



# Markets Today

A daily outlook for Australia, key global economies and markets

29 July 2015

## Not Yet, But Soon

Sitting, waiting for the Fed, in summer markets. That pretty much characterises the last day, which was surprising after the angst of the prior period. The concerns over China were eased (somewhat, for now) and elsewhere markets were content to reverse some of earlier changes.

There was limited newsflow, most of which didn't seem to get much attention from markets. The UK second quarter GDP was as expected (0.7%qoq) and better than Q1. That should help the BoE's recent push to warn markets that they would like to hike earlier than the market thinks. This should be GBP positive, but didn't have much of a push.

In the US, even a very soft consumer confidence result couldn't get anyone enthusiastic about changing expectations. No one can say exactly why, but consumer confidence was at a low not seen since September 2014 (90.9A, 99.8P, 100E). House prices were also soft. Not to worry, apparently.

This is because the Fed is coming up and particularly at turning points in cycles, there is some uncertainty about the future policy track. So participants might as well sit and wait for the next day or so and see what Chair Yellen has to say.

## Coming Up

The FOMC meeting is the focus locally too; coming around 4am Sydney tomorrow suggests a slow day for local markets.

The Fed are not expected to change policy today, but provide some guidance as to the first 'lift-off' of rates since 2006. It is possible that they change the risks to balanced, acknowledging the better employment market, but some inflation disappointment.

It's been a long time between cycles. That prolonged period of policy easing has made markets nervous about the coming cycle and how various asset classes, including or especially those outside of the US, will cope.

Generally, in a recent investor trip, many clients did not want to focus on the September or December start in the Fed cycle, but rather the end point. How much and how fast is the Fed likely to raise interest rates; and how will the more integrated global financial market cope with that? Therein lies the uncertainty- and with the proposed new Fed Governor being of more of an international, FX bent – one that the Fed may also be keenly aware of.

So a September versus December kick-off will generate short-term moves in the USD and yields, but it is the path ahead that should be the most important factor. In that, the Fed is likely to reassure on a steady, and very slow, hiking cycle in the statement.

The eventual terminal rate (peak if you will) will be determined by the likely, lower, potential growth rate in the US but we shall see how that develops over time. And, how those assets used to a low risk premium come to manage a higher price for the risk premium.

This may be one factor that is placing Emerging Markets under pressure at the moment, as soft global demand and higher supply weighs on commodity prices. Additionally, the increase in leverage, globally and in different sectors, means there may be a higher sensitivity to interest rate hikes. This generates weakness, particularly in those countries with current account deficits. A promise of low and slow, from the Fed would be the most positive for risk assets; rather than a debate over September versus December initial move.

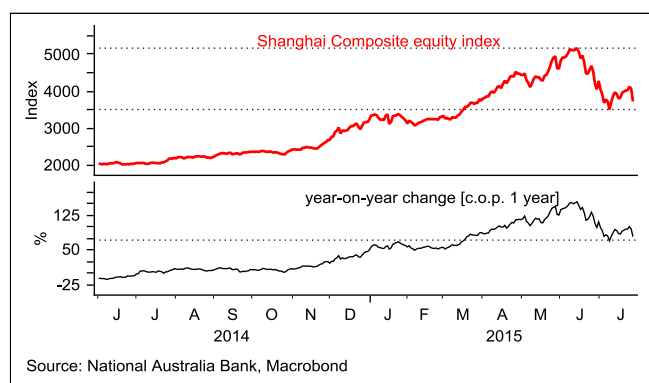
This broad uncertainty, and the volatility in the Chinese equity markets will likely be reflected in the China sentiment survey today. But it will be the overall direction of the Chinese equity market that should have an intra-day influence on local markets. On this front, the PBoC and regulators are likely to continue to reassure that they will support equities. How comfortable international asset managers are about those measures is a different and longer term story, but it should assist in short term stability. If it does not, over time, there will be a much broader reassessment of the risks.

## Overnight

On global stock markets, the S&P 500 was +1.30%. Bond markets saw US 10-years +3.60bp to 2.25%. On commodity markets, Brent crude oil -0.69% to \$53.1, gold-0.1% to \$1,095, iron ore +2.1% to \$53.45. AUD is at 0.7328 and the range was 0.7257 to 0.7345.

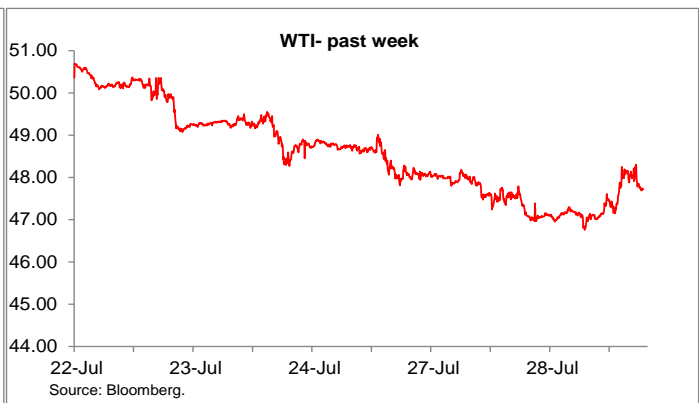
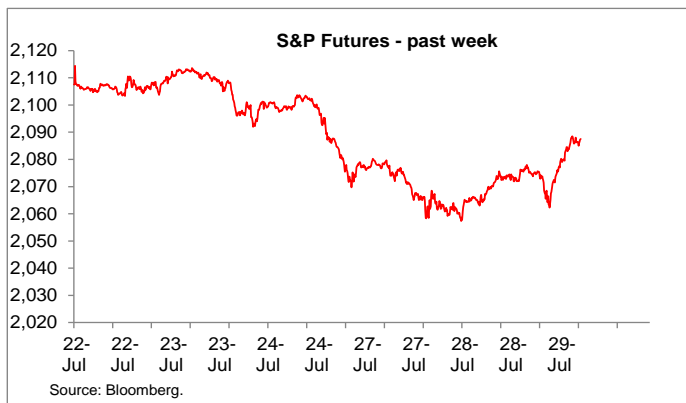
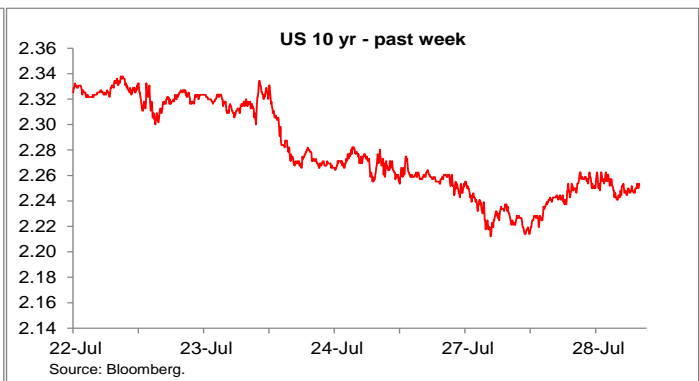
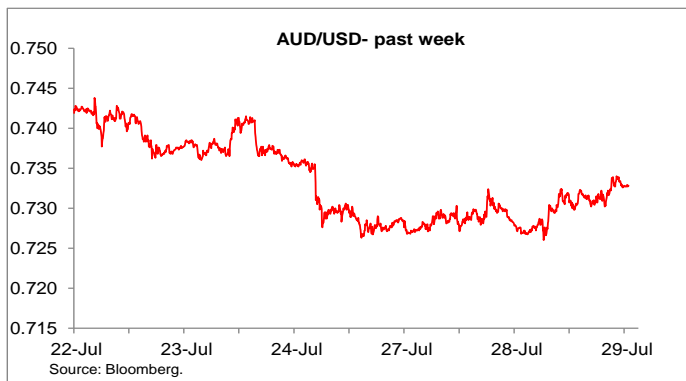
- UK Q2 GDP 0.7%qoqA, E, 0.2%P
- US consumer confidence 90.9A, 100E, 99.8P
- US Case Schiller House px -0.18%A, +0.3E, -0.03P revised from +0.3

## Chart: China's Equities Soft But After a Strong Run



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Markets



Foreign Exchange								Equities				Commodities*		
<b>Indicative 24hr ranges (**)</b>				<b>Other FX</b>				<b>Major Indices</b>						
	Last	% chge	Low	High		Last	% chge		Last	% day	% y/y		Last	% day
AUD	0.7324	0.8	0.7257	0.7345	HKD	7.7511	0.0	Dow	17,624	+1	3.8	Oil (Brent)	53.10	-0.7
NZD	0.6683	1.2	0.6600	0.6709	CNY	6.2095	0.0	S&P 500	2,094	+1.3	5.8	Oil (WTI)	47.72	0.7
EUR	1.1058	-0.3	1.1022	1.1100	SGD	1.3637	-0.4	Nasdaq	5,087	+0.9	14.4	Oil (Tapis)	54.94	-2.0
GBP	1.5609	0.3	1.5528	1.5628	IDR	13,465	0.0	FTSE	6,555	+0.8	-3.4	Gold	1094.80	-0.1
JPY	123.57	0.3	123.08	123.79	THB	34.83	-0.1	DAX	11,174	+1.1	16.4	CRB	204.39	0.8
CAD	1.2930	-0.8	1.2912	1.3043	KRW	1,165	-0.2	CAC 40	4,977	+1	14.6	GS Metals	283.0	1.8
AUD/EUR	0.6626	1.0			TWD	31.53	0.0	Nikkei	20,329	-0.1	30.2	Aluminium	1628	1.1
AUD/JPY	90.55	1.0			PHP	45.50	-0.1	Shanghai	3,663	-1.7	67.8	Copper	5289	2.2
AUD/GBP	0.4694	0.4			CHF	0.96	-0.1	Hang Seng	24,504	+0.6	-0.6	Nickel	11293	2.7
AUD/NZD	1.0956	-0.4			SEK	8.56	0.6	ASX 200	5,585	-0.1	-0.1	Zinc	1974	2.5
												Ch. steel		
												Iron ore		
												Coal		
												Wheat Chic.		
												Sugar		
												Cotton		
												Coffee		
												CO <sub>2</sub> Emissions - Euros		
												Last		
												% day		
												Jun-2015		
												Dec-2015		
												Dec-2016		
												Last		
												% day		
												Jun-2015		
												Dec-2015		
												Dec-2016		

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
<b>Wednesday, 29 July 2015</b>								
NZ	RBNZ Governor Wheeler speaks at private event; speech on RBNZ web site						21.00	7.00
JN	Retail Sales MoM	Jun		-1.00%		1.70%	23.50	9.50
CH	Westpac-MNI Consumer Sentiment	Jul				112.3	1.45	11.45
JN	Small Business Confidence	Jul				46.9	5.00	15.00
GE	GfK Consumer Confidence	Aug		10.1		10.1	6.00	16.00
UK	Mortgage Approvals	Jun		66.3K		64.4K	8.30	18.30
UK	CBI Reported Sales	Jul		30		29		
US	MBA Mortgage Applications	Jul-24					11.00	21.00
US	Pending Home Sales MoM	Jun		1.1%		0.9%	14.00	0.00
US	FOMC Rate Decision	Jul-29		0-0.25%		0-0.25%	18.00	4.00
<b>Thursday, 30 July 2015</b>								
NZ	Building Permits MoM	Jun				0	22.45	8.45
UK	GfK Consumer Confidence	Jul		5		7	23.05	9.05
JN	Industrial Production MoM/YoY	Jun P		0.30%		-2.10%	23.50	9.50
AU	RBA Governor Stevens speaks to Asia Financial Cooperation Conference, Sydney						1.00	11.00
AU	Export/Import prices QoQ	2Q	-5%/0.5%	-4%/1.5%		-0.8%/-0.2%	1.30	11.30
AU	Building Approvals MoM/YoY	Jun	1.5%/21.8%	-0.9%/19.5%		2.4%/17.6%	1.30	11.30
AU	NAB SME (Small Business) Business Survey	2Q					1.30	11.30
GE	Unemployment Rate / Change (000s)	Jul		6.4%/-5K		6.4%/-1K	7.55	17.55
EC	ECB Publishes Economic Bulletin						8.00	18.00
EC	Business Climate Indicator	Jul				0.14	9.00	19.00
GE	CPI MoM/YoY	Jul P		0.2%/0.3%		-0.1%/0.3	12.00	22.00
US	GDP Annualized QoQ	2Q A		2.5		-0.20%	12.30	22.30
US	Initial Jobless Claims	Jul-25				255K	12.30	22.30
<b>Friday, 31 July 2015</b>								
UK	GfK Consumer Confidence	Jul					23.05	9.05
JN	Jobless Rate/Jobs-Applicants ratio	Jun		3.3%/1.20		3.3%/1.19	23.30	9.30
JN	Overall Household Spending YoY	Jun		1.80%		4.80%	23.30	9.30
JN	Natl CPI YoY	Jun		0.30%		0.50%	23.30	9.30
JN	Tokyo CPI YoY	Jul		0.30%		0.30%	23.30	9.30
NZ	ANZ Business Confidence	Jul				-2.3	1.00	11.00
AU	PPI QoQ/YoY	2Q				0.5%/0.7%	1.30	11.30
AU	Private Sector Credit MoM/YoY	Jun	0.5%/6.0%	0.5%/6.0%		0.5%/6.2%	1.30	11.30
NZ	Credit Aggregates, Household YoY	Jun				5.50%	3.00	13.00
EC	Unemployment Rate	Jun		11.10%		11.10%	9.00	19.00
EC	CPI Estimate YoY	Jul		0.20%		0.20%	9.00	19.00
US	Employment Cost Index	2Q		0.6%		0.7%	12.30	22.30
CA	GDP MoM/YoY	May		0.00%		-0.10%	12.30	22.30
US	ISM Milwaukee	Jul				46.55	13.00	23.00
US	Chicago Purchasing Manager	Jul		50.5		49.4	13.45	23.45
US	UoM Consumer Sentiment	Jul F		94		93.3	14.00	0.00
<b>Saturday, 1 August 2015</b>								
CH	Manufacturing PMI	Jul				50.2	1.00	11.00
CH	Non-manufacturing PMI	Jul				53.8	1.00	11.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
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%		
New Zealand	RBNZ	10-Sep	2.75%			3.00%		
Canada	BoC	10-Sep				0.50%		

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

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