



Markets Today

A daily outlook for Australia, key global economies and markets

6 August 2015

Walking on Sunshine

They say you're only as good as your last trade. That may be so, but the last (and some would say only) good trade from 1980s Anglo-American pop band Katrina and the Waves - Walking on Sunshine - is 30 years old this year and the rights to the song were sold to Bertelsmann last night for a cool £10mn. The song still generates over £1mn. a year in royalties and endorsements.

On the subject of one hit wonders, it was the US non-manufacturing ISM that inspired almost all of last night's price action. Following on from Dennis (the Menace) Lockhart's comments on Tuesday night that the onus was on the data to prevent the Fed from lifting rates in September, last night's report fell squarely into the category of incoming data releases that argues strongly in favour of September 'lift-off'. The headline reading of 60.3 (up to 56.0 in June) punched the lights out relative to the 56.2 expected. Detail are equally impressive with new orders rising to 63.8 from 58.3, business activity to 64.9 from 61.5, prices paid to 53.7 from 53.0 and employment particularly strong, lifting to 59.6 from 52.0.

Remembering that services makes up 80% of the US economy, this employment sub-series is far more relevant than its manufacturing ISM equivalent as a guide to Friday's non-farm payrolls report. And much more so than the widely discredited ADP employment report and where the disappointing July print of 185k has limited information value regarding the risk to the current consensus for tomorrow's payrolls print of +225k.

We also had the June US trade numbers last night but where the \$43.0bn deficit is close to what was assumed in last week's Q2 GDP estimate and so has limited implications for revisions (other data since the GDP report is however pointing to an upward revision to the 2.3% Advance reading).

Earlier, final Eurozone services PMIs came in little changed from the 'flash' estimates, while the (first and only) UK services reading slipped to 57.4 from 58.4, beneath the 58.0 expected. This didn't prevent The British Pound from being the second best performing G10 currency overnight (GBP/USD +0.25%) in front of today's trifecta of BoE policy meeting outcome, Minutes and Inflation Report (see 'Coming Up'). The worse performing currencies have been the NZD, JPY and AUD. Commodities generally remain pressured, while the Fed policy connotations of the US ISM report helped lift USD/JPY above its recent ¥124.58 high to briefly pierce ¥125 for the first time since 8 June.

Coming Up

Locally, the Labour Force Survey holds sway this morning. NAB expects the July release to continue its recent trends. The market consensus is for employment to increase by +10k m/m, and NAB expects a slightly softer employment

reading of +5k. With employment growth expected to be slightly below the level needed to hold the unemployment rate steady and with the unemployment rate already close to a rounding barrier, markets are expecting the unemployment rate to tick-up slightly to 6.1%.

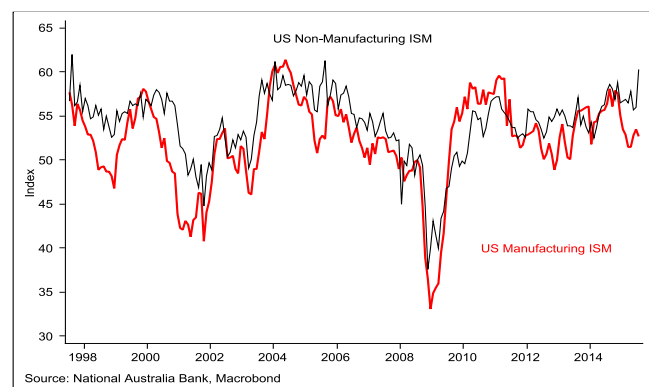
As for likely market reaction, my colleague Emma Lawson, in a forthcoming research note, observes that the labour market report consistently features as a top five data economic release for absolute daily AUD and interest rate reactions. We can typically expect a 20k miss from expectations, and AUD is biased to move sharply on such a miss. With market estimates biased to the upside, AUD/USD having just come off its lows and a market that is still short AUD, we would expect to see a higher AUD, and likely higher yields too, from a better than expected outcome, than much lower AUD/yields on a weaker than expected result. This is caveated by the fact the data comes before Friday's payrolls that has the tendency to mute responses heading into the US trading day.

Offshore this evening, the Bank of England has the unenviable – but self-inflicted – task of simultaneously publishing the outcome of its latest policy deliberation alongside the minutes of the meeting (with voting record) and too the quarterly inflation report. What could possibly go wrong? For all that, the UK interest rate markets and GBP will likely turn sharply on whether we see the first dissents against unchanged policy. Risk is that one or more MPC members are seen to have voted for a rate rise.

Overnight

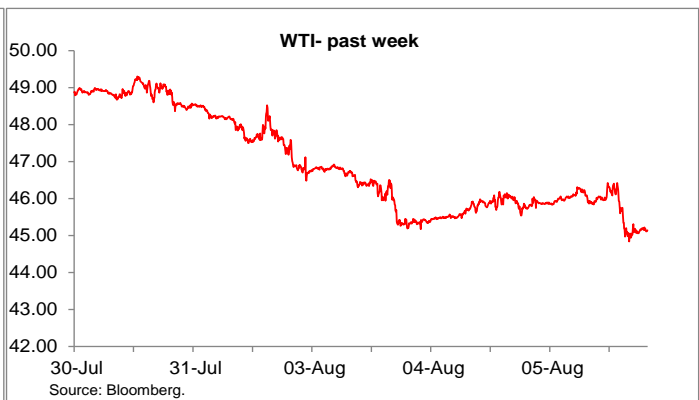
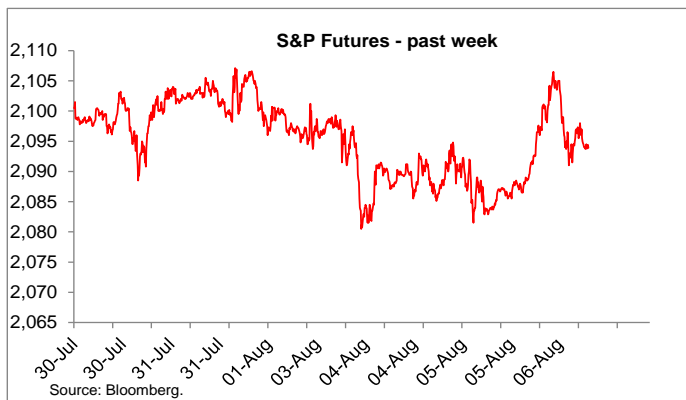
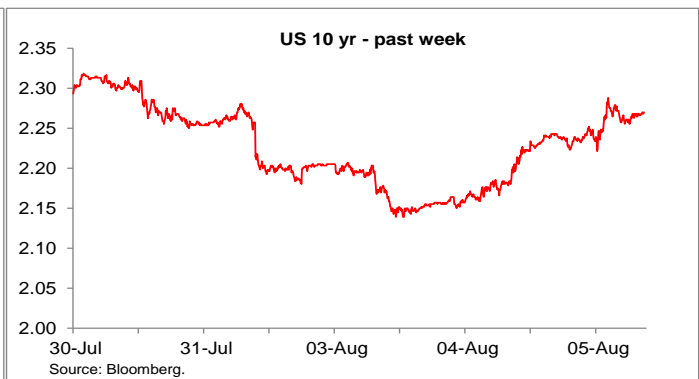
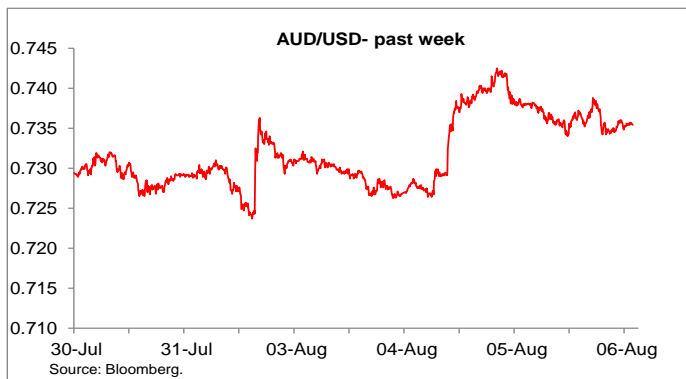
On global stock markets, the S&P 500 was +0.30%. Bond markets saw US 10-years +4.86bp to 2.27%. On commodity markets, Brent crude oil -0.74% to \$49.62, gold-0.5% to \$1,086, iron ore +2.7% to \$56.78. AUD is at 0.7356 and the range was 0.7334 to 0.7396.

Chart of the Day – US ISMs



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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>0.7356</td> <td>-0.3</td> <td>0.7334</td> <td>0.7396</td> <td>HKD</td> <td>7.7517</td> <td>0.0</td> </tr> <tr> <td>NZD</td> <td>0.6511</td> <td>-0.4</td> <td>0.6491</td> <td>0.6565</td> <td>CNY</td> <td>6.2097</td> <td>0.0</td> </tr> <tr> <td>EUR</td> <td>1.0906</td> <td>0.2</td> <td>1.0848</td> <td>1.0934</td> <td>SGD</td> <td>1.3844</td> <td>0.2</td> </tr> <tr> <td>GBP</td> <td>1.5603</td> <td>0.3</td> <td>1.5526</td> <td>1.5651</td> <td>IDR</td> <td>13,515</td> <td>0.3</td> </tr> <tr> <td>JPY</td> <td>124.86</td> <td>0.4</td> <td>124.02</td> <td>125.01</td> <td>THB</td> <td>35.17</td> <td>0.2</td> </tr> <tr> <td>CAD</td> <td>1.3180</td> <td>-0.1</td> <td>1.3110</td> <td>1.3213</td> <td>KRW</td> <td>1,174</td> <td>0.7</td> </tr> <tr> <td>AUD/EUR</td> <td>0.6745</td> <td>-0.5</td> <td></td> <td></td> <td>TWD</td> <td>31.69</td> <td>0.4</td> </tr> <tr> <td>AUD/JPY</td> <td>91.85</td> <td>0.1</td> <td></td> <td></td> <td>PHP</td> <td>45.75</td> <td>0.3</td> </tr> <tr> <td>AUD/GBP</td> <td>0.4714</td> <td>-0.6</td> <td></td> <td></td> <td>CHF</td> <td>0.98</td> <td>0.1</td> </tr> <tr> <td>AUD/NZD</td> <td>1.1295</td> <td>0.1</td> <td></td> <td></td> <td>SEK</td> <td>8.70</td> <td>-0.1</td> </tr> </table>							Indicative 24hr ranges (**)				Other FX		Last	% chge	Low	High	Last	% chge	AUD	0.7356	-0.3	0.7334	0.7396	HKD	7.7517	0.0	NZD	0.6511	-0.4	0.6491	0.6565	CNY	6.2097	0.0	EUR	1.0906	0.2	1.0848	1.0934	SGD	1.3844	0.2	GBP	1.5603	0.3	1.5526	1.5651	IDR	13,515	0.3	JPY	124.86	0.4	124.02	125.01	THB	35.17	0.2	CAD	1.3180	-0.1	1.3110	1.3213	KRW	1,174	0.7	AUD/EUR	0.6745	-0.5			TWD	31.69	0.4	AUD/JPY	91.85	0.1			PHP	45.75	0.3	AUD/GBP	0.4714	-0.6			CHF	0.98	0.1	AUD/NZD	1.1295	0.1			SEK	8.70	-0.1
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 | Major Indices | | | | |---------------|--------|-------|-------| | | Last | % day | % y/y | | Dow | 17,540 | -0.1 | 6.8 | | S&P 500 | 2,100 | +0.3 | 9.4 | | Nasdaq | 5,140 | +0.7 | 18.1 | | FTSE | 6,752 | +1 | 1.0 | | DAX | 11,636 | +1.6 | 26.6 | | CAC 40 | 5,197 | +0.2 | 22.8 | | Nikkei | 20,614 | +0.5 | 36.0 | | Shanghai | 3,695 | -1.6 | 66.6 | | Hang Seng | 24,514 | +0.4 | -0.3 | | ASX 200 | 5,674 | -0.4 | 2.9 | | | | | | | Last | % day | |-------------|---------|-------| | Oil (Brent) | 49.62 | -0.7 | | Oil (WTI) | 45.10 | -1.4 | | Oil (Tapis) | 51.80 | -0.1 | | Gold | 1085.70 | -0.5 | | CRB | 199.78 | -0.5 | | GS Metals | 274.7 | -1.1 | | Aluminium | 1566 | -1.4 | | Copper | 5172 | -1.1 | | Nickel | 10820 | 0.3 | | Zinc | 1884 | -1.4 | | Ch. steel | 2088 | -0.2 | | Iron ore | 56.8 | 2.7 | | Coal | 60.0 | 1.4 | | Wheat Chic. | 507.3 | 1.4 | | Sugar | 10.76 | -2.3 | | Cotton | 64.75 | -0.2 | | Coffee | 125.9 | 0.8 | | | || | Interest Rates | | | | | Benchmark 10 Year Bonds | | | |----------------|-----------------------|------|------|------|-------------------------|------|------| | | Indicative Swap Rates | | | | Last | chge | Sprd | | | Cash | 3mth | 2Yr | 10Yr | | | | | USD | 0.25 | 0.30 | 0.97 | 2.36 | USD 10 | 2.27 | 0.05 | | AUD | 2.00 | 2.14 | 2.15 | 3.20 | AUD 10 | 2.80 | 0.07 | | NZD | 3.00 | 3.04 | 2.88 | 3.68 | NZD 10 | 3.33 | 0.01 | | EUR | 0.05 | 0.06 | 0.10 | 1.09 | CAD 10 | 1.47 | 0.04 | | GBP | 0.50 | 0.59 | 1.16 | 2.10 | EUR 10 | 0.75 | 0.12 | | JPY | 0.10 | 0.10 | 0.14 | 0.58 | GBP 10 | 1.98 | 0.10 | | CAD | 0.50 | 1.17 | 0.75 | 1.97 | JPY 10 | 0.40 | 0.01 | | | | | | | | Overnight Futures | | | |-------------------|-------|-------| | | Last | Chge | | Australia | | | | 3 mth bill | 97.87 | -0.01 | | 3 Yr bond | 98 | -0.01 | | 10 Yr bonc | 97.13 | -0.05 | | 3/10 sprd | 0.87 | 0.04 | | SPI | 14.0 | 0.2 | | | | | CO ₂ Emissions - Euros | | | |-----------------------------------|------|-------| | | Last | % day | | Jun-2015 | 7.87 | -0.9 | | Dec-2015 | 7.84 | -0.9 | | Dec-2016 | 7.92 | -1.0 | | | |

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
Wednesday, 5 August 2015							
NZ	Unemployment Rate	2Q	5.90%	5.90%		5.8%	22.45
NZ	Employment Change QoQ/YoY	2Q	0.60%	0.50%		0.7%/3.2%	22.45
NZ	Pvt Wages Inc Overtime QoQ	2Q	0.50%	0.50%		0.3%	22.45
AU	AiG Perf of Services Index	Jul				51.2	23.30
JN	Nikkei Japan PMI Services	Jul				51.8	1.35
CH	Caixin China PMI Services/Composite	Jul				51.8/50.6	1.45
EC	Markit Eurozone Services/Composite PMI	Jul F		53.8/53.7		53.8/53.7	8.00
UK	Markit/CIPS UK Services PMI	Jul		58		58.5	8.30
EC	Retail Sales MoM/YoY	Jun		-0.2%/ ..		0.2%/2.4%	9.00
US	ADP Employment Change	Jul		210K		237K	12.15
CA	Int'l Merchandise Trade	Jun				-3.34B	12.30
US	Trade Balance	Jun		-\$42.2B		-\$41.87B	12.30
US	Markit US Services PMI	Jul F		55.2		55.2	13.45
US	ISM Non-Manf. Composite	Jul		56.3		56	14.00
Thursday, 6 August 2015							
AU	Employment Change	Jul	+5K	+10K		7.3K	1.30
AU	Unemployment Rate	Jul	6.1%	6.1%		6.0%	1.30
AU	Participation Rate	Jul	64.8%	64.8%		64.8%	1.30
JN	Leading Index CI	Jun P		106.8		106.2	5.00
GE	Factory Orders MoM/YoY	Jun		0.1%/4.9%		-0.2%/4.7%	6.00
UK	Industrial Production MoM/YoY	Jun		0.1%/2.2%		0.4%/2.1%	8.30
UK	Bank of England Bank Rate	Aug-06		0.5%		0.5%	11.00
UK	Bank of England Inflation Report						11.00
US	Challenger Job Cuts YoY	Jul				42.7%	11.30
US	Initial Jobless Claims	Aug-01				267K	12.30
UK	NIESR GDP Estimate	Jul				0.7%	14.00
Friday, 7 August 2015							
NZ	Fonterra Milk Price Forecast Update (2015/16)						
AU	AiG Perf of Construction Index	Jul				46.4	23.30
AU	RBA Statement on Monetary Policy						1.30
AU	Home Loans MoM	Jun	5%	5%		-6.1%	1.30
AU	Investment Lending	Jun				-3.2%	1.30
JN	BoJ Policy Statement/Kuroda Press Conference						3.00
GE	Industrial Production SA MoM	Jun		0.3%/2.1%		0%/2.1%	6.00
GE	Current account balance	Jun		16.0B		11.1B	6.00
UK	Trade Balance	Jun		-£1650		-£393	8.30
US	Change in Nonfarm Payrolls/Unemployment	Jul		225K/5.3%		223K/5.3%	12.30
US	Average Hourly Earnings MoM/YoY	Jul		0.2%/2.3%		0.0%/2.0%	12.30
CA	Unemployment Rate	Jul				6.8%	12.30
CA	Building Permits MoM	Jun				-14.5%	12.30
CA	Ivey Purchasing Managers Index SA	Jul				55.9	14.00
US	Consumer Credit	Jun		\$17.000B		\$16.086B	19.00
Saturday, 8 August 2015							
CH	Trade Balance	Jul				\$46.54B	14.00
CH	Imports/Exports YoY	Jul				-6.1%/2.8%	14.00
CH	Exports/Imports YoY CNY	Jul				2.1%/-6.7%	14.00
CH	Trade Balance CNY	Jul				284.20B	14.00
Sunday, 9 August 2015							
CH	CPI YoY	Jul				1.4%	1.30
CH	PPI YoY	Jul				-4.8%	1.30
Upcoming Central Bank Interest Rate Announcements							
Australia, RBA		1-Sep	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%	
US Federal Reserve		18-Sep				0-0.25%	

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

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