



Markets Today

A daily outlook for Australia, key global economies and markets

22 July 2015

Inflationary risks to the higher side today

No doubt RBA Governor Stevens would have a wry grin with the partial pull-back in the USD overnight with the AUD/USD the best performer among the majors popping back above 0.74 overnight and where it sits this morning. It's been an orderly night, bereft of economic news of note. Equities have been lower on both sides of the Atlantic, the Dow weighed down by IBM (-5.9%) and United Technologies (-7%) on revenue disappointments and revised down earnings expectations.

In FX, the USD was the loser for once, the AUD out-performing despite somewhat lower AUD-related commodity prices: iron ore prices eased somewhat (-0.55%), as did LME copper (-0.46%), with gold opening weaker, rallying back somewhat for most of the night only to relent back below \$US1,100/oz, down 0.7% for the session. All of that was pretty much a side-show, as were the repeated comments in yesterday's RBA Minutes that "further depreciation seemed both likely and necessary" (that saw the briefest of pull-backs in the AUD) to an overnight painful squeeze down in the USD. Against those now all too familiar comments on the AUD that saw the briefest of knee jerk dip in the AUD, the currency recovered, yesterday's Minutes revealing a more positive official tone on the domestic economy, including the stabilisation in the unemployment rate over recent months.

There did not seem to be any particular trigger for the partial pull-back in the USD. It started roughly an hour after London's open, picking up pace during the afternoon session, with the AUD/USD the big mover, up 1.45% at its peak. Bear in mind that the USD has given back 0.5% after rising 3.9% from its 18 June low. The USD lost ground against the CHF, the EUR, and the NZD was of course already bucking the trend over the prior 24 hours, rising an additional 0.75% or so overnight as traders likely took the opportunity to book some profits ahead of the RBNZ announcement tomorrow morning. USD/JPY fell 0.55%. Sterling was steady against the USD, the GBP losing ground against the AUD (-1.45% at its 2.09 lows for the GBP/AUD, likely a delayed "Lord's" effect) and against the EUR with EUR/GBP 1.2%.

Coming up today/tonight

Two very meaty local events beckon with the June quarter CPI at 11.30 AEST and then at 1.05, Governor Stevens is delivering his now-annual address to the Anika foundation. He's used this speech as an event to make major big picture speeches on macroeconomic policy, last year centred on international policy after the financial crisis and the two years previously on Australia, on "Economic Policy after the Booms" (2013) and "The Lucky Country" (in 2012, when the resources boom was at its crescendo and about to turn down sharply). There is no title available as yet. He might take the opportunity today perhaps to draw out more about the exchange rate and the economy or the now diminishing limits of what monetary policy can do to support the economy's transition. Yesterday's RBA Minutes recognised the improvement in recent domestic economy data, signals that reducing the chance of another monetary easing.

While the CPI is not expected to be any trigger for policy action anytime soon, it's of course a super-important indicator. The CPI

is an important market mover and has been among the top 5 most important data release for the two year yield, and the third biggest mover of the AUD/USD in 2014. However, with inflation not a major policy threshold issue at present it's hard to see the CPI causing a big swing in either rates or currencies.

With rates markets pricing 16 bps for the RBA for a year ahead, this is on the rich side of pricing (too much easing priced); we think about 12bps is closer to fair value. The risk to market pricing accordingly would more likely come from a stronger than expected CPI that would reduce rate cut expectations. And recent NAB survey price data hint at stronger inflationary pressure. We would also assess the risk for the AUD is also from a stronger than expected outcome, which would have the greatest effect on the AUD/USD, a little more so after last night's USD-inspired move higher. We look for 0.8% headline and 0.6% underlying CPI, the same as the market, with an upside tilt.

Not a heavy schedule of overnight releases tonight, though sterling watchers will be poring over the BoE Minutes. US house prices and Existing Home Sales data are also due.

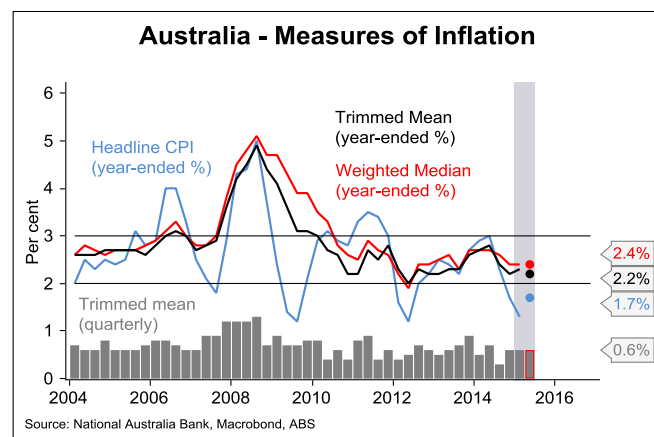
Overnight

- USD gives back some territory : Eurostoxx 600 -1.0%, Dax -1.1%, CAC -0.7%, FTSE -0.3%. Dow -181 points to 17,919, -1.0%, S&P 500 -1.0%, Nasdaq -0.4%, VIX 12.22 -0.2%. Mumbai +0.6%, Nikkei 225 -0.2% and ASX 200 +0.3%; ASX SPI futures this morning -0.6%. US bond yields: 2s at 0.68% (-3), 10s at 2.33% (-5). WTI oil at \$50.36 (+0.4%), Brent at \$56.99 (+0.6%), Malaysian Tapis (yesterday) \$58.42 (-0.6%). Gold at \$1100.10/oz (-0.6%). Base metals: LME copper -0.5%, nickel -0.2%, aluminium -1.7%. Iron ore \$52.1/t -0.6% Chinese steel rebar futures -1.1%. Soft commodities spot futures: wheat -1.7%, sugar -0.2%, cotton -0.7%, coffee -1.2%. Euro Dec 14 CO2 emissions at €7.97/t (-0.3%). The AUD/USD's range overnight 0.7354-0.7450; indicative range today 0.7395-0.7460; the AUD/USD is 0.7422 now**

Good luck.

David.deGaris@nab.com.au

Chart of the day: Inflation day – still contained?

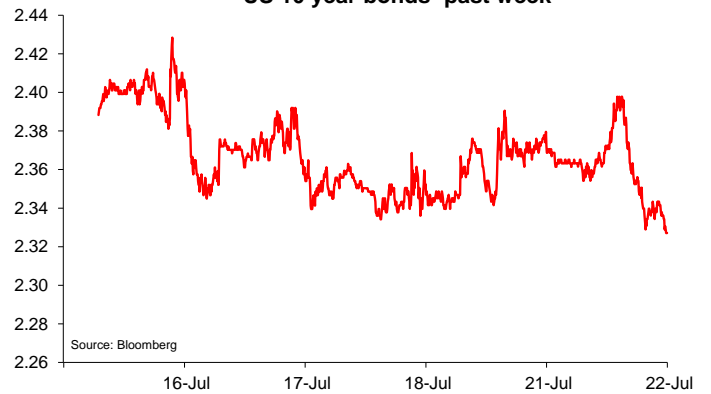


Markets

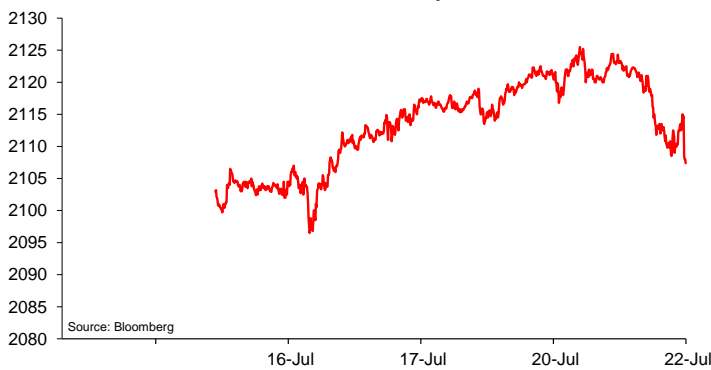
AUD/USD- past week



US 10 year bonds- past week



S&P 500 futures- past week



WTI futures- past week



Foreign Exchange					Equities				Commodities*		
Indicative 24hr ranges (**)					Major Indices				Last % day		
	Last	% chge	Low	High		Last	% day	% year		Last	% day
AUD	0.7422	0.7	0.7341	0.7450	Dow	17,919	-1.0	5.1	Oil (Brent)	56.99	0.6
NZD	0.6630	0.3	0.6591	0.6655	S&P 500	2,119	-0.4	7.4	Oil (WTI)	50.36	0.4
EUR	1.0943	0.8	1.0856	1.0970	Nasdaq	5,208	-0.2	17.7	Oil (Tapis)	58.42	-0.6
GBP	1.5560	0.1	1.5535	1.5575	VIX Index	12.22	-0.2	-4.6	Gold	1100.10	-0.6
JPY	123.90	-0.4	123.76	124.40	FTSE	6,769	-0.3	0.6	CRB	212.01	0.1
CAD	1.2944	-0.4	1.2917	1.3001	DAX	11,605	-1.1	20.7	GS Metals	289.0	-1.0
AUD/EUR	0.6783	0.0			CAC 40	5,107	-0.7	18.6	Aluminium	1661	-1.7
AUD/JPY	91.96	0.3			Nikkei	20,842	0.9	35.8	Copper	5455	-0.5
AUD/GBP	0.4770	0.6			Shanghai	4,018	0.6	93.6	Nickel	11675	-0.2
AUD/NZD	1.1196	0.4			Hang Seng	25,536	0.5	7.4	Zinc	2035	-0.9
					ASX 200	5,707	0.3	2.9	Ch. steel	2077	-1.1
									Iron ore	52.1	-0.6
									St. coal	61.8	n.a.
									Wheat Chic.	533.3	-1.7
									Sugar	11.42	-0.2
									Cotton	64.24	-0.7
									Coffee	126.0	-1.2

Interest Rates					Overnight Futures					
Indicative Swap Rates				Benchmark 10 Year Bonds			Australia			
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd	Last	Chge	
USD	0.25	0.30	0.94	2.41	USD 10	2.33	-0.05	3 mth bill	97.89	0.00
AUD	2.00	2.15	2.12	3.26	AUD 10	2.94	0.02	3 Yr bond	98	0.03
NZD	3.25	3.07	2.88	3.74	NZD 10	3.45	0.00	10 Yr bond	97.04	0.05
EUR	0.05	0.06	0.10	1.10	CAD 10	1.57	-0.01	3/10 sprd	0.97	-0.02
GBP	0.50	0.58	1.15	2.20	EUR 10	0.78	0.02	SPI	-32.0	-0.6
JPY	0.10	0.10	0.15	0.60	GBP 10	2.09	0.03			
CAD	0.50	1.17	0.77	2.07	JPY 10	0.42	-0.01			

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
Wednesday, 22 July 2015								
AU	Westpac Leading Index MoM	Jun				-0.1%	0.30	10.30
AU	Skilled Vacancies MoM	Jun				-1.00%	1.00	11.00
AU	CPI QoQ/YoY	2Q	0.8%/1.7%	0.8%/1.7%		0.2%/1.3%	1.30	11.30
AU	CPI Trimmed Mean QoQ/YoY	2Q	0.6%/2.2%	0.6%/2.1%		0.6%/2.3%	1.30	11.30
AU	CPI Weighted Median YoY	2Q	0.6%/2.4%	0.6%/2.3%		0.6%/2.4%	1.30	11.30
CH	MNI Business Indicator	Jul				53.5	1.45	11.45
CH	Conference Board Leading Economic Index	Jun					2.00	12.00
AU	RBA Governor Stevens speaks to Anika Foundation (no speech title as yet)						3.05	13.05
JN	All Industry Activity Index MoM	May		-0.60%		0.1%	4.30	14.30
UK	Bank of England Minutes						8.30	18.30
EC	Euro Area First Quarter Government Debt/Deficit						9.00	19.00
US	MBA Mortgage Applications	Jul-17					11.00	21.00
US	FHFA House Price Index MoM	May		0.40%		0.3%	13.00	23.00
US	Existing Home Sales / MoM	Jun		5.40M/0.9%		5.35M/5.1%	14.00	0.00
Thursday, 23 July 2015								
NZ	RBNZ Official Cash Rate	Jul-23	3.00%	3.00%		3.25%	21.00	7.00
JN	Trade Balance Adjusted	Jun		-¥260.0B		-¥182.5B	23.50	9.50
UK	Retail Sales Ex Auto Fuel MoM	Jun				0.2%	8.30	18.30
US	Chicago Fed Nat Activity Index	Jun		-0.05		-0.17	12.30	22.30
US	Initial Jobless Claims	Jul-18		280K		281K	12.30	22.30
CA	Retail Sales MoM	May		0.60%		-0.1%	12.30	22.30
UK	CBI Reported Sales	Jul					14.00	0.00
UK	BBA Loans for House Purchase	Jun					14.00	0.00
EC	Consumer Confidence	Jul A		-5.8		-5.6	14.00	0.00
US	Leading Index	Jun		0.20%		0.7%	14.00	0.00
US	Kansas City Fed Manf. Activity	Jul		-5		-9	15.00	1.00
Friday, 24 July 2015								
NZ	Trade Balance	Jun	+\$353M	+\$100M			22.45	8.45
JN	Nikkei Japan Manufacturing PMI	Jul P		50.5		50.1	1.35	11.35
CH	Caixin China Manufacturing PMI	Jul P		49.7		49.4	1.45	11.45
NZ	Residential Lending/LVR	Jun						
GE	Markit/BME Germany Manufacturing PMI	Jul P		51.9		51.9	7.30	17.30
EC	Markit Eurozone Manufacturing PMI	Jul P		52.5		52.5	8.00	18.00
US	Markit US Manufacturing PMI	Jul P		53.6		53.6	13.45	23.45
US	New Home Sales/MoM	Jun		546K/-0.1%		546K/2.2%	14.00	0.00
Monday, 27 July 2015								
JN	PPI Services YoY	Jun				0.6%	23.50	9.50
CH	Industrial Profits YoY	Jun					1.30	11.30
GE	IFO Business Climate/Current Assessment/Expectations	Jul					8.00	18.00
EC	M3 Money Supply YoY	Jun					8.00	18.00
EC	M3 3-month average	Jun					8.00	18.00
US	Durable Goods Orders	Jun		2.70%		-1.8%	12.30	22.30
US	Durables Ex Transportation	Jun		0.60%		0.5%	12.30	22.30
US	Cap Goods Orders Nondef Ex Air	Jun				0.4%	12.30	22.30
US	Cap Goods Ship Nondef Ex Air	Jun				0.3%	12.30	22.30
GE	Retail Sales MoM/YoY	Jun					14.00	0.00
CA	Bloomberg Nanos Confidence	Jul-24					14.00	0.00
US	Dallas Fed Manf. Activity	Jul		-4			14.30	0.30
Tuesday, 28 July 2015								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul-26					23.30	9.30
UK	GDP QoQ/YoY	2Q A					8.30	18.30
UK	Index of Services MoM	May					8.30	18.30
UK	Index of Services 3M/3M	May					8.30	18.30
CA	Industrial Product Price MoM	Jun					12.30	22.30
CA	Raw Materials Price Index MoM	Jun					12.30	22.30
US	S&P/CS 20 City MoM SA	May					13.00	23.00
US	Markit US Composite PMI	Jul P					13.45	23.45
US	Markit US Services PMI	Jul P					13.45	23.45
UK	Nationwide House PX MoM	Jul					14.00	0.00
UK	Nationwide House Px NSA YoY	Jul					14.00	0.00
CH	Leading Index	Jun					14.00	0.00
US	Consumer Confidence Index	Jul					14.00	0.00
US	Richmond Fed Manufact. Index	Jul				6	14.00	0.00
Upcoming Central Bank Interest Rate Announcements								
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%		
Japan, BoJ		7-Aug	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
Europe ECB		3-Sep				0.05%		
Canada, BoC		10-Sep				0.50%		

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

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia

Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Emma Lawson
Senior Currency Strategist
+61 2 9237 8154

Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Rodrigo Catril
Interest Rate Strategist
+61 2 9293 7109

Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 2 9237 1076

Distribution

Barbara Leong
Research Production Manager
+61 2 9237 8151

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

James Glenn
Senior Economist – Australia
+61 3 9208 8129

Vyanne Lai
Economist – Australia
+61 3 8634 0198

Phin Ziebell
Economist – Agribusiness
+61 475 940 662

Amy Li
Economist – Australia
+61 3 8634 1563

Dean Pearson
Head of Industry Analysis
+61 3 8634 2331

Robert De Iure
Senior Economist – Industry Analysis
+61 3 8634 4611

Brien McDonald
Senior Economist – Industry Analysis
+61 3 8634 3837

Karla Bulauan
Economist – Industry Analysis
+61 3 8641 4028

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+61 3 9208 5049

Gerard Burg
Senior Economist – Asia
+61 3 8634 2788

John Sharma
Economist – Sovereign Risk
+61 3 8634 4514

Jacqui Brand
Personal Assistant
+61 3 8634 2181

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Kymerly Martin
Senior Market Strategist
+64 4 924 7654

Raiko Shareef
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

Asia

Christy Tan
Head of Markets Strategy/Research, Asia
+852 2822 5350

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+44 207 710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 1588

Derek Allassani
Research Production Manager
+44 207 710 1532

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.