

## Feeling good

As we are about to press the send button, the RBNZ has just released its economic update and although a dovish tone was expected, the NZD has dropped 25/30 pips to around 0.6988 on the back of comments that a decline in the exchange rate is needed while significant OCR cuts would follow if the currency stayed above projection. Our BNZ economists note that today's RBNZ comments should put to bed any remaining thoughts that the Bank would not cut because of housing market concerns. The commentary reiterates, implicitly, that monetary policy will be directed towards inflation outcomes and that the Bank's inflation forecasts have been lowered.

After a lacklustre Asia Pacific session, European and US equity markets have ended the day in a positive note bolstered by better than expected corporate earnings results. In the US, Morgan Stanley and Microsoft profits topped estimates while in Europe, SAP and VW also beat their forecasts. The USD was stronger against most currencies and the VIX index drifted sub 12 for the first time in almost two years. The improvement in risk sentiment helped core global yields drift higher while oil prices were little changed.

According to the ABC, yesterday the range in Sydney's temperature was less than 1°C, not sure if that was a record, but it seems pretty impressive nonetheless. In a similar way, yesterday during the day the AUD also traded in a pretty tight range (30 pips). The overnight session broke that trend with the AUD coming under a little bit of pressure on the back of broad USD strength and soft commodity prices. The CRB index was down 0.5%, Copper was off 0.4% and iron ore recorded its six consecutive day of decline, dropping 0.5%. A week ago iron ore was flirting with a break above the \$60 mark and today the bulk metal is trading at \$55.75.

The steady rise in short dated US yields has been a major source in the recent USD uplift. While the expectation of further easing by many central banks (BoE, BoJ, RBNZ and RBA) is on the rise, the prospect of Fed tightening is back on the agenda supported by better than expected US data releases and a solid start to the Q2 earnings reporting season. USD indices like DXY and Fed major have now broken the upper band of their recent ranges, suggesting we could be at the start of a significant USD uptrend. Two weeks ago the market was pricing a probability of just 12% for a Fed hike in December, today that number is at 48%.

Looking at the G10 currencies performance, GBP and JPY are once again at the opposite ends of the leader board. GBP is the top performer following a better than expected employment report (unemployment unexpectedly fell to 4.9%, albeit the result pre dates the referendum) and comments from BoE Forbes that the Bank needs more evidence to cut rates. Meanwhile, JPY lost ground against the USD following news that the Japanese government is considering over ¥20trn in stimulus to support the economy, previous numbers were in the region of ¥10- ¥20 trn.

## Coming Up

Ebay, American Express and Intel are all due to report their quarterly earnings and outlook any time now (after the US closes). So depending on the magnitude of hit or misses, the associated headlines could potentially influence the risk tone in Australia and Asian markets this morning.

The NAB business survey for the September quarter is due for release at 11:30am AEST. The June monthly NAB survey showed business conditions rose to an equal post-GFC high while Business Confidence climbed to its long-term average. Unlike the June monthly survey, the quarterly survey was polled before the UK referendum, however given its larger sample and questionnaire; details of the report should still draw some interest. In particular we will be looking at how business sees the various constraints to growth as well as their capital expenditure expectations.

Also this morning New Zealand prints its net migration figures for June followed by credit card spending numbers (June) early this afternoon.

In Europe, June UK retail sales are the data highlight and the UK Prime Minister, Theresa May, will be visiting French president Francois Hollande in Paris.

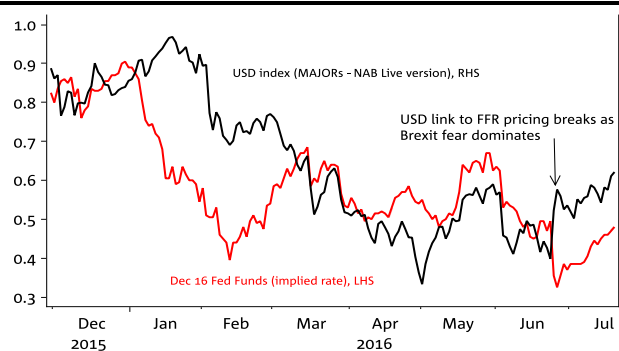
The ECB will hold its first post Brexit meeting and like the BoE decision to stand pat, no move is expected with President Draghi likely to emphasise a 'wait and see mode'. That being said, we think that Draghi might also take the opportunity to comment on potential solution(s) to the bad loan issue in the Italian bank system.

On the other side of the Atlantic, the US prints its weekly jobless claims and the July Philly Fed is released along with existing home sales for June.

## Overnight

On global stock markets, the S&P 500 was +0.43%. Bond markets saw US 10-years +2.92bp to 1.58%. In commodities, Brent crude oil +0.86% to \$47.11, gold -1.2% to \$1,316, iron ore -0.5% to \$55.75. AUD is at 0.7471 and the range since yesterday 5pm Sydney time is 0.7463 to 0.75.

## Chart of the day: USD on the rise again



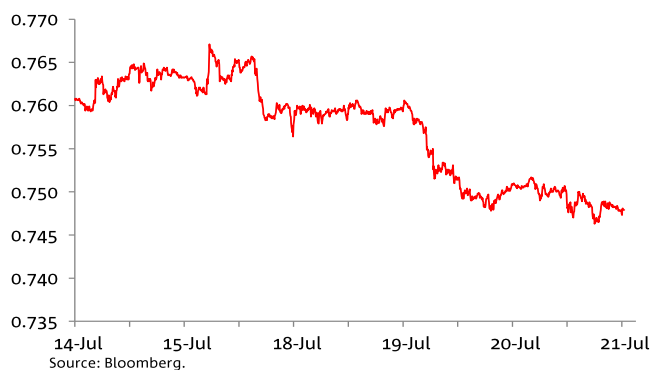
Source: National Australia Bank, Macrobond

## Author:

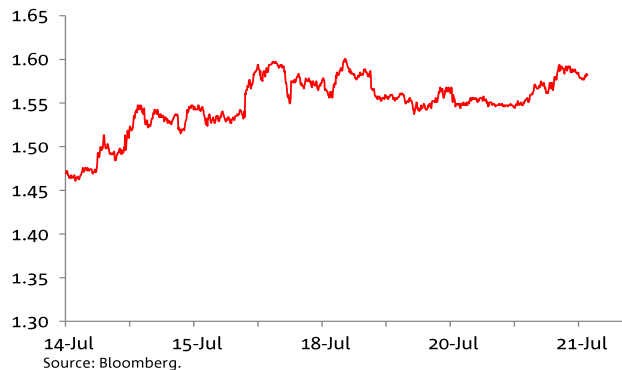
Rodrigo Catril FX Strategist

## Markets

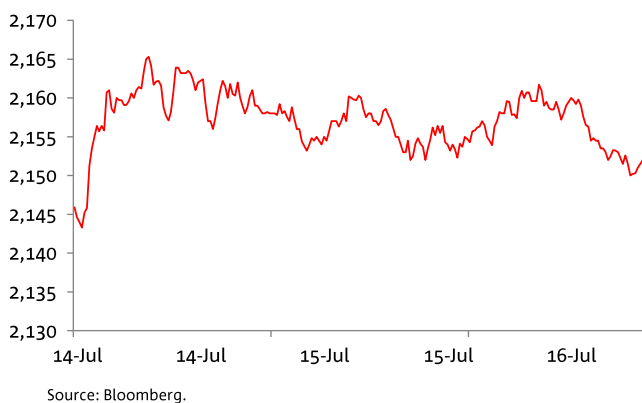
### AUD/USD - past week



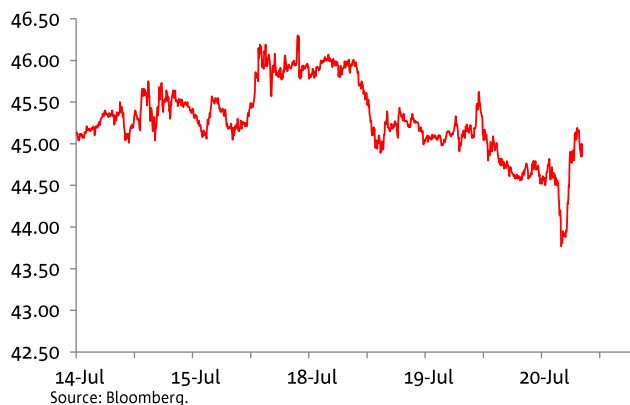
### US 10 yr - past week



### S&P Futures - past week



### WTI - past week



### Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7471	-0.4	0.7454	0.7480	HKD	7.7561 0.0
NZD	0.6989	-0.9	0.6977	0.7026	CNY	6.6778 -0.3
EUR	1.1009	-0.1	1.1006	1.1019	SGD	1.3567 0.2
GBP	1.3228	0.9	1.3207	1.3250	IDR	13,112 0.2
JPY	107.26	1.1	106.86	107.45	THB	35.06 0.1
CAD	1.3062	0.3	1.3057	1.3068	KRW	1,141 0.5
AUD/EUR	0.6786	-0.4	0.6767	0.6795	TWD	32.05 0.1
AUD/JPY	80.13	0.6	79.74	80.26	PHP	47.12 0.4
AUD/GBP	0.5648	-1.3	0.5627	0.5666	CHF	0.99 0.2
AUD/NZD	1.0690	0.5	1.0645	1.0709	SEK	8.60 -0.1
AUD/CNH	4.9986	-0.3	4.9772	5.0438		

### Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spred
USD	0.50	0.70	0.93	1.46	USD 10	1.58	2.75
AUD	1.75	1.93	1.73	2.16	AUD 10	1.92	0.00 0.34
NZD	2.25	2.35	2.05	2.48	NZD 10	2.26	-0.30 0.67
EUR	0.00	-0.30	-0.22	0.35	CAD 10	1.12	4.80 -0.46
GBP	0.50	0.53	0.52	0.91	EUR 10	-0.01	1.90 -1.59
JPY	-0.04	-0.03	-0.14	-0.05	GBP 10	0.84	3.40 -0.75
CAD	0.50	0.88	0.95	1.36	JPY 10	-0.23	-1.30 -1.81

### Equities

Major Indices	Last	% day	% y/y
	Dow	18,595	0.2
S&P 500	2,173	0.4	2.1
Nasdaq	5,090	1.1	-2.5
VIX	12	-1.7	-3.9
FTSE	6,729	0.5	-0.9
DAX	10,142	1.6	-13.6
CAC 40	4,380	1.1	-14.8
Nikkei	16,682	-0.2	-20.0
Shanghai	3,028	-0.3	-24.6
Hang Seng	21,882	1.0	-14.3
ASX 200	5,489	0.7	-3.8

### Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.15	3.00
3 Yr bond	97.8	3.00
10 Yr bond	98.04	3.50
3/10 sprd	-0.24	-0.50
SPI	5469.0	-60.0

\*Change in bps

### Commodities\*

	Last	% day
Oil (Brent)	47.11	0.9
Oil (WTI)	45.66	0.5
Oil (Tapis)	45.92	0.0
Gold	1315.80	-1.2
CRB	185.09	-0.5
GS Metals	278.5	-0.6
Aluminium	1612.5	-2.0
Copper	4957.0	-0.4
Nickel	10554.0	0.2
Zinc	2243.0	0.3
Ch. steel	2324.0	1.2
Iron ore	55.8	-0.5
Coal	60.9	-0.1
Wheat Chic.	436.8	-1.5
Sugar	19.3	-0.4
Cotton	71.8	-1.6
Coffee	147.3	0.2

### CO<sub>2</sub> Emissions - Euros

	Last	% day
Dec-2016	4.69	0.4
Jun-2017	4.70	0.2
Dec-2017	4.71	0.4

\* clsd = market holiday

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>Thursday, 21 July 2016</b>								
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		-0.6/5		0.9/6.0	8.30	18.30
UK	Markit/CIPS Manufacturing PMI	Jul P		48		52.1	8.30	18.30
UK	Public Finances (PSNCR)/Net Borrowing	Jun		/9.2		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		0.2		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		4.75		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
<b>Friday, 22 July 2016</b>								
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
<b>Monday, 25 July 2016</b>								
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 22				57.3	14.00	0.00
US	Dallas Fed Manf. Activity	Jul		-10		-18.3	14.30	0.30
<b>Tuesday, 26 July 2016</b>								
NZ	Trade Balance/12m YTD	Jun				358/-3633	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 24				114.9	23.30	9.30
JN	PPI Services YoY	Jun				0.2	23.50	9.50
UK	BBA Loans for House Purchase	Jun				42187	8.30	18.30
US	S&P/CS 20 City MoM/YoY	May		/		0.5/5.4	13.00	23.00
US	Markit US Services/Composite PMI	Jul P		/		51.4/51.2	13.45	23.45
US	Consumer Confidence Index	Jul		95.5		98.0	14.00	0.00
US	Richmond Fed Manuf. Index	Jul		-2		-7.0	14.00	0.00
US	New Home Sales, #/MoM	Jun		560/1.6		551.0/-6.0	14.00	0.00
<b>Wednesday, 27 July 2016</b>								
CH	Industrial Profits YoY	Jun				3.7	1.30	11.30
AU	CPI QoQ/YoY	2Q	0.7/1.4	/		-0.2/1.3	1.30	11.30
AU	CPI Trimmed Mean QoQ/YoY	2Q	0.5/1.6	/		0.2/1.7	1.30	11.30
AU	CPI Weighted Median QoQ/YoY	2Q	0.4/1.3	/		0.1/1.4	1.30	11.30
CH	Westpac-MNI Consumer Sentiment	Jul				115.9	1.45	11.45
JN	Small Business Confidence	Jul				46.5	5.00	15.00
GE	GfK Consumer Confidence	Aug				10.1	6.00	16.00
EC	M3 Money Supply YoY	Jun				4.9	8.00	18.00
UK	GDP QoQ/YoY	2Q A		/		0.4/2.0	8.30	18.30
UK	Index of Services MoM/3M/3M	May		/		0.6/0.5	8.30	18.30
UK	CBI Retailing Reported Sales/Total Dist. Sales	Jul		/		4.0/14.0	10.00	20.00
US	Durable Goods Orders	Jun P		-0.8		-2.3	12.30	22.30
US	Cap Goods Core Orders/Shipments	Jun P		/		-0.4/-0.5	12.30	22.30
US	Pending Home Sales MoM/YoY	Jun		1.2/		-3.7/2.4	14.00	0.00
US	FOMC Rate Decision (Lower/Upper Bound)	Jul 27		0.25		0.3	18.00	4.00
<b>Thursday, 28 July 2016</b>								
AU	Export Price Index QoQ	2Q				-4.7	1.30	11.30
AU	Import Price Index QoQ	2Q				-3.0	1.30	11.30
GE	Unemployment Change (000's)	Jul				-6.0	7.55	17.55
EC	Business Climate Indicator	Jul				0.2	9.00	19.00
GE	CPI EU Harmonized MoM/YoY	Jul P		/		0.1/0.2	12.00	22.00
US	Advance Goods Trade Balance	Jun		-61		-60.6	12.30	22.30
US	New U.S. Census Bureau Report on Advance Economic Indicators						12.30	22.30
US	Initial Jobless Claims	Jul 16		265		254.0	12.30	22.30
US	Bloomberg Consumer Comfort	Jul 17				44.7	13.45	23.45
UK	Nationwide House PX MoM/YoY	Jul		/		0.2/5.1	28 Jul-4 Aug release	
US	Kansas City Fed Manf. Activity	Jul				2.0	15.00	1.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
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%		
Canada, BoC		7-Sep				0.50%		

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

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