

MARKETS TODAY

Feel So Close to Tapering



Good morning

The bond sell-off continued overnight, underpinned by a weak French 30-year bond auction, comments by the Banque de France's Villeroy and ECB Minutes which indicated the Bank was closer to removing its easing bias on its Asset Purchase Program (APP) than many first thought. To borrow from Calvin Harris' 2012 hit, the ECB [Feels So Close](#) to announcing a taper of its APP.

In terms of market moves, most action happened in bonds: German Bund yields (+9.2bps to 0.56%); French OATs (+10.1 to 0.92%) and US Treasury yields (+4.2bps to 2.37%). With yields moving higher in Europe, the Euro outperformed (+0.6%), while equities were lower across the board (EuroStoxx50 -0.5%; S&P500 -0.9%).

How did the sell-off begin? The French 30-year bond auction was weaker than expected with a lower bid-to-cover of 1.53 times compared to 1.93 times for the previous auction. The clear implication here is that buyers have less appetite for European debt as they expect yields to head higher and for the ECB to gradually remove policy accommodation in the near future. That sentiment was reinforced by Banque de France's Villeroy who in his first annual letter to the French President said non-standard monetary policy is "neither eternal nor omnipotent" and that nominal rates are set to rise in line with the economic recovery.

The ECB Minutes reinforced the notion that the ECB was set to announce a taper of its APP in the near future with a discussion held on whether they should "revisiting the easing bias with respect to the APP purchases" given vanishing tail risks but in the end they didn't out of fear that "even small and incremental changes in the communication could be misperceived" and that could lead to a tightening in financial conditions. Importantly, they said "as the economic expansion proceeded and if confidence in the inflation outlook improved further, the case for retaining this bias could be viewed". It seems it is only a matter of time for further ECB communication that would guide the market towards the expectation of a gradual removal of policy accommodation – in this light, Draghi's speech last week was likely a pointer in this direction.

In FX, the Euro was the clear outperformer, up 0.6% overnight. The UK Pound also gained, up 0.3% with the Bank of England's McCafferty (dissenter) fuelling expectations that policy accommodation could be removed in the near future: "If the economy evolves along the lines of the forecast that we put out in May we would expect to see a couple of modest rate rises at some stage over the next couple of years or so." On whether this would occur in the next few months: "I will make my decision about that at the next meeting on the basis of the data that by then will be available ... we're all watching the data and will see how it goes."

Tapas Strickland, Economist, Markets

Movements in other major currency pairs were more muted: Aussie (-0.2%), Kiwi (-0.2%), CAD (-0.2%) and Yen (+0.1%).

Oil prices were slightly higher (WTI +0.4%; Brent +0.3%), but remain volatile. A fall in US stockpiles yesterday helped the oil price recover after yesterday's sharp intraday fall.

While there was plenty of US data out, this did not have an enduring impact on the market. ADP Payrolls were weaker than expected, but the Non-manufacturing ISM was stronger than expected; other data out included the Trade Balance and Jobless claims. As for ADP Payrolls, they were 158k against expectations of 188k. While that could signal downside risks for tonight's Non-farm Payrolls, it has performed poorly recently while other indicators of the labour market remain strong.

One such indicator is the Non-manufacturing ISM which rose to 57.5 from 56.9 and above the consensus of 56.5. Strength in the month was driven by New Orders (+2.8 points) and Inventories (+3.5 points). Importantly the Employment Index remained at high levels, though it did dip to 55.8 from 57.8. Superficially that still signals a GDP growth rate of +3% and continued payrolls growth.

Coming Up

All focus international focus will be on the US where we get Non-farm Payrolls, the Unemployment Rate and Wages (10.30pm AEST). The market is currently expecting payrolls growth of 178k, up from last month's 138k pace, and an unchanged unemployment rate at 4.3%. The Atlanta Fed's jobs calculator suggests only 118k jobs a month are needed to keep the unemployment rate unchanged so anything above this will be probably enough for the Fed.

Also under focus will be the wages component which has so far failed to lift significantly despite the unemployment rate falling over the past 6-months from 4.7% to 4.3%. This month consensus looks for a 0.3% m/m rise which would take the y/y figure to 2.6%.

Canadian data tonight will also garner more than usual focus this evening given the Bank of Canada seems pre-determined to lift rates next week. We get an update of the Canadian labour market (10.30pm AEST) and the Ivey PMI for June (12.00am AEST).

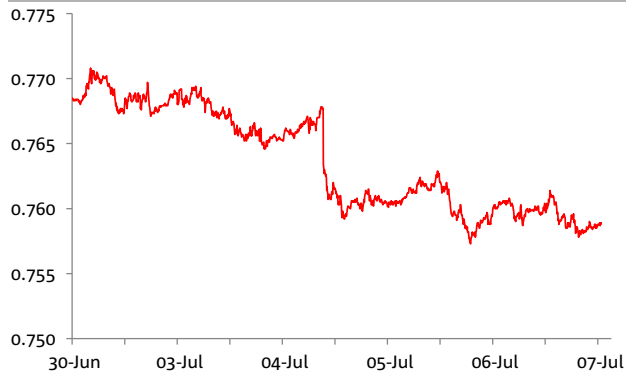
Also out today is Labour Cash Earnings in Japan and the UK has Industrial Production and the Trade Balance.

Overnight

On global stock markets, the S&P 500 was -0.94%. Bond markets saw US 10-years +4.27bp to 2.37%. In commodities, Brent crude oil +0.27% to \$47.92, gold+0.2% to \$1,225, iron ore -2.1% to \$61.96, steam coal +0.2% to \$83.20, met. coal -0.3% to \$158.50. AUD is at 0.7583 and the range since yesterday 5pm Sydney time is 0.7577 to 0.7615.

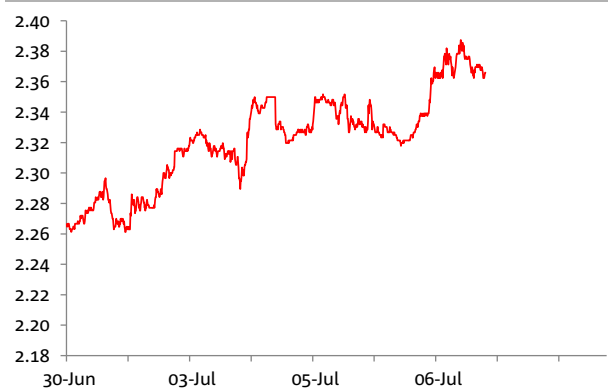
Markets

AUD/USD - past week



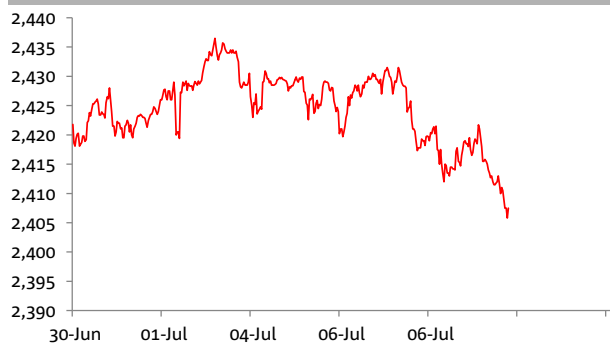
Source: Bloomberg.

US 10yr - past week



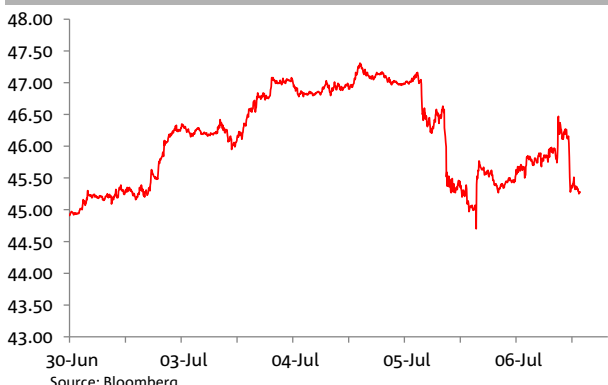
Source: Bloomberg.

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	0.7583	-0.3	0.7577	0.7615	HKD	7.8108	0.0
NZD	0.7277	-0.2	0.7245	0.7293	CNY	6.8015	0.0
EUR	1.1424	0.6	1.1330	1.1425	SGD	1.3818	0.1
GBP	1.2973	0.3	1.2920	1.2984	IDR	13,392	0.2
JPY	113.21	0.0	112.89	113.47	THB	34.06	0.1
CAD	1.2976	0.1	1.2923	1.2983	KRW	1,157	0.6
AUD/EUR	0.6639	-0.9	0.6638	0.6709	TWD	30.59	0.3
AUD/JPY	85.85	-0.3	85.73	86.32	PHP	50.71	0.1
AUD/GBP	0.5846	-0.6	0.5843	0.5887	CHF	0.96	-0.3
AUD/NZD	1.0421	-0.1	1.0419	1.0472	SEK	8.44	-0.6
AUD/CNH	5.1574	0.0	5.1535	5.1813			

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.30	1.65	2.34	USD 10	2.37	4.27
AUD	1.50	1.71	1.93	2.89	AUD 10	2.64	1.00 0.27
NZD	1.75	1.98	2.32	3.37	NZD 10	2.96	0.00 0.59
EUR	0.00	-0.33	-0.12	0.98	CAD 10	1.83	4.20 -0.53
GBP	0.25	0.30	0.68	1.39	EUR 10	0.56	9.20 -1.80
JPY	-0.06	0.00	0.05	0.30	GBP 10	1.32	5.60 -1.05
CAD	0.50	1.13	1.47	2.15	JPY 10	0.10	1.20 -2.26

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,320	-0.74	19.0
S&P 500	2,410	-0.94	14.8
Nasdaq	6,089	-1.00	25.3
VIX	12.54	13.28	-16.2
FTSE	7,337	-0.4	13.5
DAX	12,381	-0.6	32.1
CAC 40	5,152	-0.5	26.1
Nikkei	19,994	-0.4	30.9
Shanghai	3,212	0.2	6.5
Hang Seng	25,465	-0.2	23.0
ASX 200	5,759	-0.1	10.2

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.25	-1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.32	-4.00
3/10 sprd	0.48	7.00
SPI	5676.0	29.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	47.92	0.3
Oil (WTI)	45.33	0.4
Oil (Tapis)	48.60	-1.3
Gold	1224.70	0.2
CRB	174.43	0.4
GS Metals	326.3	0.3
Aluminium	1934.8	0.8
Copper	5828.0	0.2
Nickel	9037.0	-0.9
Zinc	2785.5	0.1
Ch. steel	3379.0	-1.3
Iron ore	62.0	-2.1
St. Coal	83.2	0.2
Met.coal	158.5	-0.3
Wheat Chic.	539.0	-3.8
Sugar	13.9	1.5
Cotton	75.0	1.6
Coffee	129.1	-0.7
Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-0.2	-1.0%
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
Thursday, 6 July 2017								
AU	Trade Balance	May	-200	1000		555.0	2.30	11.30
GE	Factory Orders MoM/YoY	May		1.9		-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		182.5		253.0	13.15	22.15
CA	Building Permits MoM	May		1		-0.2	13.30	22.30
CA	Int'l Merchandise Trade	May		-0.5		-0.4	13.30	22.30
US	Initial Jobless Claims	Jul 1		243		244.0	13.30	22.30
US	Trade Balance	May		-46.3		-47.6	13.30	22.30
US	Markit US Services PMI	Jun F		53		53.0	14.45	23.45
US	Bloomberg Consumer Comfort	Jul 2				48.6	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
US	Fed's Fischer speaks on Government Policy and Labor Productivity						0.30	9.30
Friday, 7 July 2017								
AU	AiG Perf of Construction Index	Jun				56.7	0.30	9.30
JN	Labor Cash Earnings/Real Earnings YoY	May		0.4		0.5	1.00	10.00
JN	Leading Index CI	May P		104.5		104.2	6.00	15.00
GE	Industrial Production SA MoM/YoY	May		0.2		0.8	7.00	16.00
AU	Foreign Reserves	Jun				88.5	7.30	16.30
CH	Foreign Direct Investment YoY CNY	Jun				-3.7	7.35	16.35
UK	Halifax House Prices MoM/3M YoY	Jun		0.2		0.4	8.30	17.30
CH	Foreign Reserves	Jun		3060		3053.6	9.00	18.00
UK	Industrial Production MoM/YoY	May		0.3		0.2	9.30	18.30
UK	Manufacturing Production MoM/YoY	May		0.5		0.2	9.30	18.30
UK	Construction Output SA MoM/YoY	May		0.7		-1.6	9.30	18.30
UK	Trade Balance	May		-2500		-2050.0	9.30	18.30
UK	NIESR GDP Estimate	Jun		0.2		0.2	13.00	22.00
US	Change in Nonfarm Payrolls	Jun		177		138.0	13.30	22.30
US	Unemployment Rate	Jun		4.3		4.3	13.30	22.30
US	Average Hourly Earnings MoM/YoY	Jun		0.3		0.2	13.30	22.30
CA	Net Change in Employment/Unemployment	Jun		10		54.5	13.30	22.30
CA	Ivey Purchasing Managers Index SA	Jun		58		53.8	15.00	0.00
US	Fed publishes its July 2017 Monetary Policy Report to Congress						16.00	1.00
US	Baker Hughes US Rig Count/Oil Rigs	Jul 7				940	18.00	3.00
Monday, 10 July 2017								
CH	Foreign Direct Investment YoY CNY	Jun				-3.7		
JN	Machine Orders MoM/YoY	May				-3.1	0.50	9.50
JN	BoP Current Account Adjusted	May				1807.4	0.50	9.50
JN	Trade Balance BoP Basis	May				553.6	0.50	9.50
CH	CPI/PPI YoY	Jun		1.5		1.5	2.30	11.30
JN	Eco Watchers Survey Current SA	Jun				48.6	6.00	15.00
JN	Eco Watchers Survey Outlook SA	Jun				49.6	6.00	15.00
GE	Current Account Balance	May				15.1	7.00	16.00
EC	Sentix Investor Confidence	Jul				28.4	9.30	18.30
CH	New Yuan Loans/Aggregate Financing CNY	Jun		1300		1110	10-15 July release	
NZ	REINZ House Sales YoY	Jun				-18.4		
CA	Bloomberg Nanos Confidence	Jun 30				57.7	15.00	0.00
US	Labor Market Conditions Index Change	Jun				2.3		
US	Consumer Credit	May		15		8.2	20.00	5.00
Tuesday, 11 July 2017								
NZ	Card Spending Total MoM	Jun				-0.2	23.45	8.45
UK	BRC Sales Like-For-Like YoY	Jun				-0.4	0.10	9.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 9				114.5	0.30	9.30
AU	NAB Business Conditions/Confidence	Jun				12.0	2.30	11.30
AU	Home Loans/Investment Lending MoM	May				-1.9	2.30	11.30
JN	Machine Tool Orders YoY	Jun P				24.5	7.00	16.00
US	NFIB Small Business Optimism	Jun				104.5	11.00	20.00
CA	Housing Starts	Jun				194.7	13.15	22.15
US	JOLTS Job Openings	May				6044.0	15.00	0.00
US	Wholesale Trade Sales/Inventories MoM	May				-0.4	15.00	0.00
Wednesday, 12 July 2017								
NZ	ANZ Truckometer Heavy MoM	Jun				4.1	23.00	8.00
JN	PPI MoM/YoY	Jun				0.0	0.50	9.50
AU	Westpac Consumer Conf Index/MoM	Jul				96.2	1.30	10.30
JN	Tertiary Industry Index MoM	May				1.2	5.30	14.30
UK	Jobless Claims Change	Jun				7.3	9.30	18.30
UK	Employment Change/LO Unemployment Rate 3M/3M	May				109.0	9.30	18.30
EC	Industrial Production SA MoM/YoY	May				0.5	10.00	19.00
CA	Teranet/National Bank HP Index	Jun				210.9	13.30	22.30
CA	Bank of Canada Rate Decision/Monetary Policy Report	Jul 12		0.75		0.5	15.00	0.00
CA	BOC's Poloz and Wilkins Hold Press Conference in Ottawa						16.15	1.15
US	U.S. Federal Reserve Releases Beige Book						19.00	4.00
Upcoming Central Bank Interest Rate Announcements								
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%		
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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