

# MARKETS TODAY

## Getting better



### Good morning

German and Spanish CPIs for June were released overnight – in a limited data schedule – and pointed to a better-than-expected print from tonight's Eurozone CPI by 0.1% if not 0.2%. That's added support to the EUR/USD and yields overnight, the Euro this morning at 1.1440. Euro rate markets are now pricing in a 90% chance of a 10bps hike from the ECB (from its current -0.4% deposit rate) by the middle of next year. Germany's CPI for June printed at 0.2%/1.5% (against 0.0%/1.3%) while Spain's CPI was 1.6% y/y (consensus 1.5%). As a slight dampener, Italy's (out yesterday) was a 0.2% miss, while France's is tonight. German 10y bund yields rose 8.4bps overnight against what's been a net 3.87bps rise in the US 10y Treasury.

While the Euro has been getting some support, AUD/EUR has been steady-to-higher, AUD/USD testing in the higher 0.76s, assisted with iron ore up again in size overnight. The benchmark spot price for the red ore rose another \$2.38/t to \$64.71, up 14.0% so far this week. Chinese daily traded futures prices for iron ore and steel rebar have also been rising this week, as have base metals, LME copper up another 1.05% and 2.4% for the this week so far. And so, the AUD sits at the top of the leader board despite the VIX up 1.41 points to 11.44, with equities down on both sides of the Atlantic.

Talk this week of central banks moving to remove monetary accommodation has not hurt the AUD either. While the RBA is odds on to leave rates steady next week, the language in the Governor's statement is likely to be tweaked to recognise the continuing improvement in the labour market and economic activity.

Running against the tide of softer equities overnight have been banking stocks. They have gotten a leg up after essentially passing phase II of the Fed's stress tests, giving the green light for banks to buy bank stock and pay dividends as they see fit. The KBW Banks index is up 1.29% with the Dow down 0.78%, the S&P 500 by 0.86% and the Nasdaq by 1.44%.

The CAD has also been supported from the continued reverberations from the more hawkish sounding BoC Governor this week and steadier oil prices. At the end of last week, the Canadian OIS market was pricing in a 36% chance of a hike at the upcoming 12 July BoC meeting. That pricing has arced up a tad more overnight to a now 72% probability, tacking on another 5% overnight.

Even the Pound has been getting some support, the new Government facing and getting through three votes overnight over austerity, Brexit and getting the Queen's speech passed.

Fed President Bullard said overnight that it's more prudent to announce the balance sheet adjustment at a press conference, making September more likely. That's the way the market's been thinking.

David de Garis, Director, Economics

### Coming up

The main item on the local market's schedule today is the Japanese barrage of releases, initial focus on the national May CPI at 9.30. The market is expecting headline and core inflation annual rates to tick higher by 0.1%, headline inflation up to 0.5%. It's a similar expectation for Tokyo's CPI for June, expected to be 0.3%.

Also at 9.30 is the May labour market report with a steady and low unemployment rate of 2.8% the consensus. Overall household spending growth for May is expected to be still marginally negative at -0.7% after -1.4% to April. It's been mostly running at a similar rate of contraction apart from pre-consumption tax bring-forwards, and not surprising given the contraction in Japan's population and deflation.

Then, the market will be interested in whether there are any key takeaways from the May industrial production report, expected to decline 3.0% m/m, payback after +4.0% in April. To be absolutely complete, Japan also has vehicle production, housing starts and construction orders data for May this afternoon at 15.00 AEDT.

The AUD market will be more fixated on China's official PMIs for June at 11.00 AEST. The key Manufacturing index is expected to ease to 51.0 from 51.2, right in its average for the past year. Will that index – and the counterpart Non-manufacturing index (L: 54.5; no consensus pick) – play to the gradual easing of growth story or to a more upbeat tone evident in markets like iron ore this week?

There's also RBA Credit for May, steady modest growth of 0.4% m/m our (and the market's pick) with continuing interest especially in the investor housing component in the facing of higher financing constraints.

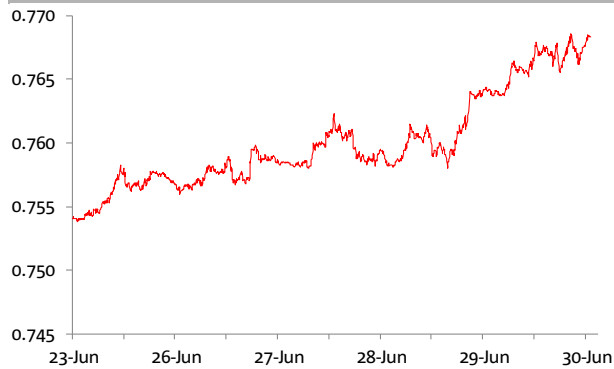
Then it'll be focus on key inflation data out of the Eurozone and the US as the main data watch-points. There's the EZ CPI for June first then later the US PCE deflators for May, after the soft May CPI. There will also be interest in the PCE report for what it says about the state of personal spending as a further update on how US Q2 *GDPNow* is travelling. The current estimate is 2.9%. US Q1 GDP was revised up from 1.2% to 1.4% overnight. The Chicago PMI for June (the national Manufacturing ISM is out Monday) is also out and there is the late month estimate from the UoM Consumer Sentiment survey.

### Overnight

On global stock markets, the S&P 500 was -0.86%. Bond markets saw US 10-years +3.87bp to 2.27%. In commodities, Brent crude oil -0.06% to \$47.28, gold -0.2% to \$1,246, iron ore +3.8% to \$64.71, steam coal +0.4% to \$80.95, met. coal +0.0% to \$146.50. AUD is at 0.7684 and the range since yesterday 5pm Sydney time is 0.7635 to 0.7686.

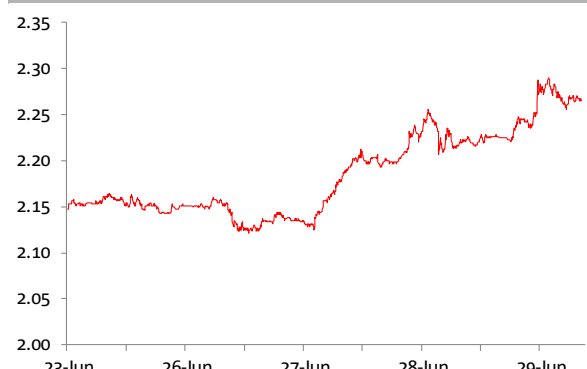
# Markets

AUD/USD - past week



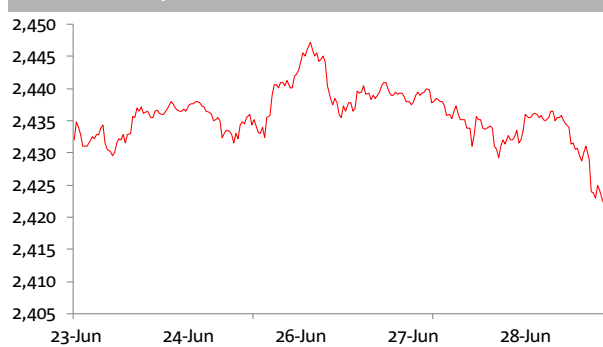
Source: Bloomberg.

US 10yr - past week



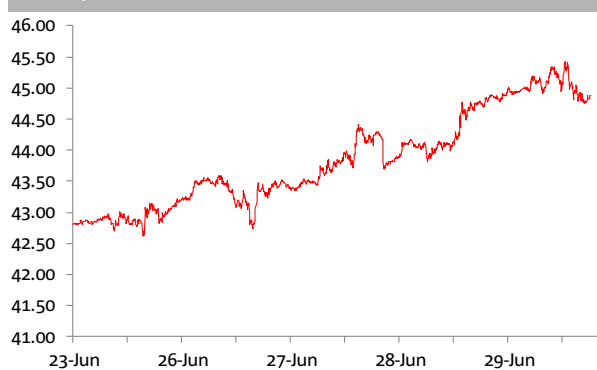
Source: Bloomberg.

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	0.7684	0.6	0.7635	0.7686	HKD	7.8057 0.0
NZD	0.7303	0.6	0.7260	0.7333	CNY	6.7865 -0.2
EUR	1.1442	0.7	1.1291	1.1448	SGD	1.3790 -0.5
GBP	1.3005	1.4	1.2813	1.3022	IDR	13,346 0.1
JPY	112.11	-0.1	111.81	112.93	THB	34.00 0.0
CAD	1.3008	-0.7	1.2986	1.3119	KRW	1,147 0.2
AUD/EUR	0.6715	0.6	0.6669	0.6731	TWD	30.37 -0.3
AUD/JPY	86.15	1.2	84.94	86.55	PHP	50.63 0.1
AUD/GBP	0.5909	-0.1	0.5867	0.5931	CHF	0.96 -0.5
AUD/NZD	1.0524	0.7	1.0422	1.0536	SEK	8.46 -1.6
AUD/CNH	5.2132	1.1	5.1605	5.2121		

## Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spred
USD	1.25	1.30	1.59	2.24	USD 10	2.27	3.87
AUD	1.50	1.71	1.95	2.88	AUD 10	2.50	4.70 0.24
NZD	1.75	1.97	2.32	3.35	NZD 10	2.88	7.50 0.61
EUR	0.00	-0.33	-0.14	0.89	CAD 10	1.71	8.40 -0.56
GBP	0.25	0.30	0.69	1.34	EUR 10	0.45	8.40 -1.81
JPY	-0.05	0.01	0.04	0.25	GBP 10	1.25	9.60 -1.02
CAD	questinç	1.05	1.39	2.02	JPY 10	0.06	-0.10 -2.20

## Equities

Major Indices			
	Last	% day	% y/y
Dow	21,287	-0.78	20.3
S&P 500	2,420	-0.86	16.9
Nasdaq	6,144	-1.44	28.6
VIX	11.44	14.06	-31.3
FTSE	7,350	-0.5	15.6
DAX	12,416	-1.8	29.2
CAC 40	5,154	-1.9	22.9
Nikkei	20,220	0.4	29.8
Shanghai	3,188	0.5	8.8
Hang Seng	25,965	1.1	24.9
ASX 200	5,818	1.1	11.2

## Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.25	-2.00
3 Yr bond	97.8	3.00
10 Yr bond	97.36	-16.50
3/10 sprd	0.44	19.50
SPI	5710.0	-14.0

\*Change in bps

## Commodities\*

	Last	% day
Oil (Brent)	47.28	-0.1
Oil (WTI)	44.87	0.3
Oil (Tapis)	47.79	1.9
Gold	1245.60	-0.2
CRB	171.89	0.5
GS Metals	327.4	0.9
Aluminium	1906.8	1.0
Copper	5925.3	1.0
Nickel	9255.5	0.2
Zinc	2757.0	0.7
Ch. steel	3292.0	1.0
Iron ore	64.7	3.8
St. Coal	81.0	0.4
Met.coal	146.5	0.0
Wheat Chic.	515.5	4.1
Sugar	13.3	6.0
Cotton	74.0	-0.6
Coffee	126.4	1.6

Prob. of 25bps hike/cut at next meeting	
bps	%
RBA	-0.2 -1.0%
FED	-0 -0.4%

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>Friday, 30 June 2017</b>								
NZ	Building Permits MoM	May				-7.6	23:45	8:45
UK	GfK Consumer Confidence	Jun		-7		-5.0	0:10	9:10
UK	Lloyds Business Barometer	Jun				27.0	0:10	9:10
JN	Jobless Rate/Jobs-to-Applicants Ratio	May		2.8/1.48		2.8/1.5	0:30	9:30
JN	Overall Household Spending YoY	May		-0.7		-1.4	0:30	9:30
JN	Natl CPI YoY	May		0.5		0.4	0:30	9:30
JN	Industrial Production MoM/YoY	May P		-3/6.9		4.0/5.7	0:50	9:50
CH	Manufacturing/Non-manufacturing PMI	Jun		51/		51.2/54.5	2:00	11:00
AU	Private Sector Credit MoM/YoY	May	0.4/4.9	0.4/5		0.4/4.9	2:30	11:30
GE	Unemployment Change (000's)/Rate	Jun		-10/5.7		-9.0/5.7	8:55	17:55
UK	GDP QoQ/YoY	1Q F		0.2/2		0.2/2.0	9:30	18:30
UK	Total Business Investment QoQ/YoY	1Q F		0.6/		0.6/0.8	9:30	18:30
UK	Current Account Balance	1Q		-16.9		-12.1	9:30	18:30
EC	CPI Estimate/Core YoY	Jun		1.2/1		1.4/0.9	10:00	19:00
US	Personal Income/Spending	May		0.3/0.1		0.4/0.4	13:30	22:30
US	PCE Deflator MoM/YoY	May		-0.1/1.5		0.2/1.7	13:30	22:30
US	PCE Core MoM/YoY	May		0.1/1.4		0.2/1.5	13:30	22:30
CA	GDP MoM/YoY	Apr		0.2/3.4		0.5/3.2	13:30	22:30
CA	Industrial Product/Raw Materials Price MoM	May		0.4/0		0.6/1.6	13:30	22:30
US	Chicago Purchasing Manager	Jun		58		59.4	14:45	23:45
CA	BoC Senior Loan Officer Survey	2Q				-1.9	15:30	0:30
EC	ECB Executive Board Member Mersch speaks in Germany						16:30	1:30
US	Baker Hughes US Rig Count/Oil Rigs	Jun 30				941	18:00	3:00
<b>Monday, 3 July 2017</b>								
AU	AiG Perf of Mfg Index	Jun				54.8	0:30	9:30
JN	Tankan Large Mfg Index/Outlook	2Q		15		12.0	0:50	9:50
JN	Tankan Large All Industry Capex	2Q		7.2		0.6	0:50	9:50
AU	CoreLogic House Px MoM	Jun				-1.1	1:00	10:00
JN	Nikkei Japan PMI Mfg	Jun F				52.0	1:30	10:30
AU	Melbourne Institute Inflation MoM/YoY	Jun				0.0	2:00	11:00
AU	NAB Online Retail Sales Index	May				-0.7/7.4	2:30	11:30
AU	ANZ Job Advertisements MoM	Jun				0.4	2:30	11:30
AU	Building Approvals MoM/YoY	May				4.4	2:30	11:30
CH	Caixin China PMI Mfg	Jun		49.7		49.6	2:45	11:45
JN	Vehicle Sales YoY	Jun				6.1	6:00	15:00
JN	Consumer Confidence Index	Jun				43.6	6:00	15:00
AU	Commodity Index AUD/SDR YoY	Jun				128.5	7:30	16:30
GE	Markit/BME Germany Manufacturing PMI	Jun F		59.3		59.3	8:55	17:55
EC	Markit Eurozone Manufacturing PMI	Jun F		57.3		57.3	9:00	18:00
UK	Markit UK PMI Manufacturing SA	Jun		56.5		56.7	9:30	18:30
US	Fed's Bullard Speaks at BoE Conference in London						9:30	18:30
EC	Unemployment Rate	May		9.3		9.3	10:00	19:00
US	Markit US Manufacturing PMI	Jun F				52.1	14:45	23:45
US	Wards Total Vehicle Sales	Jun		16.6		16.6		
CA	Bloomberg Nanos Confidence	Jun 30				57.7	15:00	0:00
US	ISM Manufacturing/Prices Paid	Jun		55		54.9	15:00	0:00
US	ISM New Orders/Employment	Jun				59.5	15:00	0:00
US	Construction Spending MoM	May		0.3		-1.4	15:00	0:00
<b>Tuesday, 4 July 2017</b>								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 2				111.8	0:30	9:30
JN	Monetary Base YoY	Jun				19.4	0:50	9:50
AU	Retail Sales MoM	May				1.0	2:30	11:30
AU	RBA Cash Rate Target	Jul 4		1.5		1.5	5:30	14:30
UK	Markit/CIPS UK Construction PMI	Jun		55		56.0	9:30	18:30
EC	PPI MoM/YoY	May		-0.1		0.0	10:00	19:00
CA	MLI Leading Indicator MoM	May				0.4	12:00	21:00
CA	Markit Canada Manufacturing PMI	Jun				55.1	14:30	23:30
EC	ECB's Nowotny Speaks in Vienna Panel Discussion						17:30	2:30
NZ	QV House Prices YoY	Jun				9.7	18:00	3:00
<b>Wednesday, 5 July 2017</b>								
NZ	ANZ Job Advertisements MoM	Jun				-0.6	23:00	8:00
UK	BRC Shop Price Index YoY	Jun				-0.4	0:10	9:10
AU	AiG Perf of Services Index	Jun				51.5	0:30	9:30
JN	Nikkei Japan PMI Services/Composite	Jun				53.0	1:30	10:30
NZ	ANZ Commodity Price	Jun				3.2	2:00	11:00
CH	Caixin China PMI Services/Composite	Jun				52.8	2:45	11:45
GE	Markit Germany Services/Composite PMI	Jun F		53.7		53.7	8:55	17:55
EC	Markit Eurozone Services/Composite PMI	Jun F		54.7		54.7	9:00	18:00
UK	New Car Registrations YoY	Jun				-8.5	9:00	18:00
UK	Markit/CIPS UK Services/Composite PMI	Jun		53.5		53.8	9:30	18:30
UK	Official Reserves Changes	Jun				1115.0	9:30	18:30
EC	Retail Sales MoM/YoY	May		0.3		0.1	10:00	19:00
US	Factory Orders/Ex Trans	May		-0.3		-0.2	15:00	0:00
US	FOMC Meeting Minutes	Jun 14					19:00	4:00
<b>Thursday, 6 July 2017</b>								
AU	Trade Balance	May				555.0	2:30	11:30
GE	Factory Orders MoM/YoY	May		2		-2.1	7:00	16:00
GE	Markit Germany Construction PMI	Jun				55.3	8:30	17:30
US	Challenger Job Cuts YoY	Jun				71.4	12:30	21:30
EC	ECB account of the monetary policy meeting						12:30	21:30
US	ADP Employment Change	Jun		177.5		253.0	13:15	22:15
CA	Building Permits MoM	May				-0.2	13:30	22:30
CA	Int'l Merchandise Trade	May				-0.4	13:30	22:30
US	Initial Jobless Claims	Jun 24		240		241.0	13:30	22:30
US	Trade Balance	May		-46.2		-47.6	13:30	22:30
US	Markit US Services PMI	Jun F				53.0	14:45	23:45
US	Bloomberg Consumer Comfort	Jun 25				49.4	14:45	23:45
US	Markit US Composite PMI	Jun F				53.0	14:45	23:45
US	ISM Non-Manf. Composite	Jun		56.5		56.9	15:00	0:00
US	Fed's Powell Speaks in Washington on Housing Finance Reform						15:00	0:00
EC	ECB's Weidmann, Nowotny Discuss Future of Euro						17:00	2:00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Australia, RBA		4-Jul	1.50%	1.50%		1.50%		
Canada, BoC		13-Jul				0.5%		
Japan, BoJ		20-Jul	-0.1%	-0.1%		-0.1%		
Europe ECB		20-Jul	-0.4%	-0.4%		-0.4%		
US Federal Reserve		27-Jul				1.00-1.25%		
UK BOE		3-Aug				0.25%		
New Zealand, RBNZ		10-Aug	1.75%	1.75%		1.75%		

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

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