

Markets Today

A daily outlook for Australia, key global economies and markets

3 July 2015

Circling the Wagons

An overall disappointing US payrolls report, the 'lowlight' of which was an unexpectedly flat monthly read on average hourly earnings and which, together with a 0.1% downward revision to May, served to pull annual earnings growth down to 2.0% from 2.3%. This is not a number to inspire confidence in Janet Yellen that inflation will be heading back close to the Fed's 2% objective anytime soon.

Alongside, the further fall in the unemployment rate, to 5.3% from 5.5%, was clearly flattered by a 3/10% fall in the labour participation rate, to its lowest since 1977. According to one report (Market News) citing BLS officials, the unemployment rate drop may have been exaggerated by seasonal factors that reflected all the school makeup days for the severe winter's snow. Presumably this meant more people than usual temporarily dropping out of the labour force to ferry their kids to and from school on the extra school days. As for non-farm payrolls, the headline 223k rise was close to the 233k median forecast, but not when 60k worth of downward revisions to April and May was added in.

The net market results of the payrolls report was to see US Treasury yields lower (By 6bps at 2 year and 4bps at 10 years) and the US dollar softer but not by much (the narrow DXY dollar index fell by just 0.2%). Equities markets didn't really know what to make of the numbers, probably with even bigger things on their mind in the coming 72 hours and given the early pre-Independence Day market close, ending very slightly lower. This follows another bad day for China stocks, where the news of a relaxation of margin trading rules failed to prevent a 3.5% loss for the Shanghai Composite Index. This has reduced the year-to-date gain to just 20% from 60% three weeks ago.

A couple of notable developments in Europe ahead of Sunday's Referendum. The IMF is out re-iterating that Greece's debt burden is unsustainable without debt relief and suggesting that EU creditors should extend the maturity of Greece's debt from 20 to 40 years. This sounds like a woman (Madame Lagarde) after Alex Tsipras' heart (we somehow doubt that). It potentially plays into the hands of the 'No' camp in Sunday's referendum.

We've also had the ECB announcing the inclusion of €90bn worth of state-backed corporate bonds into its 'QE-eligible' armoury. This reads like a further circling of the wagons by the ECB, in the spirit of doing 'whatever it takes' to protect the euro-area in the wake of the referendum. Despite this news, Euro-peripheral bond spreads were mostly wider.

Overall in currencies, Sweden's decision to cut its already negative policy rate to -0.35% from -0.25% (unexpected) sees the SEK firmly at the bottom of the G10 league table. AUD was slightly firmer post payrolls and is weaker v.NZD. Iron ore crunched \$3.6 lower and may resonate this today.

Coming Up

Post payrolls and pre Greek referendum, we could be in for a long (but hopefully good) Friday. According to one of our Greece-based consultancy friends, first exit polls will be published as early as 18:00 CET (2am Monday morning AEDT) and with the final result probably known within few hours of that. So probably by the time the Wellington/Sydney market opens. A Monday morning to be spent more enjoyably as an analyst than a market-maker, we feel sure.

Latest publicly available polls suggest that a 'yes' vote will get up on Sunday, which market will interpret as greatly increasing the chances of an early new agreement between Greece and her creditors that keeps Greece from defaulting and inside the euro area. The worry for market will be if Alex Tsipras then refuses to relinquish the Prime Ministership having campaigned so vociferously for a 'no' vote. It is hard to escape the view that Mrs Merkel, Mr Schaeuble and Madame Lagarde, to name but three, can't wait to see the back of him. Greek Finance Minister Varoufakis, at least, has gone public saying he will resign in the event of a 'yes' vote.

Knee-jerk market reaction to a 'yes' should be both risk and Euro positive. In the event of a 'no' markets will – rightly in our view – jump to the conclusion that a Greek exit from the Eurozone shifts from possible to probable, and that a severing of the lifeline from the ECB to the Greek banking system will be the mechanism that sets this process off. Despite the restrained market reaction to date on news of the referendum and Greece's failure to pay the IMF on time, we would still expect a knee jerk 'risk-off' and euro-negative market reaction. We suspect AUD and NZD go down, not up, under this scenario.

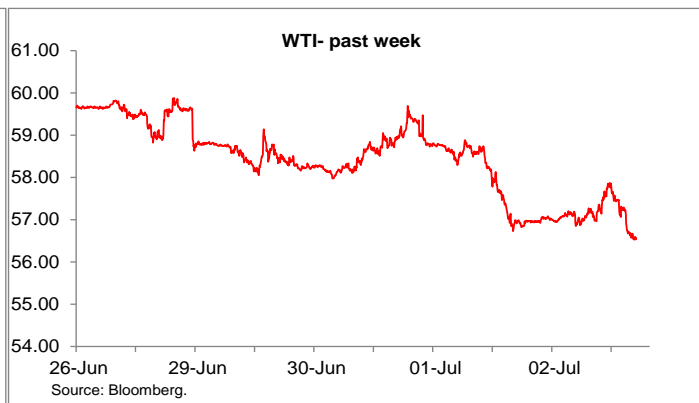
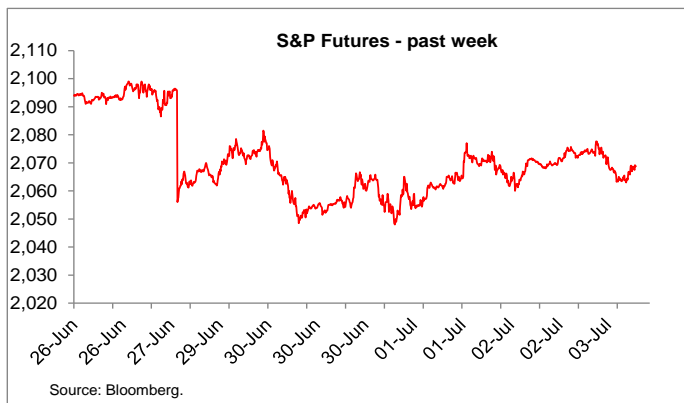
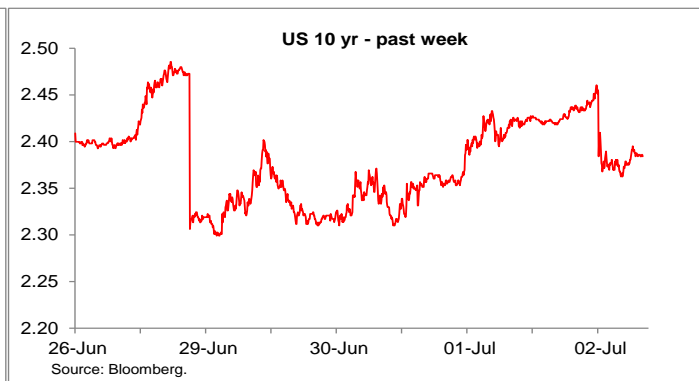
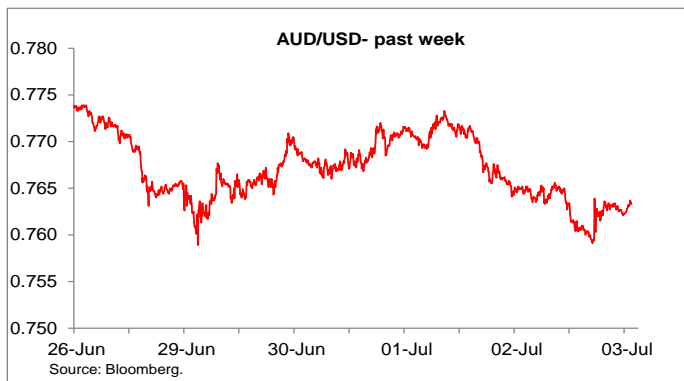
The domestic highlight today will be the May ABS Retail trade report. Top down factors point to a good result. There was a generally positive reaction to the Federal Budget and there's been further improvement in the labour market, factors underpinning spending propensity and household income growth. We look for faster than expected growth of 0.6% in May, also benefiting from some payback after the flat result for April, and ahead of the market consensus' 0.5% pick.

Overnight

On global stock markets, the S&P 500 was +0.00%. Bond markets saw US 10-years -3.78bp to 2.38%. On commodity markets, Brent crude oil -0.32% to \$61.81, gold-0.3% to \$1,166, iron ore -6.0% to \$55.63. AUD is at 0.7634 and the range was 0.759 to 0.7658. (For more market prices, please see p.2 of the pdf).

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Markets



Foreign Exchange						Equities				Commodities*																																																																																								
<table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="4">Indicative 24hr ranges (**)</th> <th colspan="2">Other FX</th> </tr> <tr> <th>Last</th> <th>% chge</th> <th>Low</th> <th>High</th> <th>Last</th> <th>% chge</th> </tr> </thead> <tr> <td>AUD</td> <td>0.7634</td> <td>-0.1</td> <td>0.7590</td> <td>0.7658</td> <td>HKD</td> <td>7.7517</td> <td>0.0</td> </tr> <tr> <td>NZD</td> <td>0.6725</td> <td>-0.1</td> <td>0.6663</td> <td>0.6737</td> <td>CNY</td> <td>6.2045</td> <td>0.0</td> </tr> <tr> <td>EUR</td> <td>1.1085</td> <td>0.3</td> <td>1.1032</td> <td>1.1121</td> <td>SGD</td> <td>1.3479</td> <td>-0.4</td> </tr> <tr> <td>GBP</td> <td>1.5608</td> <td>-0.1</td> <td>1.5565</td> <td>1.5640</td> <td>IDR</td> <td>13,337</td> <td>0.1</td> </tr> <tr> <td>JPY</td> <td>123.07</td> <td>-0.1</td> <td>122.96</td> <td>123.73</td> <td>THB</td> <td>33.79</td> <td>-0.1</td> </tr> <tr> <td>CAD</td> <td>1.2545</td> <td>-0.4</td> <td>1.2541</td> <td>1.2633</td> <td>KRW</td> <td>1,125</td> <td>0.7</td> </tr> <tr> <td>AUD/EUR</td> <td>0.6887</td> <td>-0.4</td> <td></td> <td></td> <td>TWD</td> <td>30.93</td> <td>0.1</td> </tr> <tr> <td>AUD/JPY</td> <td>93.94</td> <td>-0.2</td> <td></td> <td></td> <td>PHP</td> <td>45.16</td> <td>0.2</td> </tr> <tr> <td>AUD/GBP</td> <td>0.4891</td> <td>-0.1</td> <td></td> <td></td> <td>CHF</td> <td>0.94</td> <td>-0.5</td> </tr> <tr> <td>AUD/NZD</td> <td>1.1350</td> <td>0.0</td> <td></td> <td></td> <td>SEK</td> <td>8.46</td> <td>0.9</td> </tr> </table>							Indicative 24hr ranges (**)				Other FX		Last	% chge	Low	High	Last	% chge	AUD	0.7634	-0.1	0.7590	0.7658	HKD	7.7517	0.0	NZD	0.6725	-0.1	0.6663	0.6737	CNY	6.2045	0.0	EUR	1.1085	0.3	1.1032	1.1121	SGD	1.3479	-0.4	GBP	1.5608	-0.1	1.5565	1.5640	IDR	13,337	0.1	JPY	123.07	-0.1	122.96	123.73	THB	33.79	-0.1	CAD	1.2545	-0.4	1.2541	1.2633	KRW	1,125	0.7	AUD/EUR	0.6887	-0.4			TWD	30.93	0.1	AUD/JPY	93.94	-0.2			PHP	45.16	0.2	AUD/GBP	0.4891	-0.1			CHF	0.94	-0.5	AUD/NZD	1.1350	0.0			SEK	8.46	0.9
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 | Major Indices | | | | |---------------|--------|-------|-------| | | Last | % day | % y/y | | Dow | 17,730 | -0.2 | 4.4 | | S&P 500 | 2,077 | 0.0 | 5.2 | | Nasdaq | 5,009 | -0.1 | 12.4 | | FTSE | 6,630 | +0.3 | -2.7 | | DAX | 11,099 | -0.7 | 12.0 | | CAC 40 | 4,836 | -0.5 | 8.8 | | Nikkei | 20,523 | +1 | 33.7 | | Shanghai | 3,913 | -3.5 | 89.6 | | Hang Seng | 26,282 | +0.1 | 11.7 | | ASX 200 | 5,600 | +1.5 | 2.0 | | | | | | | Last | % day | |-------------|---------|-------| | Oil (Brent) | 61.81 | -0.3 | | Oil (WTI) | 56.56 | -0.7 | | Oil (Tapis) | 63.95 | -1.2 | | Gold | 1165.90 | -0.3 | | CRB | 224.55 | 0.2 | | GS Metals | 301.1 | 0.1 | | Aluminium | 1692 | -0.2 | | Copper | 5781 | 0.2 | | Nickel | 12162 | 1.4 | | Zinc | 2014 | -1.2 | | Ch. steel | 2142 | 1.3 | | Iron ore | 55.6 | -6.0 | | Coal | 60.4 | -0.2 | | Wheat Chic. | 590.5 | 0.3 | | Sugar | 12.30 | -1.1 | | Cotton | 66.36 | 0.4 | | Coffee | 127.4 | 0.3 | | | || | Interest Rates | | | | Benchmark 10 Year Bonds | | | Overnight Futures | | | | |-----------------------|------|------|------|-------------------------|--------|------|-------------------|------------------|-------|------| | Indicative Swap Rates | | | | Last | chge | Sprd | Last | Chge | | | | Cash | 3mth | 2Yr | 10Yr | | | | | | | | | USD | 0.25 | 0.28 | 0.89 | 2.50 | USD 10 | 2.38 | -0.04 | Australia | | | | AUD | 2.00 | 2.15 | 2.17 | 3.43 | AUD 10 | 3.11 | 0.10 | 3 mth bill | 97.89 | 0.00 | | NZD | 3.25 | 3.22 | 3.00 | 3.93 | NZD 10 | 3.62 | -0.01 | 3 Yr bond | 97.89 | 0.04 | | EUR | 0.05 | 0.06 | 0.12 | 1.26 | CAD 10 | 1.74 | 0.06 | 10 Yr bonc | 96.87 | 0.01 | | GBP | 0.50 | 0.58 | 1.10 | 2.22 | EUR 10 | 0.85 | 0.03 | 3/10 sprd | 1.02 | 0.03 | | JPY | 0.09 | 0.10 | 0.16 | 0.67 | GBP 10 | 2.08 | -0.03 | SPI | -21.0 | -0.4 | | CAD | 0.75 | 1.17 | 0.91 | 2.23 | JPY 10 | 0.53 | 0.04 | | | | | | | | | | | CO ₂ Emissions - Euros | | | |-----------------------------------|-------|------| | Last | % day | | | Jun-2015 | 7.49 | -0.5 | | Dec-2015 | 7.46 | -0.5 | | Dec-2016 | 7.54 | -0.5 | | | |

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	Time Period	NAB Forecast	Consensus	Actual	Previous	GMT	AEST
Friday, 3 July 2015								
US	Independence Day holiday							
AU	AiG Perf of Services Index	Jun				49.6	23.30	9.30
AU	Retail Sales MoM	May	0.6%	0.5%		0.0%	1.30	11.30
CH	HSBC China Services/Composite PMI	Jun				53.5/51.2	1.45	11.45
GE	Markit Germany Services/Composite PMI	Jun F				54.2/54.0	7.55	17.55
EC	Markit Eurozone Services/Composite PMI	Jun F				54.4/54.1	8.00	18.00
UK	Markit/CIPS UK Services/Composite PMI	Jun				56.5/55.8	8.30	18.30
Monday, 6 July 2015								
AU	TD Securities Inflation MoM/YoY	Jun				0.3%/1.4%	0.30	10.30
AU	ANZ Job Advertisements MoM	Jun				0.0%	1.30	11.30
JN	Leading Index CI	May P				106.4	5.00	15.00
GE	Factory Orders MoM/YoY	May				1.4%/0.4%	6.00	16.00
EC	Sentix Investor Confidence	Jul				17.1	8.30	18.30
US	Markit US Services PMI	Jun F					13.45	23.45
CA	Bloomberg Nanos Confidence	Jul-03					14.00	0.00
CA	Ivey Purchasing Managers Index SA	Jun				62.3	14.00	0.00
US	ISM Non-Manf. Composite	Jun				55.7	14.00	0.00
US	Labor Market Conditions Index Change	Jun				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				23	22.00	8.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul-05					23.30	9.30
AU	AiG Perf of Construction Index	Jun				47.8	23.30	9.30
AU	RBA Cash Rate Target	Jul-07	2.00%			2.00%	4.30	14.30
GE	Industrial Production SA MoM/YoY	May				0.9%/1.4%	6.00	16.00
UK	Industrial Production MoM/YoY	May				0.4%/1.2%	8.30	18.30
CA	Int'l Merchandise Trade	May				-2.97B	12.30	22.30
US	Trade Balance	May				-\$40.90B	12.30	22.30
US	JOLTS Job Openings	May				5376	14.00	0.00
US	Consumer Credit	May				\$20.541B	19.00	5.00
Wednesday, 8 July 2015								
UK	BRC Shop Price Index YoY	Jun				-1.9%	23.01	9.01
JN	BoP Current Account Adjusted	May				¥1274.2B	23.50	9.50
JN	Trade Balance BoP Basis	May				-¥146.2B	23.50	9.50
US	MBA Mortgage Applications	Jul-03					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
Thursday, 9 July 2015								
NZ	ANZ Truckometer Heavy MoM	Jun				-1.1%	22.00	8.00
NZ	Card Spending Retail/Total MoM	Jun				1.2%/1.4%	22.45	8.45
UK	RICS House Price Balance	Jun				34%	23.01	9.01
JN	Machine Orders MoM/YoY	May				3.8%/3.0%	23.50	9.50
AU	Employment Change	Jun				42.0K	1.30	11.30
AU	Unemployment Rate	Jun				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				64.7%	1.30	11.30
CH	CPI/PPI YoY	Jun				1.2%/-4.6%	1.30	11.30
GE	Current Account Balance	May				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				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					12.30	22.30
US	Bloomberg Consumer Comfort	Jul-05					13.45	23.45
US	Fed's George (alt) Speaks on Economy in Stillwater, Oklahoma						17.00	3.00
Friday, 10 July 2015								
JN	PPI MoM/YoY	Jun				0.3%/-2.1%	23.50	9.50
AU	Home Loans MoM	May				1.0%	1.30	11.30
AU	Investment Lending	May				2.6%	1.30	11.30
AU	Owner-Occupier Loan Value MoM	May				3.1%	1.30	11.30
JN	Consumer Confidence Index	Jun				41.4	5.00	15.00
UK	Trade Balance	May				-£1202	8.30	18.30
CA	Unemployment Rate	Jun				6.8%	12.30	22.30
CA	Net Change in Employment	Jun				58.9K	12.30	22.30
NZ	REINZ House Sales YoY	Jun				21.6%	14.00	0.00
US	Wholesale Inventories MoM	May				0.4%	14.00	0.00
US	Wholesale Trade Sales MoM	May				1.6%	14.00	0.00
US	Fed's Rosengren (alt) to Speak at 7th Annual Rocky Mountain Economic						15.35	1.35
US	Janet Yellen Speaks at the City Club of Cleveland						16.00	2.00
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

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