

Markets Today

A daily outlook for Australia, key global economies and markets

6 July 2015

61% say No

Ahead of Sunday's referendum, that is now in process of delivering a decisive 'No' vote (to the terms and conditions under which Greece's creditors would have extended the now-expired second bailout) German Finance Minister Wolfgang Schaeuble had been reported by German media as telling fellow party members that a No does not mean Grexit.

This was not a view being publicly echoed by many other protagonists in this long running Greek saga. As the FT's Peter Spiegel, who has provided some of the most insightful coverage of the crisis in recent weeks, was noting on Saturday, luminaries ranging from French President Françoise Hollande, Italian PM Matteo Renzi to EC President Jean-Claude Juncker, have made clear they would consider a No 'a breach within Europe and a choice to leave the euro.'

Just now, German economy minister Gabriel is being reported as saying that Greek PM Tsipras 'has ripped down the last bridge on which a compromise with Europe could have been built' and that Tsipras is leading the Greek people 'down the path of hopelessness'. Yet others, such as the Luxembourg PM, are expressing confidence in a solution being found (which presumably keeps Greece in the euro).

The 'no' vote (61% at last count) is the worst possible outcome from an 'uncertainty' perspective. It is hard to challenge the appropriateness of EUR/USD continuing to trade sub-1.10, AUD south of 0.75 (and AUD/JPY sub-¥92) on sharply higher market risk aversion. This after the AUD/USD had already traded to a new cycle low of 0.7510 on Friday, at the end of a week that saw iron ore prices shed more than 10% and the Chinese stock market more than 12%. We are sceptical that Saturday's announcement of an RMB120bn support fund for equities will do more than temporarily stop the rot.

'Grexit' risk has clearly risen sharply, and is now the singularly most likely scenario following the referendum. That said, other scenarios, under which a new deal is eventually agreed, following a protracted period of bank closures/uncertainty/negotiations (and possible fall of the government once it becomes clear Mr Tsipras has sold its citizens a pup) can still sum to a probability of close to 50%.

Of one thing we can be sure: the 'moral hazard' risks arising from immediately granting Greece a soft deal with substantial debt relief to a Tsipras/Varoufakis- led government under which there is no confidence that agreed-to reforms will be adhered to, makes this a less likely scenario than Grexit. This is likely to be the message that emanates from the EU summit that Mrs Merkel and Mr Hollande have just called to take place on Tuesday.

(Eventual) deal or no deal, it is hard to see reason why investors should be taking a 'Grexit is good' (for the rest of

the euro-area) view of developments just yet, even if that is ultimately the case. Equity/credit market weakness and safe-haven support for core government bond markets (US and Germany) is the easier call than that the Euro necessarily heads much further south (too many people are still bearing the scars from selling the euro during prior periods of existential angst regarding the euro). We nevertheless expect to see the euro heading lower in the short term. A move back to the 1.05 area lows from March and April is not unreasonable. One limiting factor here will be the view that the upcoming period of protracted uncertainty in Europe keeps Fed 'lift-off' at bay.

One immediate question for markets is whether the ECB acquiesces to the inevitable request for an increase in Emergency Liquidity Assistance (ELA) funding, amid indications that the withdrawals that have been permitted since banks were closed a week ago means the current ELA limit is almost certainly insufficient to keep banks technically solvent.

A refusal by the ECB to increase ELA limits (highly likely) brings with it the prospect of depositor haircuts (as well as keeping banks shut of course). This may be when voters start to realise that what they think they've just voted for is not what is going to be delivered, and social chaos ensues.

Coming Up

Searching for influences on markets this week beyond the fallout from the Greece referendum, it's hard to look past a Friday night speech from Fed chair Janet Yellen in Cleveland and on the US Economic Outlook. This will be preceded on Wednesday by the minutes of the June 16-17 FOMC meeting. There's a fair few other FOMC members speaking during the week. With last Thursday's payrolls report having failed to offer the smoking gun that – ex-Greece – might have all but locked in a September Fed 'lift-off', incoming data will continue to be as closely parsed. In a low-key week for data, tonight's non-manufacturing ISM and Tuesday's JOLTS (job openings) report look like the highlights.

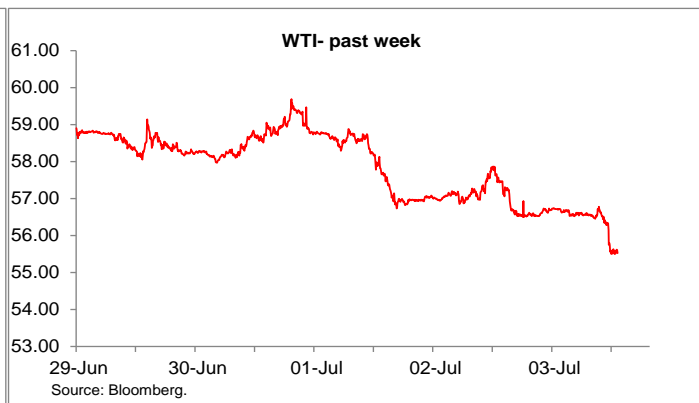
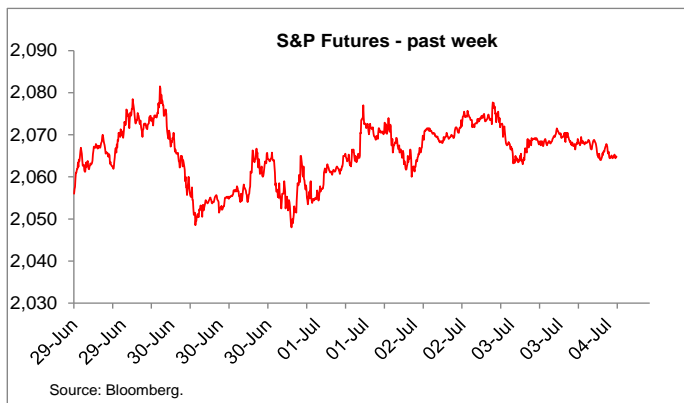
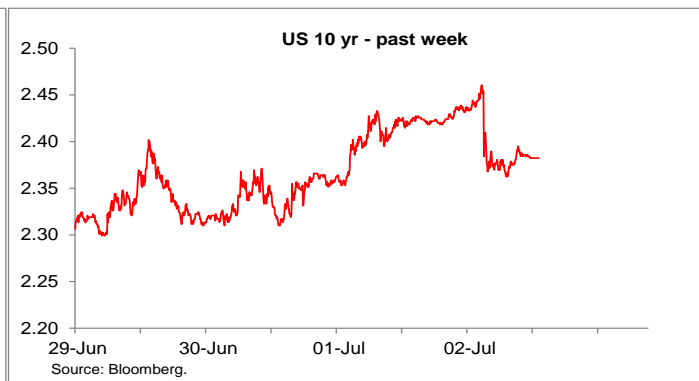
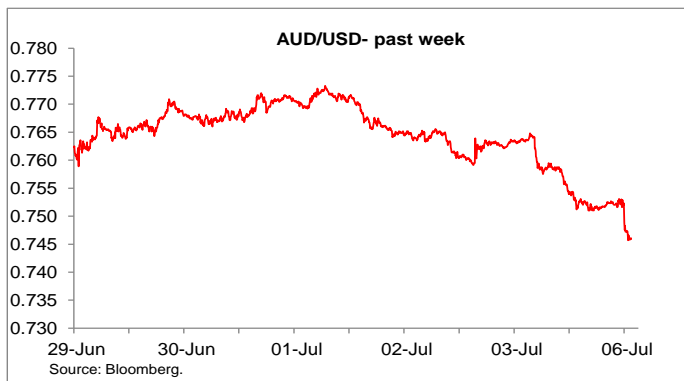
In Australia, it's the statement following what should be a no-change RBA decision on Tuesday, and Thursday's labour market report, that stand proud on the calendar. Today, it's just ANZ job ads and the TD Securities/MI monthly inflation gauge.

Overnight

On global stock markets, US bonds and equity markets were closed, as were oil futures. Gold was +0.4% to \$1,168, iron ore -0.7% to \$55.26. AUD is at 0.7459 and the range since Friday's local close has been 0.7452 to 0.7559.

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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>0.7459</td> <td>-0.9</td> <td>0.7452</td> <td>0.7512</td> <td>HKD</td> <td>7.7529</td> <td>0.0</td> </tr> <tr> <td>NZD</td> <td>0.6655</td> <td>-0.5</td> <td>0.6646</td> <td>0.6695</td> <td>CNY</td> <td>6.2055</td> <td>0.0</td> </tr> <tr> <td>EUR</td> <td>1.1014</td> <td>-0.9</td> <td>1.0979</td> <td>1.1020</td> <td>SGD</td> <td>1.3507</td> <td>0.4</td> </tr> <tr> <td>GBP</td> <td>1.5565</td> <td>0.0</td> <td>1.5516</td> <td>1.5566</td> <td>IDR</td> <td>13,320</td> <td>-0.1</td> </tr> <tr> <td>JPY</td> <td>121.97</td> <td>-0.7</td> <td>121.70</td> <td>122.17</td> <td>THB</td> <td>33.92</td> <td>0.5</td> </tr> <tr> <td>CAD</td> <td>1.2599</td> <td>0.2</td> <td>1.2555</td> <td>1.2603</td> <td>KRW</td> <td>1,123</td> <td>-0.2</td> </tr> <tr> <td>AUD/EUR</td> <td>0.6774</td> <td>0.0</td> <td></td> <td></td> <td>TWD</td> <td>30.88</td> <td>-0.1</td> </tr> <tr> <td>AUD/JPY</td> <td>90.98</td> <td>-1.5</td> <td></td> <td></td> <td>PHP</td> <td>45.05</td> <td>-0.3</td> </tr> <tr> <td>AUD/GBP</td> <td>0.4793</td> <td>-0.7</td> <td></td> <td></td> <td>CHF</td> <td>0.94</td> <td>0.2</td> </tr> <tr> <td>AUD/NZD</td> <td>1.1206</td> <td>-0.3</td> <td></td> <td></td> <td>SEK</td> <td>8.51</td> <td>0.6</td> </tr> </table>							Indicative 24hr ranges (**)				Other FX		Last	% chge	Low	High	Last	% chge	AUD	0.7459	-0.9	0.7452	0.7512	HKD	7.7529	0.0	NZD	0.6655	-0.5	0.6646	0.6695	CNY	6.2055	0.0	EUR	1.1014	-0.9	1.0979	1.1020	SGD	1.3507	0.4	GBP	1.5565	0.0	1.5516	1.5566	IDR	13,320	-0.1	JPY	121.97	-0.7	121.70	122.17	THB	33.92	0.5	CAD	1.2599	0.2	1.2555	1.2603	KRW	1,123	-0.2	AUD/EUR	0.6774	0.0			TWD	30.88	-0.1	AUD/JPY	90.98	-1.5			PHP	45.05	-0.3	AUD/GBP	0.4793	-0.7			CHF	0.94	0.2	AUD/NZD	1.1206	-0.3			SEK	8.51	0.6
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 | Major Indices | | | | |---------------|--------|-------|-------| | | Last | % day | % y/y | | Dow | 17,730 | -0.2 | 3.9 | | S&P 500 | 2,077 | 0.0 | 4.6 | | Nasdaq | 5,009 | -0.1 | 11.7 | | FTSE | 6,586 | -0.7 | -4.1 | | DAX | 11,058 | -0.4 | 10.5 | | CAC 40 | 4,808 | -0.6 | 7.6 | | Nikkei | 20,540 | +0.1 | 33.1 | | Shanghai | 3,687 | -5.8 | 79.0 | | Hang Seng | 26,064 | -0.8 | 10.7 | | ASX 200 | 5,538 | -1.1 | 0.2 | | | | | | | Last | % day | |-------------|---------|-------| | Oil (Brent) | 60.32 | -2.8 | | Oil (WTI) | 55.52 | -2.5 | | Oil (Tapis) | 63.35 | -0.9 | | Gold | 1167.80 | 0.4 | | CRB | 224.55 | 0.2 | | GS Metals | 301.1 | 0.1 | | Aluminium | 1676 | -0.9 | | Copper | 5748 | -0.6 | | Nickel | 11961 | -1.7 | | Zinc | 2010 | -0.2 | | Ch. steel | 2086 | -2.2 | | Iron ore | 55.3 | -0.7 | | Coal | 60.2 | -0.4 | | Wheat Chic. | 590.5 | 0.0 | | 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 | | | | Australia | | | | | USD | 0.25 | 0.28 | 0.88 | 2.49 | USD 10 | 2.38 | 0.00 | 3 mth bill | 97.90 | 0.00 | | AUD | 2.00 | 2.15 | 2.12 | 3.35 | AUD 10 | 3.07 | -0.04 | 3 Yr bond | 97.98 | 0.06 | | NZD | 3.25 | 3.22 | 2.97 | 3.93 | NZD 10 | 3.61 | -0.02 | 10 Yr bonc | 96.96 | 0.08 | | EUR | 0.05 | 0.06 | 0.12 | 1.19 | CAD 10 | 1.70 | -0.04 | 3/10 sprd | 1.03 | -0.02 | | GBP | 0.50 | 0.58 | 1.09 | 2.16 | EUR 10 | 0.79 | -0.05 | SPI | -7.0 | -0.1 | | JPY | 0.10 | 0.10 | 0.16 | 0.66 | GBP 10 | 2.00 | -0.08 | | | | | CAD | 0.75 | 1.17 | 0.90 | 2.20 | JPY 10 | 0.49 | -0.04 | | | | | | | | | | | CO ₂ Emissions - Euros | | | |-----------------------------------|------|-------| | | Last | % day | | Jun-2015 | 7.48 | -0.1 | | Dec-2015 | 7.45 | -0.1 | | Dec-2016 | 7.53 | -0.1 | | | |

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
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 CI	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	Overseas 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 Sattements	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						
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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