

Markets Today

A daily outlook for Australia, key global economies and markets

16 July 2015

Guilt by association

News wise, nothing bad has happened in or to Australia since we went home last night. Yet the AUD sits almost a full cent lower than where we left it. In truth, it is a case of guilt by association, following a pummelling meted out to other 'commodity currencies', notably the Canadian dollar after the Bank of Canada cut its policy rate by 0.25% down to 0.5% (only half expected in market pricing and economists' polls) and the NZD took a fresh hit from another very poor Global Dairy Trade auction.

The latter sees average prices down a cool 10.7%, bringing with it speculation that the 2015/2016 milk payout could now be nearer \$4 than \$5. Our BNZ dairy experts this week lowered their forecast payout to \$4.70 from \$5.30, but risks around the revised forecast are likely now negative. Also not lost on the NZ rates market and with that the currency, will have been the Bank of Canada's contention that the so called 'output gap' is significantly larger than anticipated. If NZ CPI prints softer than expected today (see 'Coming Up') then this view – or concern – will be given fresh succour.

So the NZD is off 1.8% in the past 24 hours, the CAD is -1.46% and AUD/USD has fallen by 1.01% and in doing so has made a new cycle low of 0.7354. It has to be said that the size of the falls also owes something to a generally stronger US dollar, though weakness in other currencies is for the most part limited to no more than 0.5%. US dollar gains have been assisted by a combination of a series of moderately better than expected incoming US economic data, and Fed chair Janet Yellen's prepared testimony to Congress in which she re-iterated the view that it is likely to be appropriate to take the first step toward normalising Fed policy sometime this year.

No clues on timing from Yellen, through San Francisco Fed President John Williams – a current FOMC voter and whose views are often regarded as quite closely aligned with Yellen's – has just crossed the wires saying that September would be a 'very plausible' time to start raising interest rates. The September Fed Funds futures contract currently ascribed only about a 35% probability to a September (quarter point) move so these latter comments should resonate in our time zone, more so that Yellen's testimony and subsequent Q&A and which saw the initial jump in US yield more than fully retraced.

As for the US data, we've had the Empire (New York state) manufacturing survey at 3.86 up from -1.98 (3.0 expected), core PPI +0.3% (0.1% expected and previous) and industrial production up by 0.3% (more than reversing the 0.2% May job and just better than the 0.2% expected).

Also to note is a slightly softer than expected outcome for UK wages growth within the latest employment data (up to 2.8% on a 3-month year-on-year's basis from 2.7% (excluding

bonuses) and beneath the rise to 3.0% expected. The unemployment rate also rose slightly, to 5.6% from 5.5%. Despite this, Sterling is the only G10 currency to have bucked the stronger US dollar trend overnight and by definition is therefore showing a sharp extension of the recent gains against the AUD (now 6% up on a month ago), NZD and CAD.

Coming Up

As the dust settles on last night's events, first up this morning NZ Q2 CPI will be the focus for antipodean markets. We're also awaiting confirmation (or otherwise - unlikely) that the Greek parliament has voted to approve the deal struck between Tsipras and Greece's creditors on Monday, that Tsipras has said was done with a 'knife to his throat'. There will be a lot of defectors among Tsipras' own Syriza party.

On CPI and following Monday's softer than expected June food price print, our BNZ colleagues expect a quarterly rise of 0.6%, lifting annual inflation to 0.4%, from 0.1% in Q1. This is just above the market consensus (0.5% Q/Q). The RBNZ, in its June MPS, anticipated quarterly CPI inflation of 0.4% and an annual 0.3%. Still, the market looks inclined to react to negative, rather than positive, data. Even the headline CPI result we expect for Q2, while signaling a turning point, will hardly look strong. Conversely, anything that underwhelms expectations will likely encourage the market to lower its OCR sights even further. Bear in mind that the Q2 CPI is too soon to be reflecting the recent correction in the currency. That's something for the subsequent quarters.

Nothing major for Australia (just good imports, RBA FX transactions) while offshore this evening we have Eurozone CPI and then the press conference from ECB President Draghi to look forward to following what will inevitably be an 'unchanged' policy decision. The reported row between him and German FinMin Schaeuble last weekend seems bound to come up if the journalists present are worth their salt.

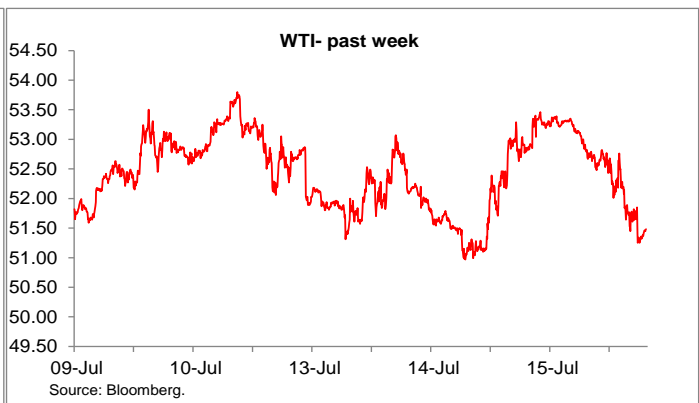
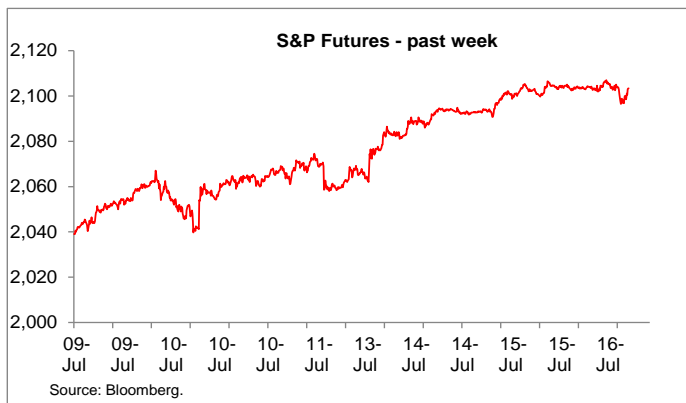
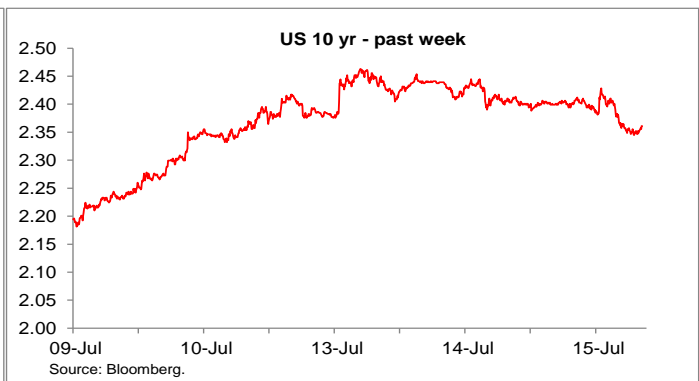
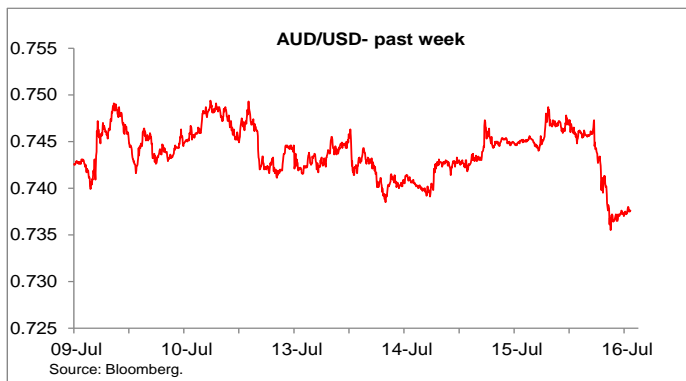
In the US, it's the Philly Fed survey, weekly jobless claims, NAHB housing index, Monthly TICS (capital flows) and Fed chair Yellen's second bite at the Congressional testimony cherry. This time it's in front of the Senate Banking Committee. The prepared testimony will be the same, but some of the questioning will be different.

Overnight

On global stock markets, the S&P 500 was -0.10%. Bond markets saw US 10-years -3.99bp to 2.36%. On commodity markets, Brent crude oil -2.36% to \$57.13, gold -0.4% to \$1,149, iron ore +1.0% to \$50.55. AUD is at 0.7375 and the range was 0.7354 to 0.7489.

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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>0.7378</td> <td>0.0</td> <td>0.7354</td> <td>0.7489</td> <td>HKD</td> <td>7.7510</td> <td>0.0</td> </tr> <tr> <td>NZD</td> <td>0.6598</td> <td>0.1</td> <td>0.6583</td> <td>0.6723</td> <td>CNY</td> <td>6.2092</td> <td>0.0</td> </tr> <tr> <td>EUR</td> <td>1.0948</td> <td>0.0</td> <td>1.0930</td> <td>1.1036</td> <td>SGD</td> <td>1.3660</td> <td>0.0</td> </tr> <tr> <td>GBP</td> <td>1.5641</td> <td>0.0</td> <td>1.5577</td> <td>1.5676</td> <td>IDR</td> <td>13,346</td> <td>0.1</td> </tr> <tr> <td>JPY</td> <td>123.76</td> <td>0.0</td> <td>123.26</td> <td>123.97</td> <td>THB</td> <td>34.18</td> <td>0.0</td> </tr> <tr> <td>CAD</td> <td>1.2914</td> <td>0.0</td> <td>1.2723</td> <td>1.2958</td> <td>KRW</td> <td>1,144</td> <td>0.1</td> </tr> <tr> <td>AUD/EUR</td> <td>0.6738</td> <td>0.0</td> <td></td> <td></td> <td>TWD</td> <td>31.14</td> <td>0.2</td> </tr> <tr> <td>AUD/JPY</td> <td>91.31</td> <td>0.0</td> <td></td> <td></td> <td>PHP</td> <td>45.22</td> <td>0.0</td> </tr> <tr> <td>AUD/GBP</td> <td>0.4716</td> <td>0.0</td> <td></td> <td></td> <td>CHF</td> <td>0.95</td> <td>0.0</td> </tr> <tr> <td>AUD/NZD</td> <td>1.1182</td> <td>-0.1</td> <td></td> <td></td> <td>SEK</td> <td>8.51</td> <td>0.0</td> </tr> </table>								Indicative 24hr ranges (**)				Other FX		Last	% chge	Low	High	Last	% chge	AUD	0.7378	0.0	0.7354	0.7489	HKD	7.7510	0.0	NZD	0.6598	0.1	0.6583	0.6723	CNY	6.2092	0.0	EUR	1.0948	0.0	1.0930	1.1036	SGD	1.3660	0.0	GBP	1.5641	0.0	1.5577	1.5676	IDR	13,346	0.1	JPY	123.76	0.0	123.26	123.97	THB	34.18	0.0	CAD	1.2914	0.0	1.2723	1.2958	KRW	1,144	0.1	AUD/EUR	0.6738	0.0			TWD	31.14	0.2	AUD/JPY	91.31	0.0			PHP	45.22	0.0	AUD/GBP	0.4716	0.0			CHF	0.95	0.0	AUD/NZD	1.1182	-0.1			SEK	8.51	0.0
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 | Major Indices | | | | |---------------|--------|-------|-------| | | Last | % day | % y/y | | Dow | 18,050 | 0.0 | 5.8 | | S&P 500 | 2,107 | -0.1 | 6.8 | | Nasdaq | 5,099 | -0.1 | 15.5 | | FTSE | 6,754 | 0.0 | 0.6 | | DAX | 11,540 | +0.2 | 18.7 | | CAC 40 | 5,047 | +1.3 | 17.2 | | Nikkei | 20,463 | +0.4 | 33.1 | | Shanghai | 3,806 | -3.0 | 84.1 | | Hang Seng | 25,056 | -0.3 | 6.5 | | ASX 200 | 5,636 | +1.1 | 2.1 | | | | | | | Last | % day | |-------------|---------|-------| | Oil (Brent) | 57.13 | -2.4 | | Oil (WTI) | 51.48 | -2.9 | | Oil (Tapis) | 59.86 | 2.2 | | Gold | 1148.80 | -0.4 | | CRB | 216.62 | -1.3 | | GS Metals | 295.4 | 0.1 | | Aluminium | 1693 | 0.6 | | Copper | 5522 | -0.6 | | Nickel | 11446 | -1.3 | | Zinc | 2073 | 1.2 | | Ch. steel | 2018 | -1.9 | | Iron ore | 50.6 | 1.0 | | Coal | 60.5 | 0.2 | | Wheat Chic. | 574.5 | -0.3 | | Sugar | 12.46 | -1.4 | | Cotton | 65.32 | -1.3 | | Coffee | 129.8 | -1.7 | | | || | Interest Rates | | | | Benchmark 10 Year Bonds | | | Overnight Futures | | |-----------------------|------|------|------|-------------------------|--------|------|-------------------|------------------| | Indicative Swap Rates | | | | Last | chge | Sprd | Last | Chge | | Cash | 3mth | 2Yr | 10Yr | | | | | | | USD | 0.25 | 0.29 | 0.88 | 2.44 | USD 10 | 2.36 | -0.04 | Australia | | AUD | 2.00 | 2.15 | 2.12 | 3.31 | AUD 10 | 3.03 | 0.01 | 3 mth bill | | NZD | 3.25 | 3.18 | 3.00 | 3.89 | NZD 10 | 3.60 | 0.01 | 3 Yr bond | | EUR | 0.05 | 0.06 | 0.10 | 1.13 | CAD 10 | 1.59 | -0.06 | 10 Yr bonc | | GBP | 0.50 | 0.58 | 1.15 | 2.23 | EUR 10 | 0.83 | -0.01 | 3/10 sprd | | JPY | 0.10 | 0.10 | 0.15 | 0.62 | GBP 10 | 2.12 | -0.01 | SPI | | CAD | 0.50 | 1.17 | 0.77 | 2.10 | JPY 10 | 0.46 | -0.01 | | | | | | | | | | | Last | % day | |-----------------------------------|------|-------| | CO ₂ Emissions - Euros | | | | | Last | % day | | Jun-2015 | 7.80 | 0.4 | | Dec-2015 | 7.77 | 0.4 | | Dec-2016 | 7.85 | 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	Time Period	NAB Forecast	Consensus	Actual	Previous	GMT
Thursday, 16 July 2015							
NZ	BusinessNZ Manufacturing PMI	Jun				51.5	22.30
NZ	CPI QoQ/YoY	2Q	0.7%/0.5%	0.5%/0.3%		-0.3%/0.1%	22.45
AU	Consumer Inflation Expectation	Jul				3.0%	1.00
AU	Merchandise imports, goods debits, sa MoM	Jun				-5.0%	1.30
AU	RBA FX Transactions Market	Jun				487M	1.30
EC	Trade Balance SA	May				24.3B	9.00
EC	CPI MoM/YoY	Jun/Jun F		0.0%/0.2%		0.2%/0.2%	9.00
EC	ECB Main Refinancing Rate/Deposit Facility Rate	Jul-16		0.05%/-0.2%		0.05%/-0.2%	11.45
US	Initial Jobless Claims	Jul-11				297K	12.30
CA	Int'l Securities Transactions	May				12.94B	12.30
US	NAHB Housing Market Index	Jul		59		59	14.00
US	Philadelphia Fed Business Outlook	Jul		12		15.2	14.00
US	Fed's Yellen delivers Semi-Annual Testimony to Senate Banking Panel						18.30
US	Net Long-term TIC Flows	May				\$53.9B	20.00
Friday, 17 July 2015							
NZ	ANZ Job Advertisements MoM	Jun				0.1%	22.00
AU	Conf. Board Leading Index MoM	May				-0.3%	0.00
NZ	ANZ Consumer Confidence Index/MoM	Jul				119.9/-3.2%	1.00
EC	ECB Survey of Professional Forecasters						8.00
EC	Construction Output MoM/YoY	May				0.3%/0.0%	9.00
US	CPI MoM/YoY	Jun		0.3%/0.2%		0.4%/0.0%	12.30
US	CPI Ex Food and Energy MoM/YoY	Jun		0.2%/1.8%		0.1%/1.7%	12.30
US	Housing Starts / MoM	Jun		1100K/6.2%		1036K-11.1%	12.30
US	Building Permits / MoM	Jun		1110K/-11.2%		1275K/11.8%	12.30
CA	CPI MoM/YoY	Jun		0.2%/1.0%		0.6%/0.9%	12.30
US	U. of Mich. Sentiment	Jul P		96.5		96.1	14.00
Saturday, 18 July 2015							
CH	Property Prices	Jun					1.30
Monday, 20 July 2015							
NZ	Performance Services Index	Jun				58	22.30
UK	Rightmove House Prices MoM/YoY	Jul				3.0%/4.5%	23.01
GE	PPI MoM/YoY	Jun				0.0%/-1.3%	6.00
EC	ECB Current Account SA	May				22.3B	8.00
EC	Current Account NSA	May				20.4B	8.00
CA	Wholesale Trade Sales MoM	May				1.90%	12.30
UK	CBI Trends Total Orders	Jul				-7	14.00
UK	CBI Trends Selling Prices	Jul				-7	14.00
UK	CBI Business Optimism	Jul				3	14.00
JN	Supermarket Sales YoY	Jun				5.7%	14.00
CA	Bloomberg Nanos Confidence	Jul-17					14.00
Tuesday, 21 July 2015							
NZ	Net Migration SA	Jun				5140	22.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul-19					23.30
AU	RBA July Meeting Minutes						1.30
NZ	Credit Card Spending MoM/YoY	Jun				1.9%/7.1%	3.00
JN	Leading Index CI	May F					5.00
JN	Coincident Index	May F					5.00
JN	Convenience Store Sales YoY	Jun				1.6%	7.00
UK	Public Finances (PSNCR)	Jun				12.4B	8.30
UK	Central Government NCR	Jun				13.2B	8.30
UK	Public Sector Net Borrowing	Jun				9.4B	8.30
UK	PSNB ex Banking Groups	Jun				10.1B	8.30
US	Revisions: U.S. Industrial Production & Capacity Utilization						14.00
Wednesday, 22 July 2015							
AU	Westpac Leading Index MoM	Jun				-0.1%	0.30
AU	Skilled Vacancies MoM	Jun					1.00
AU	CPI QoQ/YoY	2Q				0.2%/1.3%	1.30
AU	CPI Trimmed Mean QoQ	2Q				0.6%	1.30
AU	CPI Trimmed Mean YoY	2Q				2.3%	1.30
AU	CPI Weighted Median QoQ	2Q				0.6%	1.30
AU	CPI Weighted Median YoY	2Q				2.4%	1.30
CH	MNI July Business Indicator						1.45
CH	Conference Board China June Leading Economic Index						2.00
JN	All Industry Activity Index MoM	May				0.1%	4.30
UK	Bank of England Minutes						8.30
EC	Euro Area First Quarter Government Debt						9.00
EC	Euro Area First Quarter Government Deficit						9.00
US	MBA Mortgage Applications	Jul-17					11.00
US	FHFA House Price Index MoM	May				0.3%	13.00
US	Existing Home Sales / MoM	Jun				5.35M/5.1%	14.00
Upcoming Central Bank Interest Rate Announcements							
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%		0.75%	
New Zealand, RBNZ		23-Jul	3.00%	3.00%		3.25%	
US Federal Reserve		30-Jul					
Australia, RBA		4-Aug	2.00%	2.00%		2.00%	
UK BOE		6-Aug				0.50%	

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