



Australian Markets Weekly

A weekly outlook for Australia, key global economies and markets

National
Australia
Bank

6 July 2015

Greece, China, RBA and the Labour Market

As our title suggests, it's another very busy week coming up in markets. This week we look at:

- The Greek vote;
- Recent developments in Chinese equity markets;
- The RBA's July Board meeting; and
- Upcoming important Australian labour market releases for June, with ANZ and SEEK job ads released this week and the monthly ABS labour market data on Thursday.

Greece votes an overwhelming No

Markets around the world are waking to the news that Greek voters have voted resoundingly against further EU imposed austerity in yesterday's referendum. With 70% of the vote counted, the No vote is around 61%, a much stronger message than the 52-48% indications of polls prior to the referendum. Interest rate markets have opened strongly bid, with all eyes likely to be on the performance of European peripheral bond markets when they open. Currency markets have reacted largely as one would expect, with the EUR weaker and USD and JPY strengthening, though moves have been relatively modest. This has seen the AUD, which finished the week very weakly (on soft retail sales data and significant weakness in Chinese equities and iron ore prices), add to its losses to trade under US\$0.75, the lowest level in six years.

What now? Short-term market trading will likely depend on the extent to which global equity markets are impacted by the news – and to the extent that there is significant contagion trade in peripheral bond yields. A number of important meetings of European leaders and officials will occur over the next few days, which will reveal more about the future. However, presumably the probability of both Greek default and exit from the EUR have risen substantially, though the path towards that outcome is far from clear (it would likely involve ECB support during a transition to a new Drachma currency, which most likely trades considerably lower than the EUR).

For Australia, the direct economic impact of Greece is small given relatively minor trade links. Most of the impact will of course be indirect and driven by the impact of the Greek situation on the broader European economy and markets and in turn on global markets and hence the global outlook.

To date, it must be said, that, to the extent that we can take any lead from early local trade, markets have continued to react in a relatively orderly way, with only modest contagion priced and generally measured moves in markets.

China

Arguably, developments in Chinese equity markets in recent days and weeks are far more important for the medium-term outlook for the Australian economy and markets than Greek developments. As our second chart shows, the incredible increase in Chinese equity prices is now in the process of unwinding, in spite of the authorities' efforts recently, which include monetary policy easing, the banning of short selling, suppression of new IPOs and encouragement for stock buy-backs by major firms.

The important linkage to the Australian economy and markets is of course that China is our largest trading partner. While the impact of the weakness in iron ore prices is well known (and continued over the past week following the Australian Government's forecaster's downgrade of its 2015-16 price outlook to \$55 a tonne), the consumer side of the Chinese economy has remained a strong positive for Australia, with record tourist arrivals, strong education exports and exceedingly supportive investment flows into Australian residential real estate. The weakness in Chinese equity markets – if sustained and/or extended - risks slower growth in each of these important supports for the Australian economy over the medium term.

Chart 1: Shanghai Volatility



Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7498	-2.4	RBA cash	2.00	0
AUD/CNY	4.65	-2.1	3y sw ap	2.22	-10
AUD/JPY	91.9	-2.4	ASX 200	5,453	0.6
AUD/EUR	0.681	-1.2	Iron ore	55.3	-10.9
AUD/NZD	1.122	0.1	WTI oil	55.0	-7.7

Source: Bloomberg

RBA and the Labour Market

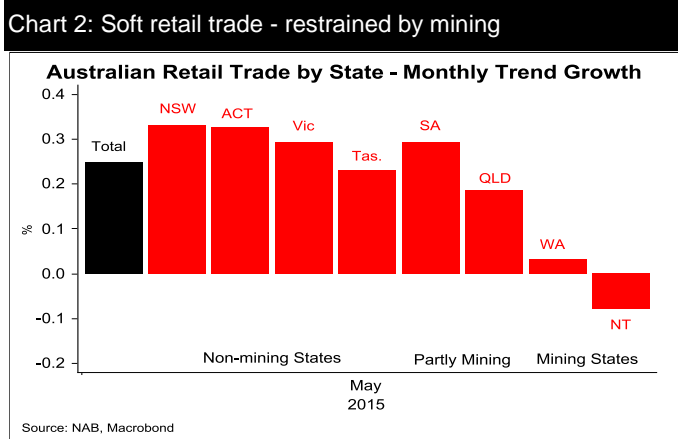
The July RBA Board meeting tomorrow will consider these international uncertainties, along with recent Australian economic indicators and the likely course of Federal Reserve policy and Australian house prices – an environment the RBA Governor has described (perhaps somewhat understatedly) as complex for setting monetary policy! Who could disagree?

The latest non-farm payrolls release in the US was not quite strong enough to cement a September lift-off for US tightening, however, it did reveal another solid gain in payrolls and there

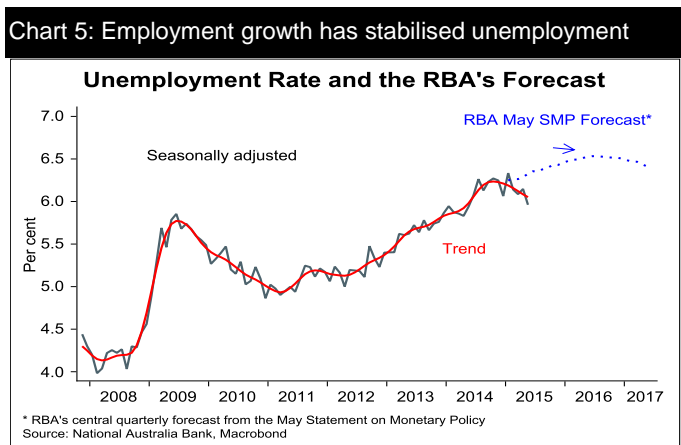
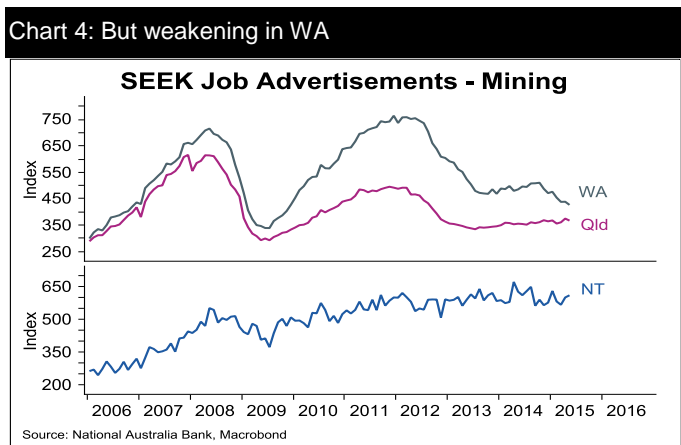
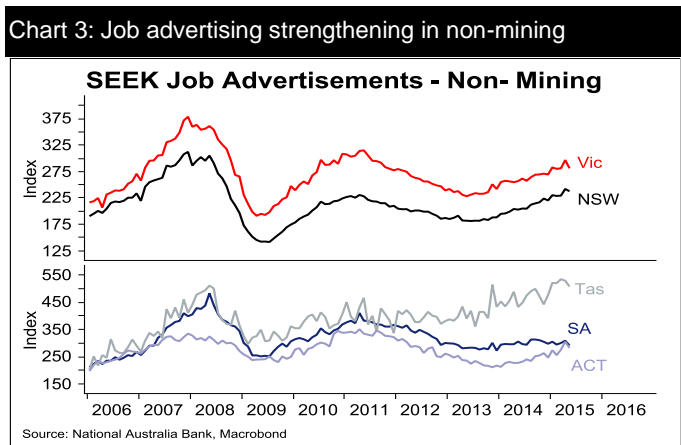
are two further non-farm releases before that meeting, which should make clear that it is appropriate for the Fed to begin what is expected to be the slow process of interest rate normalisation at that meeting, absent a major global market disruption. The RBA anticipates that Fed tightening will assist the AUD to continue to decline, a trend that seems to have re-established in recent weeks and which we expect to continue. Slowly rising US interest rates are anticipated to continue the slow broad trend to higher Australian term rates, though stable cash rates in Australia, should relatively restrain the rise in Australian term rates.

NAB's central scenario and economic forecasts have not changed significantly in recent times: the Australian economy is experiencing very mixed conditions, with the mining sector retrenching due to lower prices and the completion of major investment projects, while the non-mining sector is making slow forward progress, with housing construction a major part of the story. This is producing very diverse outcomes by region, depending on the relative importance of mining to a particular state's economy or regions within a state, with WA in particular impacted, along with parts of Queensland and likely the Northern Territory in time, when major projects complete. NSW, Victoria and Tasmania, on the other hand, are enjoying relatively favourable and improving conditions.

For the most part, recent economic indicators have confirmed this broad scenario – and particularly the state divide in growth – though it must be said May retail trade data released on Friday was on the slower side of our expectations, while still revealing the aforementioned state divergences in growth. Anecdotal reports suggest more positive retail spending trends in June following the Government's small business measures in the budget, which boosted retail confidence sharply in the May NAB business survey.



This week's labour market data should provide a further update on these trends – with the labour market arguably providing the definitive bottom line on the combined impact and relative strength of these forces. Job ads have been strengthening in the non-mining states for some time, albeit continuing to weaken in WA, while exhibiting only slow growth in QLD



and SA. Employment growth has similarly strengthened in the non-mining states, but has weakened in WA, but net, the quanta have been sufficient to see the unemployment rate stabilise (or even slightly decline) in recent months, quite different to the RBA's expectations. Given last month's outsized employment gains, some retracement is to be expected this month (we expect a decline of 17,000 m/m). Our interest will be focused most on whether job advertising continues to strengthen or not.

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Calendar of Economic Releases

Country	Economic Indicator	Time Period	NAB Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 6 July 2015								
AU	TD Securities Inflation MoM/YoY	Jun				0.3%/1.4%	0.30	10.30
JN	BoJ Governor Kuroda speaks						0.30	10.30
AU	ANZ Job Advertisements MoM	Jun				0.0%	1.30	11.30
NZ	NZ Treasury Main Economic Indicators	Jun					2.00	12.00
JN	Leading Index Cl	May P		106.3		106.4	5.00	15.00
GE	Factory Orders MoM/YoY	May		-0.1%/4.1%		1.4%/0.4%	6.00	16.00
EC	Sentix Investor Confidence	Jul		15.5		17.1	8.30	18.30
US	Markit US Services/Composite PMI	Jun F		54.9/..		54.8/54.6	13.45	23.45
CA	Bloomberg Nanos Confidence	Jul-03					14.00	0.00
CA	Ivey Purchasing Managers Index SA	Jun		56		62.3	14.00	0.00
US	ISM Non-Manf. Composite	Jun		56.4		55.7	14.00	0.00
US	Labor Market Conditions Index Change	Jun		2		1.3	14.00	0.00
CA	Business Outlook Future Sales	2Q				4	14.30	0.30
CA	BoC Senior Loan Officer Survey	2Q				6.7	14.30	0.30
Tuesday, 7 July 2015								
NZ	NZIER Business Opinion Survey	2Q	10			23	22.00	8.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul-05				116.3/2.0%	23.30	9.30
AU	AiG Perf of Construction Index	Jun				47.8	23.30	9.30
AU	Oversease Arrivals and Departures	May					1.30	11.30
AU	RBA Cash Rate Target	Jul-07	2.00%	2.00%		2.00%	4.30	14.30
GE	Industrial Production SA MoM/YoY	May		0.1%/2.6%		0.9%/1.4%	6.00	16.00
AU	RBA Foreign Reserves	Jun				\$A73.2B	6.30	16.30
UK	Industrial Production MoM/YoY	May		-0.4%/1.5%		0.4%/1.2%	8.30	18.30
CA	Int'l Merchandise Trade	May		-2.5B		-2.97B	12.30	22.30
US	Trade Balance	May		-\$42.75B		-\$40.90B	12.30	22.30
US	JOLTS Job Openings	May		5300		5376	14.00	0.00
Wednesday, 8 July 2015								
NZ	Crown Financial Statements	May					22.00	8.00
UK	BRC Shop Price Index YoY	Jun				-1.9%	23.01	9.01
AU	RBA's Mark Manning, Deputy Head of Payments Policy in panel discussion at Securities Finance Conference						23.40	9.40
JN	BoP Current Account Adjusted	May		¥1329B		¥1274.2B	23.50	9.50
JN	Trade Balance BoP Basis	May				¥146.2B	23.50	9.50
JN	Bank Lending incl Trusts YoY	Jun				2.60%	23.50	9.50
AU	RBA Monthly Chart Pack						1.30	11.30
AU	Economy Watcher's Survey: Current/Outlook	Jun				53.3/54.5	5.00	15.00
EC	ECB's Coeure speaks in Frankfurt						9.00	19.00
US	MBA Mortgage Applications	Jul-03				-4.70%	11.00	21.00
CA	Building Permits MoM	May				11.6%	12.30	22.30
JN	Eco Watchers Survey Current/Outlook	Jun				53.3/54.5	14.00	0.00
US	U.S. Fed Releases Minutes from June 16-17 FOMC Meeting						18.00	4.00
US	Fed's Williams (v) Speaks on Outlook in Los Angeles						18.00	4.00
US	Consumer Credit	May		\$18.5B		\$20.541B	19.00	5.00
Thursday, 9 July 2015								
NZ	ANZ Truckometer Heavy MoM	Jun				-1.1%	22.00	8.00
NZ	Card Spending Total MoM	Jun	0.50%	0.50%		1.40%	22.45	8.45
UK	RICS House Price Balance	Jun		37%		34%	23.01	9.01
JN	Machine Orders MoM/YoY	May		-3.7%/20.3%		3.8%/3.0%	23.50	9.50
AU	SEEK Job Ads (likely Thursday am)	Jun				-3.1%	0.30	10.30
AU	Employment Change/Unemployment rate	Jun	-17K/6.1%	flat/6.1%		42.0K/6.0%	1.30	11.30
AU	Full/Part Time Employment Change	Jun				14.7K/27.3K	1.30	11.30
AU	Participation Rate	Jun	64.6%	64.7%		64.7%	1.30	11.30
CH	CPi/PPI YoY	Jun		1.3%/-4.6%		1.2%/-4.6%	1.30	11.30
JN	Machine Tool Orders YoY	Jun P				15.0%	6.00	16.00
GE	Current Account Balance	May		15.0B		19.6B	6.00	16.00
US	Fed's Kocherlakota (nv) Speaks on Central Banks in Frankfurt						9.45	19.45
UK	Bank of England Bank Rate	Jul-09		0.50%		0.50%	11.00	21.00
CA	Housing Starts	Jun		190K		201.7K	12.15	22.15
CA	New Housing Price Index MoM	May				0.1%	12.30	22.30
US	Initial Jobless Claims	Jul-04		277K		281K	12.30	22.30
US	Bloomberg Consumer Comfort	Jul-05					13.45	23.45
US	Fed Governor Lael Brainard speaks						14.15	0.15
US	Fed's George (alt) Speaks on Economy in Stillwater, Oklahoma						17.00	3.00
CH	New Yuan Loans	Jun						
CH	Aggregate Financing	Jun						
CH	Money supply	Jun						
Friday, 10 July 2015								
JN	PPI MoM/YoY	Jun		-0.1%/-2.2%		0.3%/-2.1%	23.50	9.50
AU	Home Loans MoM, Owner-occupied loan # MoM	May				1.0%	1.30	11.30
AU	Investment Lending, value MoM	May				2.6%	1.30	11.30
AU	Owner-Occupier value MoM	May				3.1%	1.30	11.30
JN	Consumer Confidence Index	Jun				41.4	5.00	15.00
UK	Trade Balance	May		-£2300		-£1202	8.30	18.30
CA	Net Change in Employment/Unemployment rate	Jun		-4.4K/6.9%		58.9K/6.8%	12.30	22.30
NZ	REINZ House Sales YoY	Jun				21.6%	14.00	0.00
US	Wholesale Inventories/Sales MoM	May		0.3%/0.9%		0.4%/1.6%	14.00	0.00
US	Fed's Rosengren (alt) to Speak at 7th Annual Rocky Mountain Economic						15.35	1.35
US	Fed Chair Yellen Speaks on the US economic outlook in Cleveland						16.30	2.30
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		7-Jul	2.00%	2.00%		2.00%		
UK BOE		9-Jul	0.50%	0.50%		0.50%		
Japan, BoJ		15-Jul	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
Europe ECB		16-Jul	0.05%	0.05%		0.05%		
Canada, BoC		16-Jul				0.75%		
New Zealand, RBNZ		23-Jul	3.00%	3.00%		3.25%		
US Federal Reserve		30-Jul						

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

Forecasts

Economic Forecasts

	Annual % change				Quarterly % change											
	2013	2014	2015	2016	2013			2014				2015				
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia Forecasts																
Household Consumption	1.7	2.5	2.5	2.7	0.3	0.4	0.8	0.6	0.5	0.7	0.5	0.8	0.5	0.5	0.5	0.7
Underlying Business Investment	-4.5	-6.4	-10.2	-10.2	-4.9	-1.5	0.8	-3.5	-2.4	-0.9	-1.0	-1.5	-4.6	-2.1	-4.1	-2.0
Residential Construction	0.5	7.9	11.7	6.5	-2.7	3.0	0.3	1.3	4.3	1.7	-1.2	3.9	4.7	2.8	2.3	2.5
Underlying Public Spending	0.4	0.8	0.0	1.1	2.7	-0.2	-0.5	1.3	0.3	0.5	-1.4	0.1	0.2	0.2	0.2	0.2
Exports	6.3	6.8	10.6	8.6	0.9	3.7	-0.6	1.7	4.1	-1.6	3.1	1.6	5.0	2.0	1.9	2.1
Imports	-1.8	-1.6	2.4	1.2	-3.3	2.8	-1.4	-0.5	-2.5	3.1	-1.2	-1.6	3.1	0.4	-0.2	0.6
Net Exports (a)	1.6	1.7	1.8	1.7	0.9	0.1	0.2	0.4	1.4	-0.9	0.9	0.7	0.5	0.4	0.5	0.3
Inventories (a)	-0.3	0.0	0.1	0.0	-0.2	0.3	-0.3	-0.2	-0.3	0.9	0.1	-0.7	0.5	-0.2	-0.1	0.1
Domestic Demand - qtr%					-0.1	0.2	0.5	0.2	0.3	0.6	-0.4	0.5	0.0	0.3	0.0	0.4
Dom Demand - ann %	0.5	1.1	0.8	1.0	0.5	0.0	0.6	0.7	1.1	1.5	0.7	1.0	0.8	0.5	0.9	0.8
Real GDP - qtr %					0.3	0.7	0.4	0.8	1.0	0.6	0.3	0.5	0.9	0.6	0.4	0.8
Real GDP - ann %	2.1	2.7	2.5	2.7	2.0	2.1	1.9	2.2	2.9	2.8	2.7	2.4	2.3	2.3	2.4	2.8
CPI headline - qtr %					0.4	0.4	1.2	0.8	0.6	0.5	0.5	0.2	0.2	0.5	0.8	0.9
CPI headline - ann %	2.4	2.5	1.7	3.1	2.5	2.4	2.2	2.7	2.9	3.0	2.3	1.7	1.3	1.4	1.7	2.5
CPI underlying - qtr %					0.5	0.6	0.6	0.9	0.6	0.7	0.4	0.6	0.6	0.5	0.6	0.7
CPI underlying - ann %	2.4	2.6	2.3	2.6	2.3	2.4	2.3	2.6	2.7	2.8	2.5	2.3	2.4	2.2	2.4	2.4
Wages (Pvte WPI - ann %)	2.9	2.5	2.2	2.2	3.1	3.0	2.8	2.5	2.6	2.4	2.4	2.5	2.2	2.2	2.2	2.2
Unemployment Rate (%)	5.7	6.0	6.3	6.3	5.6	5.7	5.7	5.9	5.8	6.0	6.2	6.1	6.2	6.3	6.3	6.4
Terms of trade	-3.8	-7.4	-10.6	-2.1	1.0	-0.3	-1.3	0.4	-1.9	-4.6	-2.9	-1.5	-2.9	-5.9	-0.4	1.2
G&S trade balance, \$Abn	-10.4	-9.2	-21.8	-4.7	-3.0	-2.8	-3.3	-1.3	2.7	-5.1	-4.0	-2.7	-3.7	-7.6	-6.3	-4.2
% of GDP	-0.7	-0.6	-1.3	-0.3	-0.8	-0.7	-0.9	-0.3	0.7	-1.3	-1.0	-0.7	-0.9	-1.9	-1.5	-1.0
Current Account (% GDP)	-3.3	-2.8	-3.1	-2.0	-3.3	-3.4	-3.6	-3.1	-1.9	-3.6	-3.1	-2.5	-2.7	-3.6	-3.3	-2.7

Source: NAB Group Economics; (a) Contributions to GDP growth

Exchange Rate Forecasts

	6-Jul	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Majors						
AUD/USD	0.7503	0.76	0.74	0.73	0.73	0.75
NZD/USD	0.6692	0.69	0.68	0.67	0.66	0.66
USD/JPY	122.55	124	125	126	126	127
EUR/USD	1.1026	1.05	1.03	1.02	1.03	1.04
GBP/USD	1.5560	1.46	1.45	1.44	1.43	1.44
USD/CNY	6.2057	6.25	6.20	6.20	6.18	6.15
USD/CAD	1.2599	1.24	1.22	1.21	1.20	1.19
Australian Cross Rates						
AUD/JPY	91.9	94	93	92	92	95
AUD/EUR	0.6805	0.72	0.72	0.72	0.71	0.72
AUD/GBP	0.4822	0.52	0.51	0.51	0.51	0.52
AUD/NZD	1.1212	1.10	1.09	1.09	1.11	1.14
AUD/CNY	4.6561	4.75	4.59	4.53	4.51	4.61
AUD/CAD	0.9453	0.94	0.90	0.88	0.88	0.89
AUD/CHF	0.7075	0.75	0.75	0.76	0.75	0.00

Interest Rate Forecasts

	6-Jul	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Aust rates						
RBA Cash rate	2.00	2.00	2.00	2.00	2.00	2.00
3 month bill rate	2.15	2.15	2.15	2.15	2.20	2.40
3 Year Swap Rate	2.22	2.4	2.6	2.8	2.9	3.2
10 Year Swap Rate	3.29	3.4	3.6	3.7	3.7	4.0
Offshore Policy Rates						
US Fed funds	0.25	0.50	0.75	0.75	1.25	1.50
ECB refi rate	0.05	0.05	0.05	0.05	0.05	0.15
BoE repo rate	0.50	0.50	0.50	0.75	1.00	1.25
BoJ overnight call rate	0.10	0.10	0.10	0.10	0.10	0.10
RBNZ OCR	3.25	3.00	3.00	3.00	3.00	3.00
China 1yr lending rate	4.85	4.60	4.60	4.60	4.60	4.60
China Reserve Ratio	18.5	18.0	17.5	17.0	17.0	17.0
10 Year Benchmark Bond Yields						
Australia	2.93	3.0	3.2	3.2	3.3	3.5
United States	2.28	2.50	2.75	2.8	2.8	3.0
Europe/Germany	0.79	0.4	0.6	0.7	0.8	0.0
UK	2.00	2.0	2.1	2.2	2.4	0.0
New Zealand	3.54	3.7	3.9	4.0	4.0	4.2

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2013	2014	2015	2016	20 Yr Avge
Australia	2.1	2.7	2.5	2.7	3.4
US	2.2	2.4	2.3	2.7	2.6
Eurozone	-0.4	0.9	1.4	1.8	1.5
UK	1.7	2.8	2.2	2.4	2.4
Japan	1.6	-0.1	0.8	1.3	0.8
China	7.7	7.4	7.1	6.9	9.2
India	6.4	7.1	7.8	8.0	6.6
New Zealand	2.3	3.3	2.8	2.0	3.0
World	3.3	3.3	3.2	3.4	3.5

Commodity prices (\$US)

	6-Jul	Sep-15	Dec-15	Jun-16	Dec-16
WTI oil	55.01	55	55	60	63
Gold	1173	1150	1150	1100	1070
Iron ore	55	60	60	61	60
Hard cok. coal	112	98	98	95	94
Thermal coal	62	68	68	68	68
Copper	5748	6080	6080	6260	6230
Japan LNG	9.9	11.0	11.0	11.0	11.0

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