

# MARKETS TODAY

## *Wings of a dove (really?)*



### Good morning

The Canadian dollar is the standout winner in FX markets after the Bank of Canada raised rates by 0.25% to 0.75% as widely expected but didn't deliver the 'dovish hike' some were expecting. US yields and the dollar are generally lower (EUR/USD The exception) after Janet Yellen's Congressional testimony was interpreted in a slightly dovish light. This has pulled AUD/USD higher by default, aided also by what looks like a bout of profit-taking on erstwhile winning long Euro trades and where positioning might have become somewhat stretched in the past week or so.

Markets seem to have concluded that Fed Chair Janet Yellen just blinked, now less confident that inflation is on track towards the Fed's 2% target, with obvious implications for what that might mean for Fed policy. In fact, Yellen said under questioning that it is premature to reach a judgement that the U.S. is not on a path to 2% inflation over the next couple of years. She also reiterated that additional gradual rates rises were likely to be needed. But having earlier warned that there was uncertainty "about when – and how much – inflation will respond to tightening resource utilisation" and that recent declines in headline and core inflation were only "partly" the result of a few unusual reductions in certain categories of prices, the damage was already done.

Also noted was the comment that "because the neutral rate is quite low by historical standards, the federal funds rate would not have to rise all that much further to get to a neutral policy stance." That was really nothing new; remember Yellen and others have often made clear that as the economy continues to improve, the neutral rate will likely rise over time (from current estimates of near zero).

But no matter, US 10 year yields dropped from around 2.35% to 2.30% soon after Yellen started speaking, and have since only recovered to just shy of 2.32%. And as with last week's 'goldilocks' employment report, equity markets liked what they saw as a slightly dovish tilt, and modestly extended the jump higher seen at the open prior to Yellen's testimony. The S&P 500 has just closed up three quarters of a percent and the NADAQ by just over a percent. The Dow's 0.6% jump to 21,432 represents a new all-time high.

On the question of whether or not she will be reappointed to the Chair when her first term ends next January – and following yesterday's Politico report that she probably won't – Yellen said in response to questioning only that it could be her last testimony simply because her current term ends in January, and that the matter of possible reappointment was for her and the President to discuss. All very politically correct.

Back to the Bank of Canada (BoC). It was the statement accompanying the quarter point rate rise to 0.75% that moved the CAD up by almost 1 ½ cents against the USD

that has pulled AUD/CAD to a new post-January low of 0.9736. The BoC slightly upgraded its growth forecasts, now seeing the output gap closed by the end of this year. It expects to meet its 2% inflation objective before 2018 is out. This has left markets pricing another rate rise by year-end at over 98%.

Elsewhere the British Pound rallied notwithstanding the exit stage left of certain Scottish tennis player from Wimbledon, thanks to a fall in the unemployment rate to its lowest since 1975 at 4.4% and slightly stronger than expected earnings data (2% on the ex-bonus measure up from 1.8%). The latter does nothing to detract from the fact that real wages are going backwards given current inflation near 3%. No worries, there's still an honorary Brit from Australia to keep the Union Jack flying over South West London, for the next 24 hours at least.

### Coming Up

The Trump related news-flow that comes into the APAC morning continues to stand as the market likely source of market volatility in our time zone.

The only thing of note on the economic calendar this morning is China trade data for June, where annual export and import growth is seen little changed on May and the overall trade balance at \$42.6bn versus \$40.8bn last time. There will almost certainly be a surprise one way or the other, but China isn't currently at centre of the radar as far as AUD influences go and with commodity prices not currently under the cosh, so we doubt they will elicit a big reaction unless they spring a dramatic surprise. Note China June loan data overnight was somewhat stronger than expected.

Offshore tonight, no European data or events of note, but in the US it's Yellen testimony Take 2 (before the Senate banking pane, and where is she chooses she can correct the market's interpretation of a slightly more dovish chair on Wednesday), US PP (ahead of CPI on Friday) and the CBO will release its analysis of President Trump's 2018 fiscal year budget. The latter is already coming under fire from the Trump administration, inevitably given the conservative (realistic?) growth assumptions that the CBO uses to do the fiscal maths.

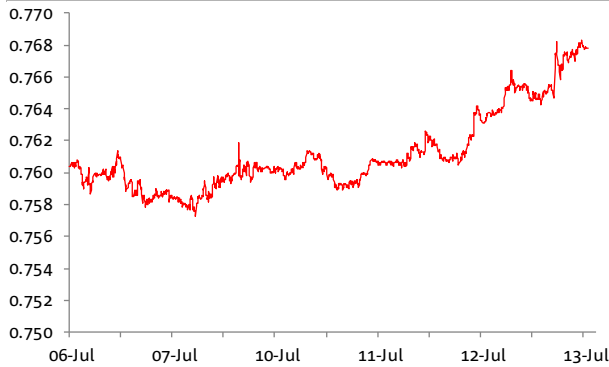
Charles Evans and Lael Brainard are the two designated Fed speakers, both on the dovish side of the hawk-dove spectrum.

### Overnight

On global stock markets, the S&P 500 was +0.76%. Bond markets saw US 10-years -4.28bp to 2.32%. In commodities, Brent crude oil +0.38% to \$47.7, gold+0.4% to \$1,220, iron ore -2.1% to \$64.05, steam coal -0.2% to \$83.20, met. coal +2.7% to \$171.00. AUD is at 0.7679 and the range since yesterday 5pm Sydney time is 0.7635 to 0.7685.

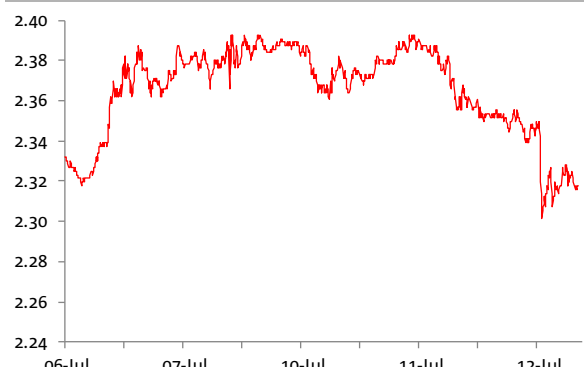
Markets

AUD/USD - past week



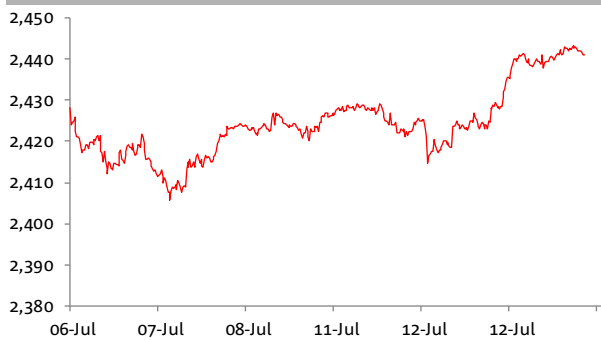
Source: Bloomberg.

US 10yr - past week



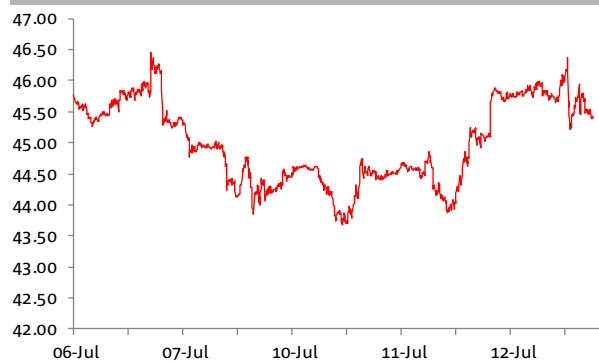
Source: Bloomberg.

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	0.7678	0.5	0.7635	0.7685	HKD	7.8115 0.0
NZD	0.7260	0.5	0.7216	0.7281	CNY	6.7878 -0.2
EUR	1.1418	-0.4	1.1392	1.1489	SGD	1.3774 -0.3
GBP	1.2887	0.3	1.2812	1.2907	IDR	13,370 -0.1
JPY	113.19	-0.7	112.93	113.97	THB	33.96 -0.4
CAD	1.2748	-1.3	1.2681	1.2939	KRW	1,145 -0.5
AUD/EUR	0.6725	1.0	0.6655	0.6731	TWD	30.46 -0.3
AUD/JPY	86.91	-0.1	86.65	87.05	PHP	50.63 -0.2
AUD/GBP	0.5958	0.2	0.5938	0.5971	CHF	0.97 0.1
AUD/NZD	1.0576	0.1	1.0555	1.0596	SEK	8.41 0.2
AUD/CNH	5.2090	0.6	5.1903	5.1964		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.30	1.59	2.27	USD 10	2.32	-4.28
AUD	1.50	1.70	1.92	2.90	AUD 10	2.72	-2.90 0.40
NZD	1.75	1.97	2.30	3.37	NZD 10	2.99	-3.70 0.67
EUR	0.00	-0.33	-0.12	0.93	CAD 10	1.88	2.30 -0.44
GBP	0.25	0.30	0.66	1.32	EUR 10	0.58	2.90 -1.74
JPY	-0.03	-0.01	0.05	0.29	GBP 10	1.26	-1.40 -1.06
CAD	0.75	1.20	1.54	2.19	JPY 10	0.09	-0.70 -2.23

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,532	0.57	17.4
S&P 500	2,444	0.76	13.6
Nasdaq	6,261	1.10	24.7
VIX	10.18	-6.52	-24.9
FTSE	7,417	1.2	11.0
DAX	12,627	1.5	26.7
CAC 40	5,222	1.6	20.6
Nikkei	20,098	-0.5	23.8
Shanghai	3,198	-0.2	4.5
Hang Seng	26,044	0.6	22.1
ASX 200	5,674	-1.0	5.3

Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.25	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.30	2.50
3/10 sprd	0.50	0.50
SPI	5655.0	20.0

\*Change in bps

Commodities\*

	Last	% day
Oil (Brent)	47.70	0.4
Oil (WTI)	45.43	0.9
Oil (Tapis)	48.28	3.4
Gold	1219.60	0.4
CRB	173.88	0.0
GS Metals	326.0	0.2
Aluminium	1875.0	-0.6
Copper	5881.0	0.5
Nickel	9161.5	0.8
Zinc	2832.0	0.4
Ch. steel	3592.0	2.0
Iron ore	64.1	-2.1
St. Coal	83.2	-0.2
Met.coal	171.0	2.7
Wheat Chic.	537.0	-2.9
Sugar	13.5	0.4
Cotton	68.1	0.0
Coffee	127.6	0.6

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-1.0	-4.0%
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>Thursday, 13 July 2017</b>								
NZ	Food Prices MoM	Jun	0.3			2.4	23.45	8.45
UK	RICS House Price Balance	Jun		15		17.0	0.10	9.10
NZ	ANZ Consumer Confidence Index/MoM	Jul		/		127.8/3.1	2.00	11.00
AU	Consumer Inflation Expectation	Jul				3.6	2.00	11.00
JN	Tokyo Avg Office Vacancies	Jun				3.4	3.00	12.00
CH	Trade Balance CNY	Jun		275.1		281.6	4.30	13.30
CH	Exports/Imports YoY CNY	Jun		14.6/22.3		15.5/22.1	4.30	13.30
CH	Trade Balance	Jun		42.6		40.8	4.33	13.33
CH	Exports/Imports YoY	Jun		8.9/14.5		8.7/14.8	4.33	13.33
UK	Bank of England Credit Conditions & Bank Liabilities Surveys						9.30	18.30
GE	CPI MoM/YoY	Jun F		0.2/1.6		0.2/1.6	7.00	16.00
GE	CPI EU Harmonized MoM/YoY	Jun F		0.2/1.5		0.2/1.5	7.00	16.00
CA	New Housing Price Index MoM/YoY	May		0.3/3.5		0.8/3.9	13.30	22.30
US	PPI Final Demand MoM/YoY	Jun		0/1.9		0.0/2.4	13.30	22.30
US	PPI Ex Food and Energy MoM/YoY	Jun		0.2/2		0.3/2.1	13.30	22.30
US	PPI Ex Food, Energy, Trade MoM/YoY	Jun		0.2/		-0.1/2.1	13.30	22.30
US	Initial Jobless Claims	Jul 8		245		248.0	13.30	22.30
US	Bloomberg Consumer Comfort	Jul 9				48.5	14.45	23.45
US	<b>Fed Chair Yellen Testifies Before Senate Banking Panel</b>						15.00	0.00
US	CBO release its analysis of President Trump's fiscal year 2018 Budget						16.00	1.00
US	Fed's Evans Speaks on current economic and monetary policy at Rocky Mountain Summit in Victor, Idaho						16.30	1.30
US	Fed's Brainard Speaks in Cambridge, Mass.							3.00
US	Monthly Budget Statement	Jun		-35		-88.4	19.00	4.00
<b>Friday, 14 July 2017</b>								
NZ	BusinessNZ Manufacturing PMI	Jun				58.5	23.30	8.30
JN	Industrial Production MoM/YoY	May F		/		-3.3/6.8	5.30	14.30
EC	Trade Balance SA	May		20.2		19.6	10.00	19.00
US	CPI MoM/YoY	Jun		0.1/1.7		-0.1/1.9	13.30	22.30
US	CPI Ex Food and Energy MoM/YoY	Jun		0.2/1.7		0.1/1.7	13.30	22.30
US	Retail Sales Advance MoM	Jun		0.1		-0.3	13.30	22.30
US	Retail Sales Ex Auto and Gas/Control Group	Jun		0.4/0.3		0.0/0.0	13.30	22.30
US	Industrial/Manufacturing Production MoM	Jun		0.3/0.2		0.0/-0.4	14.15	23.15
US	Fed's Kaplan Speaks in Mexico City						14.30	23.30
US	U. of Mich. Sentiment/5-10 Yr Inflation	Jul P		95/		95.1/2.5	15.00	0.00
US	Business Inventories	May		0.3		-0.2	15.00	0.00
US	Baker Hughes US Rig Count/Oil Rigs	Jul 14		/		952/763	18.00	3.00
<b>Monday, 17 July 2017</b>								
CH	Foreign Direct Investment YoY CNY	Jun				-4	Jun 8-18 release	
NZ	Performance Services Index	Jun				59	23.30	8.30
UK	Rightmove House Prices MoM/YoY	Jul		/		0/2	0.10	9.10
CH	Retail Sales YoY/YTD YoY	Jun		10.6/10.3		11.1/10	3.00	12.00
CH	Industrial Production YoY/YTD YoY	Jun		6.5/6.7		7/7	3.00	12.00
CH	Fixed Assets Ex Rural YTD YoY	Jun		8.5		9	3.00	12.00
CH	GDP SA QoQ/YoY	2Q		1.7/6.8		1/7	3.00	12.00
CH	GDP YTD YoY	2Q		6.8		7	3.00	12.00
CA	Int'l Securities Transactions	May				11	13.30	22.30
US	Empire Manufacturing	Jul		15		20	13.30	22.30
CA	Existing Home Sales MoM	Jun				-6	14.00	23.00
CA	Bloomberg Nanos Confidence	Jul 14				58	15.00	0.00
<b>Tuesday, 18 July 2017</b>								
NZ	CPI QoQ/YoY	2Q				1	23.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 16				113	0.30	9.30
AU	New Motor Vehicle Sales MoM/YoY	Jun		/		3/5	2.30	11.30
CH	Property Prices	Jun					2.30	11.30
AU	RBA July Rate Meeting Minutes						2.30	11.30
NZ	Non Resident Bond Holdings	Jun				61	4.00	13.00
EC	ECB Bank Lending Survey						9.00	18.00
EC	ECB Survey of Professional Forecasters						9.00	18.00
UK	CPI MoM/YoY	Jun		/		0/3	9.30	18.30
UK	CPIH YoY/Core YoY	Jun		/		3/3	9.30	18.30
UK	PPI Input NSA MoM/YoY	Jun		/		-1/12	9.30	18.30
UK	PPI Output NSA MoM/YoY	Jun		/		0/4	9.30	18.30
UK	PPI Output Core NSA MoM/YoY	Jun		/		0/3	9.30	18.30
UK	House Price Index YoY	May				6	9.30	18.30
EC	CPI MoM/YoY	Jun		/		0/1	10.00	19.00
EC	CPI Core YoY	Jun F				1	10.00	19.00
GE	ZEW Survey Current Situation/Expectations	Jul		/		88/19	10.00	19.00
EC	ZEW Survey Expectations	Jul				38	10.00	19.00
US	Import Price Index MoM/YoY	Jun		-0.1/		0/2	13.30	22.30
US	Import Price Index ex Petroleum MoM	Jun		0.2		0	13.30	22.30
US	Export Price Index MoM/YoY	Jun		0.1/		-1/1	13.30	22.30
US	NAHB Housing Market Index	Jul		67		67	15.00	0.00
US	Net Long-term/Total TIC Flows	May		/		2/66	21.00	6.00
<b>Wednesday, 19 July 2017</b>								
AU	Westpac Leading Index MoM	Jun				0	1.30	10.30
AU	RBA's Heath Speech at the Women in Economics panel at the Australian Conference of Economists						6.30	15.30
JN	Machine Tool Orders YoY	Jun F				31	7.00	16.00
EC	Construction Output MoM/YoY	May		/		0/3	10.00	19.00
US	Housing Starts/MoM	Jun		1170/7.1		1092/-6	13.30	22.30
US	Building Permits/MoM	Jun		1210/3.6		1168/-5	13.30	22.30
CA	Manufacturing Sales MoM	May				1	13.30	22.30
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Canada, BoC		6-Sep	0.75%			0.75%		
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%		
Australia, RBA		1-Aug	1.50%	1.50%		1.50%		
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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