

MARKETS TODAY

How much a dollar cost



Good morning

How much a dollar cost? Is a song from American rapper Kendrick Lamar and apparently it is Barack Obama's favourite song of 2015. Well, whichever way you measure it, a USD costs less today than it did yesterday. The USD sell off that began yesterday during our day session continued overnight following senate Republicans' failure to push through their healthcare reform. In the process they have also increased concerns over Trump's ability to implement his policy agenda. The AUD has added to its post RBA minutes gains and oil prices are stronger on reports that Saudi Arabia is considering additional export cuts.

After yesterday's failure to push through a "repeal and replace" healthcare bill, overnight GOP leaders were also unable to convince all their senate Republicans to just repeal Obamacare. US data releases didn't help the cause either with NAHB index of homebuilder activity and sentiment dropping to its lowest reading since November (64 vs 67 exp.).

So the dollar is softer across the board. BBDXY and DXY are down 0.5% with the latter index now trading at a new 10 month low (94.66). Looking at the G10 leader board, softer CPI figures in the UK and dovish minutes from the Riksbank prevented GBP (-0.09%) and SEK (-0.15%) from joining the softer USD party. Meanwhile the AUD is the outstanding outperformer (+1.54%) after making further gains posts its RBA minute jump yesterday.

Prior to the UK CPI release (2.6% vs 2.7% exp., core 2.4% vs 2.6% exp.) GBP managed to record yet another new 10 month high of 1.3125, but reaction to the inflation numbers saw cable drop almost one big figure within minutes. The pair traded down to an overnight low of 1.3006, but over the past couple of hours it has settled around 1.3040.

After trading to an overnight high of 0.7943, the AUD now trades at 0.7916. Remarks from the Minutes of the early July RBA meeting have been the main driver for AUD gains. Underlining the weak USD feeding frenzy and selective investor attention has been the decision to focus on an RBA discussion over the neutral real interest rate (where inflation is stable and economic growth at potential). The RBA concluded the neutral real cash rate had dropped from pre-GFC levels of 2.5% to around 1% currently. With a 2.5% midpoint inflation target, this suggests a neutral nominal cash rate of 3.5%, well above the current 1.5% cash rate. This drove the AUD higher and weakness in the short end of the rates markets after the Minutes. It is likely that the path to a neutral cash rate - when it begins - would be a cautious one, given elevated levels of household debt. So, in our view we are not heading towards neutral for a while still.

The AUD is now trading at a new 26 month high and given the ongoing negative USD sentiment a move

above 80c looks to be just a matter of time. In recent notes we have argued that on a TWI basis the AUD is starting to look stretched. We have a couple of RBA speeches this week and for choice we think Deputy Governor Debelle's speech on Friday could be the most interesting one. Debelle speaks on Global Influences on Domestic Monetary Policy and he may take the opportunity to emphasise the RBA is likely to be on hold for an extended period of time. He may also want to clarify the purpose of the neutral cash rate discussion as well as its take on the recent sharp AUD appreciation.

The US political turmoil also weighed on US Treasury yields with the 10y note trading down to 2.2509% (4.3bps lower since Sydney's close), flattening the curve in the process as the 2y bond drifted 1bps to 1.3477%. Meanwhile 10y Bunds closed at 0.547%, 2.9bps lower on the day. The narrowing on the UST-Bunds differential has been a contributing factor for the move higher in the Euro, the pair traded to an overnight high of 1.1583 and now trades at 1.1555, a new 14 month high.

Coming Up

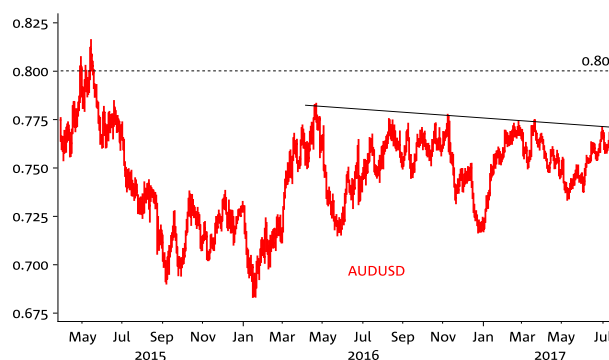
We have a relatively light day in terms of data releases and events with none of them likely to be market moving. In our day session, RBA's Heath speaks in a panel at the Australian Conference of Economists, but given the topic of discussion ("Women in Economics"), our sense is that we are unlikely to get any comments on monetary policy or the exchange rate.

Europe gets its May construction output and then the US releases housing starts and building permits for June. US politics are likely to remain the focus for markets.

Overnight

On global stock markets, the S&P 500 was +0.04%. Bond markets saw US 10-years -0.18bp to 2.26%. In commodities, Brent crude oil +0.93% to \$48.87, gold +0.6% to \$1,242, iron ore +3.0% to \$68.84, steam coal +1.5% to \$85.55, met. coal +0.9% to \$165.00. AUD is at 0.7919 and the range since yesterday 5pm Sydney time is 0.7786 to 0.7943.

Chart of the day: 80c within sight

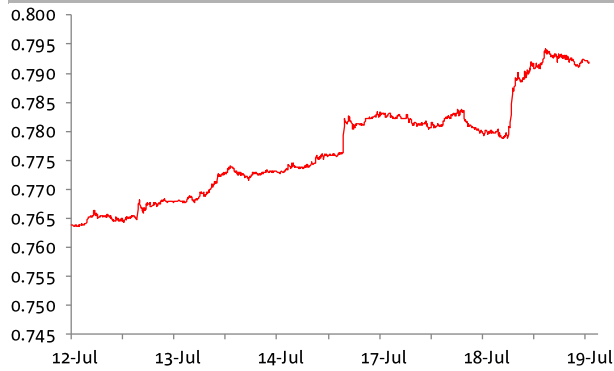


Source: National Australia Bank, Macrobond

Rodrigo Catril, FX strategist

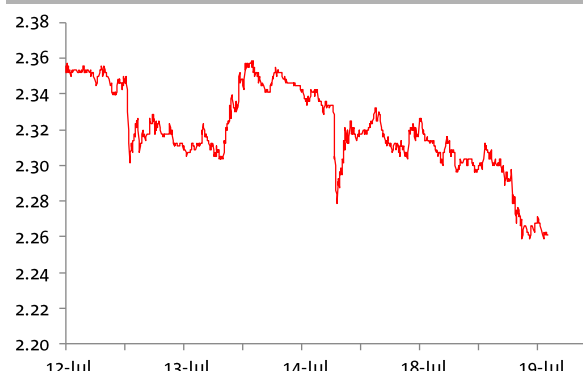
Markets

AUD/USD - past week



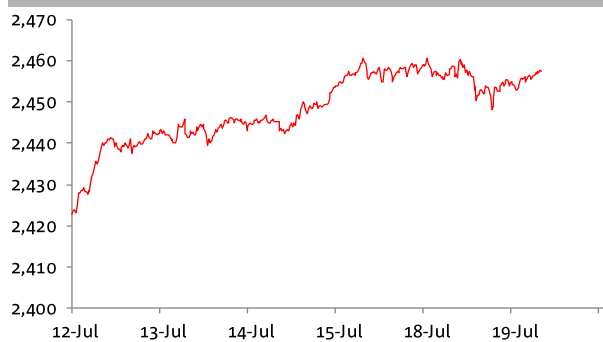
Source: Bloomberg.

US 10yr - past week



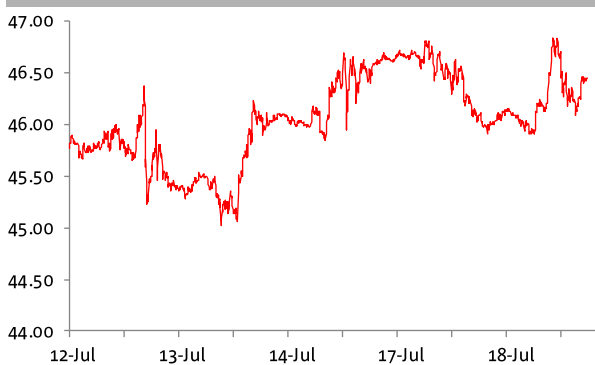
Source: Bloomberg.

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	0.7919	1.5	0.7786	0.7943	HKD	7.8054 0.0
NZD	0.7358	0.5	0.7264	0.7373	CNY	6.7466 -0.3
EUR	1.1554	0.7	1.1435	1.1583	SGD	1.3665 -0.2
GBP	1.3041	-0.1	1.3005	1.3126	IDR	13,309 -0.1
JPY	112.03	-0.5	111.69	112.87	THB	33.56 -0.1
CAD	1.2624	-0.6	1.2581	1.2701	KRW	1,123 -0.4
AUD/EUR	0.6854	0.9	0.6767	0.6880	TWD	30.35 -0.1
AUD/JPY	88.72	1.0	87.50	89.15	PHP	50.71 0.1
AUD/GBP	0.6072	1.6	0.5961	0.6101	CHF	0.96 -0.8
AUD/NZD	1.0762	1.0	1.0632	1.0801	SEK	8.30 0.1
AUD/CNH	5.3450	1.0	5.2685	5.3081		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.31	1.58	2.20	USD 10	2.26	-5.34
AUD	1.50	1.70	1.97	2.90	AUD 10	2.74	1.30 0.48
NZD	1.75	1.95	2.23	3.34	NZD 10	2.96	-1.10 0.70
EUR	0.00	-0.33	-0.14	0.92	CAD 10	1.86	-3.40 -0.40
GBP	0.25	0.29	0.61	1.28	EUR 10	0.55	-2.70 -1.71
JPY	-0.04	-0.01	0.04	0.26	GBP 10	1.21	-6.30 -1.05
CAD	0.75	1.21	1.52	2.16	JPY 10	0.07	-1.10 -2.19

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,570	-0.27	16.4
S&P 500	2,460	0.04	13.5
Nasdaq	6,342	0.44	25.5
VIX	9.93	1.12	-20.2
FTSE	7,390	-0.2	10.4
DAX	12,430	-1.2	23.5
CAC 40	5,173	-1.1	18.7
Nikkei	20,000	-0.6	19.6
Shanghai	3,188	0.3	5.0
Hang Seng	26,525	0.2	22.4
ASX 200	5,687	-1.2	4.3

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.26	-1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.28	0.00
3/10 sprd	0.52	3.00
SPI	5622.0	75.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	48.87	0.9
Oil (WTI)	46.45	0.9
Oil (Tapis)	48.12	-0.9
Gold	1241.70	0.6
CRB	176.88	0.6
GS Metals	329.9	0.0
Aluminium	1916.8	1.1
Copper	5985.5	0.2
Nickel	9748.0	2.0
Zinc	2786.5	-0.8
Ch. steel	3643.0	0.8
Iron ore	68.8	3.0
St. Coal	85.6	1.5
Met.coal	165.0	0.9
Wheat Chic.	526.8	-0.7
Sugar	14.1	0.1
Cotton	68.9	0.4
Coffee	134.9	1.0
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
Wednesday, 12 July 2017								
NZ	ANZ Truckometer Heavy MoM	Jun				4.1	23.00	8.00
JN	PPI MoM/YoY	Jun		0/2		0.0/2.1	0.50	9.50
AU	Westpac Consumer Conf Index/MoM	Jul		/		96.2/-1.8	1.30	10.30
JN	Tertiary Industry Index MoM	May		-0.5		1.2	5.30	14.30
UK	Jobless Claims Change	Jun				7.3	9.30	18.30
UK	Average Weekly Earnings/Ex Bonus 3M/YoY	May		1.8/1.9		2.1/1.7	9.30	18.30
UK	Employment Change/LO Unemployment Rate 3M/3M	May		120/4.6		109.0/4.6	9.30	18.30
EC	Industrial Production SA MoM/YoY	May		1/3.5		0.5/1.4	10.00	19.00
US	Fed Releases Chair Yellen's testimony to Congress						13.30	22.30
CA	Teranet/National Bank HPI MoM/YoY	Jun		/		2.2/13.9	13.30	22.30
CA	Teranet/National Bank HP Index	Jun				210.9	13.30	22.30
US	Yellen testifies before U.S. House						15.00	0.00
CA	Bank of Canada Rate Decision/Monetary Policy Report	Jul 12		0.75		0.50	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
US	Fed's George Speaks in Denver on the Economic Outlook						19.15	4.15
Thursday, 13 July 2017								
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		43		40.8	4.33	13.33
CH	Exports/Imports YoY	Jun		9/14.4		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		0.4/3.5		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	Fed Chair Yellen Testifies Before Senate Banking Panel						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		-20		-88.4	19.00	4.00
Friday, 14 July 2017								
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
Monday, 17 July 2017								
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		11/10	3.00	12.00
CH	Industrial Production YoY/YTD YoY	Jun		6.5/6.6		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 7				58	15.00	0.00
Tuesday, 18 July 2017								
NZ	CPI QoQ/YoY	2Q				1	23.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 9				115	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	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		68		67	15.00	0.00
US	Net Long-term/Total TIC Flows	May		/		2/66	21.00	6.00
Upcoming Central Bank Interest Rate Announcements								
Canada, BoC		13-Jul	0.75%	0.75%		0.50%		
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%				
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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