

# MARKETS TODAY

## Geopolitical Cold Water?



### Good morning

An absence of rhetoric has seen some reversal of the risk aversion seen in markets over the past week. The VIX fell back to 12.3 from 17.2 on Friday, the Swiss Franc has given up most of its gains over the past few days, and equities rose (S&P500 +1.0%; EuroStox +1.3%). While it is too early to say whether the absence of rhetoric equates to a genuine [Cold Water](#) moment for geopolitical tensions, it is encouraging (and yes today's title is a Bieber and Lazer feat).

US Treasury yields rose 3.3 bps to 2.22%. Comments by the Fed's Dudley helped yields off their session lows. Dudley said he was in "favour of doing another rate hike later this year" and that expectations of a September Balance Sheet announcement was not unreasonable. Pricing for a December rate hike also shifted up in response to 38% from 26%.

Dudley again argued that even with inflation somewhat below target there are other reasons why you would want to gradually remove policy accommodation, namely: (1) the level of short-term rates is pretty low; and (2) financial conditions have been easing rather than tightening and financial conditions are easier today than they were a year ago (see Chart 1). In some concession to recent soft inflation prints, he did note that the next four to six months will be important to monitor, though he still expects inflation to pick up over the next six months.

In FX, the USD was stronger across the board overnight with the DXY up 0.3%, reversing the fall Friday after the soft CPI data. The biggest mover was the Swiss Franc, -1.08% as risk aversion eased. Most other major pairs moved in line with the rise in the US dollar: EUR -0.3%; Pound -0.4%; Yen -0.4%.

The Aussie was slightly weaker at -0.5% with weaker than expected Chinese data weighing alongside a stronger US dollar. Chinese activity data disappointed with misses to the consensus for Industrial Production (+6.4% y/y v 7.1%), Fixed Asset Investment (+8.3% y/y v 8.6%) and Retail Sales (10.4% y/y v 10.8%). The pull back in the data seems to be more a shift back towards trend levels after strong data in June and NAB still expects GDP growth of 6.7% in 2017.

The oil price was also weighed down by the weaker than expected Chinese data – the details showed oil processing/refining in July fell 4.4% in the month, the largest fall in three years. WTI oil fell 2.7% to \$47.56 while Brent is down a similar 2.8% to \$50.66. Prices for Australia's major commodity exports were more resilient with iron ore -0.6% to \$74.7 and coking coal -0.5% to \$193.5; these prices were supported by continued strength in Chinese steel production in July.

In contrast to the Chinese data, Japanese GDP was stronger than expected, up 1.0% q/q. Given the easing in

risk aversion, the Yen was caught and ended down 0.4% on the day.

As we go to print US President Trump has signed an executive order to consider whether an investigation into "unfair Chinese trade practices" is warranted. U.S. Trade Representative Robert Lighthizer will examine whether an investigation is needed.

### Coming Up

It's quiet domestically with only the RBA Minutes (11.30am AEST) of note. Other data includes normally second-tier Weekly Consumer Confidence (9.30am AEST) and New Motor Vehicle Sales (11.30am AEST).

For the Minutes, they are unlikely to shed too much more light given the Governor's comprehensive grilling at last week's Parliamentary Testimony and the recently released August Statement on Monetary Policy. The Governor then noted "It's more likely that the next move [in rates] will be up rather than down, but it's quite some time away if things play out as we expect". How quickly the economy progresses towards full employment is likely to determine the timing and pace of policy normalisation – putting focus on tomorrow's Wages data and Thursday's Employment print.

International focus will be on the UK CPI (18.30 AEST), US Retail Sales (22.30 AEST) and German Q2 GDP. For UK CPI, the market consensus for Headline sits at 2.7% y/y and for Underlying at 2.5% y/y. With the Bank of England assuming inflation will not peak until it hits 3% in October, it's unlikely a surprise in either direction will ruffle the feathers of Threadneedle Street too much.

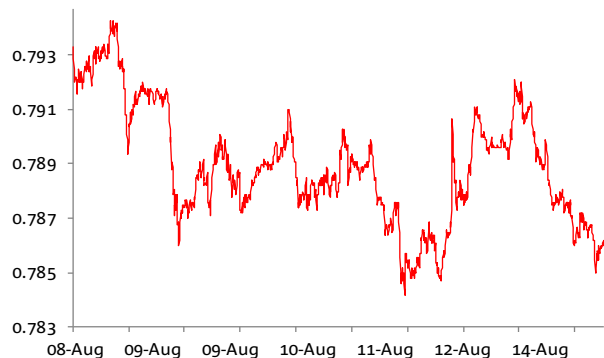
As for US Retail Sales the market is looking for a solid rebound in sales following two consecutive months of small declines. The consensus is for 0.4% m/m growth in both Headline and Control Group sales.

### Overnight

On global stock markets, the S&P 500 was +1.00%. Bond markets saw US 10-years +3.32bp to 2.22%. In commodities, Brent crude oil -2.76% to \$50.66, gold -0.5% to \$1,281, iron ore -0.6% to \$74.71, steam coal -0.4% to \$95.45, met. coal -0.5% to \$193.50. AUD is at 0.7852 and the range since yesterday 5pm Sydney time is 0.7839 to 0.7919.

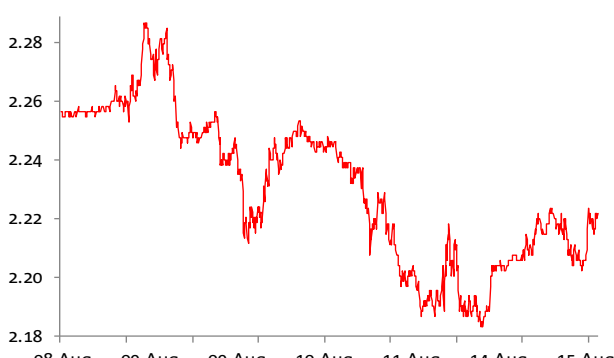
# Markets

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	0.7852	-0.5	0.7839	0.7919	HKD	7.8212	0.0
NZD	0.7287	-0.3	0.7253	0.7331	CNY	6.6712	0.1
EUR	1.1782	-0.3	1.1749	1.1847	SGD	1.3632	0.2
GBP	1.2964	-0.4	1.2940	1.3031	IDR	13,349	-0.1
JPY	109.70	0.5	108.74	109.80	THB	33.26	0.1
CAD	1.2725	0.4	1.2653	1.2753	KRW	1,140	-0.3
AUD/EUR	0.6665	-0.2	0.6658	0.6696	TWD	30.29	-0.2
AUD/JPY	86.14	-0.1	85.45	86.63	PHP	51.23	0.4
AUD/GBP	0.6057	-0.2	0.6036	0.6089	CHF	0.97	1.1
AUD/NZD	1.0776	-0.1	1.0767	1.0831	SEK	8.11	-0.1
AUD/CNH	5.2474	0.0	5.2393	5.2816			

## Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd	
USD	1.25	1.32	1.58	2.18	USD 10	2.22	3.32	
AUD	1.50	1.69	1.90	2.80	AUD 10	2.62	3.00	0.40
NZD	1.75	1.97	2.16	3.14	NZD 10	2.84	5.70	0.62
EUR	0.00	-0.33	-0.18	0.84	CAD 10	1.88	2.40	-0.35
GBP	0.25	0.28	0.55	1.15	EUR 10	0.41	2.40	-1.82
JPY	-0.03	-0.03	0.03	0.24	GBP 10	1.07	0.90	-1.15
CAD	0.75	1.30	1.57	2.17	JPY 10	0.06	-0.50	-2.16

## Equities

Major Indices			
	Last	% day	% y/y
Dow	21,994	0.62	18.4
S&P 500	2,466	1.00	12.9
Nasdaq	6,340	1.34	21.2
VIX	12.33	-20.50	6.8
FTSE	7,354	0.6	6.3
DAX	12,165	1.3	13.6
CAC 40	5,122	1.2	13.8
Nikkei	19,537	-1.0	15.8
Shanghai	3,237	0.9	3.6
Hang Seng	27,250	1.4	18.8
ASX 200	5,730	0.7	3.4

## Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.28	0.00
3 Yr bond	97.8	0.00
10 Yr bond	97.38	-1.00
3/10 sprd	0.42	1.00
SPI	5696.0	-55.0

\*Change in bps

## Commodities\*

	Last	% day
Oil (Brent)	50.66	-2.8
Oil (WTI)	47.51	-2.7
Oil (Tapis)	51.59	0.9
Gold	1281.00	-0.5
CRB	177.51	-1.2
GS Metals	348.6	-0.4
Aluminium	2027.3	-0.5
Copper	6367.5	-0.3
Nickel	10407.0	-2.0
Zinc	2901.5	0.6
Ch. steel	3752.0	-4.0
Iron ore	74.7	-0.6
St. Coal	95.5	-0.4
Met. coal	193.5	-0.5
Wheat Chic.	467.8	0.2
Sugar	13.5	2.3
Cotton	68.5	-1.1
Coffee	140.5	-2.3

## 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
<b>Monday, 14 August 2017</b>								
CH	Foreign Direct Investment YoY CNY	Jul				2.3	18 Aug release	
NZ	Performance Services Index	Jul				58.6	23.30	8.30
NZ	Retail Sales Ex Inflation QoQ	2Q		0.7		1.5	23.45	8.45
AU	RBA's Kent Gives Speech in Sydney						0.35	9.35
JN	GDP SA QoQ	2Q P		0.6		0.3	0.50	9.50
JN	GDP Annualized SA QoQ	2Q P		2.5		1.0	0.50	9.50
CH	Industrial Production YoY/YTD YoY	Jul		7.1/6.9		7.6/6.9	3.00	12.00
CH	Retail Sales YoY/YTD YoY	Jul		10.8/10.5		11.0/10.4	3.00	12.00
CH	Fixed Assets Ex Rural YTD YoY	Jul		8.6		8.6	3.00	12.00
EC	Industrial Production SA MoM/YoY	Jun		-0.4/2.9		1.3/4.0	10.00	19.00
CA	Teranet/National Bank HPI MoM/YoY	Jul		/		2.6/14.2	13.30	22.30
CA	Teranet/National Bank HP Index	Jul				216.5	13.30	22.30
CA	Bloomberg Nanos Confidence	Aug 11				60.5	15.00	0.00
<b>Tuesday, 15 August 2017</b>								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Aug 13				113.7	0.30	9.30
AU	New Motor Vehicle Sales MoM	Jul				1.2	2.30	11.30
AU	RBA Aug. Rate Meeting Minutes						2.30	11.30
JN	Industrial Production MoM	Jun F		/		1.6/4.9	5.30	14.30
JN	Capacity Utilization MoM	Jun				-4.1	5.30	14.30
GE	GDP SA QoQ/YoY	2Q P		0.7/1.9		0.6/1.7	7.00	16.00
UK	CPIH YoY	Jul		2.7		2.6	9.30	18.30
UK	CPI MoM/YoY	Jul		0/2.7		0.0/2.6	9.30	18.30
UK	CPI Core YoY	Jul		2.5		2.4	9.30	18.30
UK	PPI Input NSA MoM/YoY	Jul		/		-0.4/9.9	9.30	18.30
UK	House Price Index YoY	Jun				4.7	9.30	18.30
US	Import Price Index MoM/YoY	Jul		0.1/0.3		-0.2/-0.2	13.30	22.30
US	Empire Manufacturing	Aug		10		9.8	13.30	22.30
US	Retail Sales Advanc/Ex Autos and Gas MoM	Jul		0.4/0.4		-0.2/-0.1	13.30	22.30
US	Retail Sales Control Group	Jul		0.4		-0.1	13.30	22.30
CA	Existing Home Sales MoM	Jul				-6.7	14.00	23.00
US	NAHB Housing Market Index	Aug		65		64.0	15.00	0.00
US	Business Inventories	Jun		0.4		0.3	15.00	0.00
US	Total Net/Net Long term TIC Flows	Jun		/		57.3/91.9	21.00	6.00
<b>Wednesday, 16 August 2017</b>								
AU	Westpac Leading Index MoM	Jul				-0.1	1.30	10.30
AU	Wage Price Index QoQ/YoY	2Q		0.5/1.9		0.5/1.9	2.30	11.30
NZ	Non Resident Bond Holdings	Jul				61.5	4.00	13.00
UK	Jobless Claims Change/Average Weekly earnings 3M YoY	Jul		/1.7		5.9/1.8	9.30	18.30
UK	ILO Unemployment Rate/Employment 3Mths	Jun		4.5/		4.5/175.0	9.30	18.30
EC	GDP SA QoQ/YoY	2Q P		0.6/2.1		0.6/2.1	10.00	19.00
CA	Int'l Securities Transactions	Jun				29.5	13.30	22.30
US	Housing Starts #/MoM	Jul		1225/0.8		1215.0/8.3	13.30	22.30
US	Building Permits #/MoM	Jul		1240/-2.8		1254.0/7.4	13.30	22.30
CH	FX Net Settlement - Clients CNY	Jul				-92.3		
US	FOMC Meeting Minutes	Jul 26					19.00	4.00
<b>Thursday, 17 August 2017</b>								
NZ	PPI Input QoQ	2Q				0.8	23.45	8.45
NZ	PPI Output QoQ	2Q				1.4	23.45	8.45
JN	Trade Balance Adjusted	Jul		196.3		81.4	0.50	9.50
NZ	ANZ Consumer Confidence Index/MoM	Aug		/		125.4/-1.9	2.00	11.00
AU	Employment Change/Unemployment rate	Jul		20/5.6		14.0/5.6	2.30	11.30
AU	RBA FX Transactions Market	Jul				1100.0	2.30	11.30
AU	RBA's Ellis Gives Speech in Canberra							
UK	Retail Sales Ex Auto Fuel MoM/YoY	Jul		0/1.1		0.9/3.0	9.30	18.30
UK	Retail Sales Inc Auto Fuel MoM/YoY	Jul		0.1/1.3		0.6/2.9	9.30	18.30
EC	Trade Balance SA	Jun				19.7	10.00	19.00
EC	CPI MoM/YoY	Jul		-0.5/1.3		0.0/1.3	10.00	19.00
EC	CPI Core YoY	Jul F		1.2		1.2	10.00	19.00
EC	ECB account of the monetary policy meeting						12.30	21.30
CA	Manufacturing Sales MoM	Jun		-1		1.1	13.30	22.30
US	Initial Jobless Claims	Aug 12				244.0	13.30	22.30
US	Continuing Claims	Aug 5				1951.0	13.30	22.30
US	Philadelphia Fed Business Outlook	Aug		19		19.5	13.30	22.30
US	Industrial Production MoM	Jul		0.25		0.4	14.15	23.15
US	Bloomberg Consumer Comfort	Aug 13				51.4	14.45	23.45
US	Bloomberg Economic Expectations	Aug				47.0	14.45	23.45
US	Leading Index	Jul		0.3		0.6	15.00	0.00
US	Fed's Kaplan (voter) speaks in Texas						18.00	3.00
<b>Friday, 18 August 2017</b>								
CH	Property Prices	Jul					2.30	11.30
EC	ECB Current Account SA	Jun				30.1	9.00	18.00
EC	Construction Output MoM/YoY	Jun		/		-0.7/2.6	10.00	19.00
CA	CPI NSA MoM/YoY	Jul		0.1/1.3		-0.1/1.0	13.30	22.30
CA	CPI Core- Common/Trim YoY%	Jul		/		1.4/1.2	13.30	22.30
CA	CPI Core- Median YoY%	Jul				1.6	13.30	22.30
US	U. of Mich. Sentiment/5-10 Yr Inflation expectations	Aug P		94/		93.4/2.6	15.00	0.00
US	Fed's Kaplan (voter) speaks in Dallas						15.15	0.15
US	Baker Hughes U.S. Rig Count/Oil rigs	Aug 11		/		954.0/765.0	18.00	3.00
UK	CBI Trends Total Orders/Selling Prices	Aug		/		10.0/9.0	17-26 Aug release	
<b>Upcoming Central Bank Interest Rate Announcements</b>								
New Zealand, RBNZ		10-Aug	1.75%	1.75%		1.75%		
Australia, RBA		5-Sep	1.50%	1.50%		1.50%		
Canada, BoC		6-Sep				0.75%		
Europe ECB		7-Sep	-0.4%	-0.4%		-0.4%		
UK BOE		14-Sep				0.25%		
US Federal Reserve		21-Sep	1.00-1.25%	1.00-1.25%		1.00-1.25%		
Japan, BoJ		21-Sep	-0.1%	-0.1%		-0.1%		

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

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