Home Sales, #/MoM	Jun		5.48		5.5	14.00	0.00
US	Leading Index	Jun		0.2		-0.2	14.00	0.00
Friday, 22 July 2016								
CH	MNI Business Indicator	Jul					1.45	11.45
JN	Nikkei Japan PMI Mfg	Jul P				48.1	2.00	12.00
GE	Markit/BME Germany Manufacturing PMI	Jul P		53.4		54.5	7.30	17.30
GE	Markit Germany Services/Composite PMI	Jul P		53.2/53.6		53.7/54.4	7.30	17.30
EC	ECB Survey of Professional Forecasters						8.00	18.00
EC	Markit Eurozone Manufacturing PMI	Jul P		52		52.8	8.00	18.00
EC	Markit Eurozone Services/Composite PMI	Jul P		52.3/52.5		52.8/53.1	8.00	18.00
CA	Retail Sales MoM/YoY	May		0/0.3		0.9/1.3	12.30	22.30
CA	CPI NSA MoM/YoY	Jun		0.1/1.4		0.4/1.5	12.30	22.30
CA	CPI Core MoM/YoY	Jun		-0.1/2		0.3/2.1	12.30	22.30
US	Markit US Manufacturing PMI	Jul P		51.5		51.3	13.45	23.45
EC	Consumer Confidence	Jul A		-8		-7.3	14.00	0.00
Monday, 25 July 2016								
JN	Trade Balance Adjusted	Jun				269.8	23.50	9.50
JN	Exports/Imports YoY	Jun		/		-11.3/-13.8	23.50	9.50
JN	Leading Index CI	May F				100.0	5.00	15.00
NZ	RBNZ Governor Wheeler Speaks in Auckland (Not Public)						7.30	17.30
GE	IFO Business Climate	Jul				108.7	8.00	18.00
GE	IFO Current Assessment/Expectations	Jul		/		114.5/103.1	8.00	18.00
UK	CBI Trends Total Orders/Selling Prices	Jul		/		-2.0/1.0	10.00	20.00
UK	CBI Business Optimism	Jul				-5.0	10.00	20.00
CA	Bloomberg Nanos Confidence	Jul 15				56.9	14.00	0.00
US	Dallas Fed Manf. Activity	Jul				-18.3	14.30	0.30

Upcoming Central Bank Interest Rate Announcements				
Canada, BoC	7-Sep			0.50%
Europe ECB	21-Jul			0.00%
US Federal Reserve	27-Jul			0.25-0.50%
Japan, BoJ	29-Jul			-0.1% to +0.1%
Australia, RBA	2-Aug	1.75%	1.50%	1.75%
UK BOE	4-Aug		0.25%	0.50%
New Zealand, RBNZ	11-Aug	2.00%	2.00%	2.25%

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

Contact Details

Authors

David de Garis
Senior Economist
+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