



# Markets Today

A daily outlook for Australia, key global economies and markets

7 August 2015

## Behind in a two horse race

Interest overnight in what the BoE Governor had to say after their meeting and how "hawkish" he might be, focus of course also in their forecasts in the latest quarterly Inflation Report. Was it more or less likely they would get over the line with lift-off before the Fed? Not if last night was an indication. The Committee voted 8-1 to keep rates unchanged, more dovish than the consensus tipping 7-2 and several analysts expecting 6-3. Couple that barely split vote with comments from Carney noting that the Old Lady was looking at the impact of sterling on inflation and it was the catalyst that took threw a dose of cold water on rate lift-off expectations and sterling. Two year gilts eased 4.3 bps to 0.607% while sterling dropped a big figure from over 1.56 to below 1.55 before steadying just above 1.55.

Sterling under-performed in a night when large currency moves were noticeably absent, losing some grip in the wake of the BOE announcement on "Super Thursday", the Bank releasing the voting, the Minutes and the Inflation report. Sterling is still 6% higher in trade-weighted terms so far this year.

There was no compelling data out of the US, weekly jobless claims almost bang on last week's and expectations for little change ahead of payrolls tonight.

We did see though evidence that the weaker Euro looks to be supporting European industry, Germany factory orders up a perky 2.0%/7.2% in June, supported by non-Eurozone orders.

The AUD has been trading within its recent ranges, aside from the immediate confusion after yesterday's twin spike in employment and the unemployment rate, confusing interpretation and initial market reaction.

## Coming up today/tonight

AiG PCI Construction Index for July completes the PMIs for this week, both so far above 50. We'll see whether the residential investment upturn is sufficient to offset the resources construction wind down. Not so far in this index; it was 46.4 in June.

Then it's pretty much all about the RBA's Statement on Monetary Policy at 11.30 with its general statements and outlook for local economies. We will be paying particular close attention to the and, of course immediate market attention on any changes to its growth forecasts, primarily as a result of RBA Governor re-thinking recently whether potential growth is now low on account of a decline in population growth. Look for the out-year's growth rate range to be shaved maybe a ¼% at top and the bottom, recognising this. Also expect some validation that lower potential growth as the reason why unemployment has been tracking lower than they'd expected, yesterday's figures notwithstanding. Their discussion of the tempo of the non-resource economy will also be of interest and we are always interested in their special "box" mini-studies, potential candidates this time being trend growth and the mining/non-mining growth divergence.

For housing finance, we look for a 5% rebound after last month's 6.1% decline in headline owner-occupied approval numbers. There's likely keener interest in investment lending approvals

and these will take on extra significance from the Aug/Sep numbers (today's are June's) after recent rises in investment lending rates/ loan restrictions.

For NZ\$ watchers, Fonterra is expected this afternoon to release its 2015/16 milk price forecast update after its board meeting today. Current conditions suggest well below the current \$5.25 figure. Our BNZ colleagues suggest the milk price at season's end will be in the vicinity of \$3.80.

Then it's payrolls tonight with the market centred on a 225K gain (L: +223K), also an unchanged unemployment rate (5.3%) with focus of course on any signs of rising wage inflation with 0.2/2.3% tipped, though last month, earnings were flat. Canada's labour market report is also due while in Europe, German industrial production is out as is UK trade data.

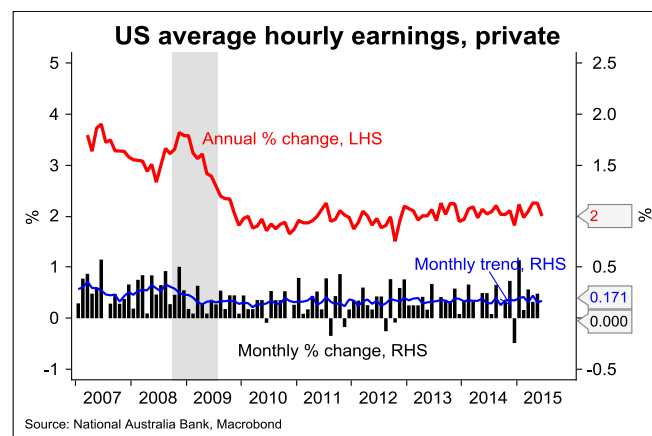
## Overnight

- Sterling on the defensive: Eurostoxx 600 -0.8%, Dax -0.4%, CAC -0.1%, FTSE -0.1%. Dow -121 points to 17,420, -0.7%, S&P 500 -0.7%, Nasdaq -0.8%, VIX 13.77 +10.1%. Mumbai -0.9%, Nikkei 225 -1.6% and ASX 200 -1.1%; ASX SPI futures this morning -0.7%. US bond yields: 2s at 0.70% (-3), 10s at 2.22% (-5). WTI oil at \$44.80 (-0.8%), Brent at \$49.72 (+0.3%), Malaysian Tapis (yesterday) \$51.54 (-0.5%). Gold at \$1088.70/oz (+0.3%). Base metals: LME copper +0.1%, nickel -0.1%, aluminium -0.2%. Iron ore \$56.4/t -0.7%. Chinese steel rebar futures -1.1%. Soft commodities spot futures: wheat +0.8%, sugar -0.6%, cotton -2.0%, coffee -1.3%. Euro Dec 14 CO2 emissions at €7.85/t (0.1%). The AUD/USD's range overnight 0.7315-0.7352; indicative range today 0.7225-0.7380; the AUD/USD is 0.7346 now**
- UK Industrial production (Jun) -0.4%/1.5% (L: 0.4%/2.1%; E: 0.1/2.2%); manufacturing production though was slightly better than expectation**
- US Jobless claims (w/e) 270K (L: 267K; E: 272K)**

Good luck.

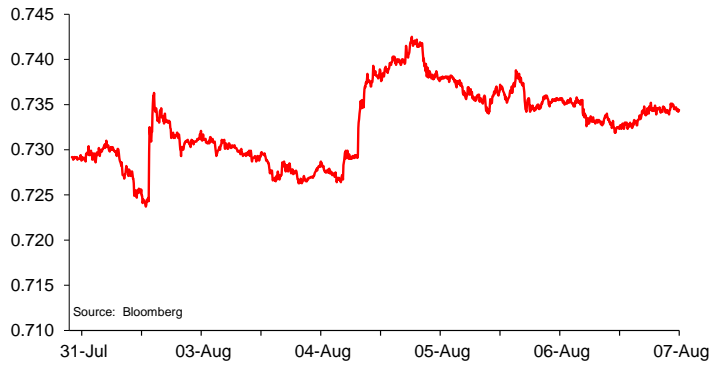
David.deGaris@nab.com.au

## Chart of the day: Any sign of wage inflation?

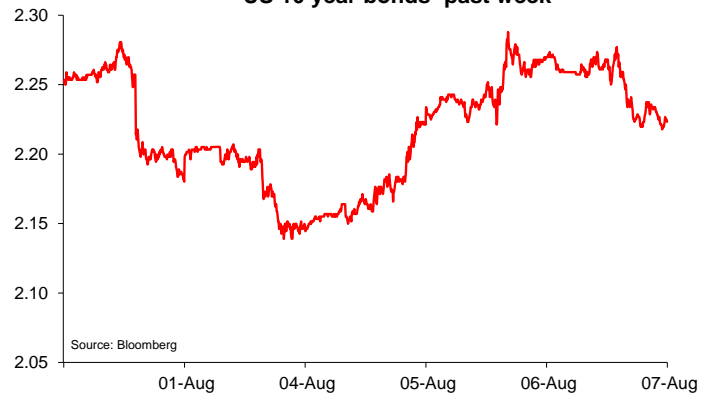


Markets

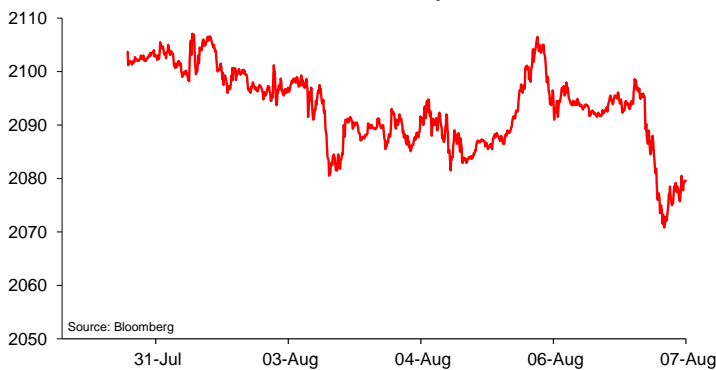
AUD/USD- past week



US 10 year bonds- past week



S&P 500 futures- past week



WTI futures- past week



Foreign Exchange

Indicative 24hr ranges (**)				Other FX		
	Last	% chge	Low	High	Last	% chge
AUD	0.7348	-0.1	0.7315	0.7393	HKD	7.7513 0.0
NZD	0.6554	0.3	0.6524	0.6559	CNY	6.2105 0.0
EUR	1.0924	0.2	1.0873	1.0937	SGD	1.3837 -0.2
GBP	1.5512	-0.5	1.5467	1.5606	IDR	13,504 -0.2
JPY	124.73	-0.1	124.54	124.97	THB	35.11 -0.2
CAD	1.3109	-0.5	1.3093	1.3198	KRW	1,164 -0.3
AUD/EUR	0.6726	0.1			TWD	31.62 -0.1
AUD/JPY	91.65	0.2			PHP	45.76 -0.1
AUD/GBP	0.4736	0.8			CHF	0.98 -0.1
AUD/NZD	1.1211	0.0			SEK	8.75 0.0

Equities

Major Indices			
	Last	% day	% year
Dow	17,420	-0.7	5.9
S&P 500	2,084	-0.8	8.5
Nasdaq	5,056	-1.6	16.1
VIX Index	13.77	10.1	-15.9
FTSE	6,747	-0.1	1.7
DAX	11,585	-0.4	26.9
CAC 40	5,192	-0.1	23.4
Nikkei	20,664	0.2	35.7
Shanghai	3,662	-0.9	67.4
Hang Seng	24,375	-0.6	-0.1
ASX200	5,610	-1.1	1.8

Commodities\*

	Last	% day
Oil (Brent)	49.70	0.2
Oil (WTI)	44.79	-0.8
Oil (Tapis)	51.54	-0.5
Gold	1088.70	0.3
CRB	198.54	-0.6
GS Metals	274.1	-0.2
Aluminium	1593	-0.2
Copper	5185	0.1
Nickel	10850	-0.1
Zinc	1867	-1.4
Ch. steel	2059	-1.1
Iron ore	56.4	-0.7
St. coal	61.8	n.a.
Wheat Chic.	511.3	0.8
Sugar	10.70	-0.6
Cotton	62.26	-2.0
Coffee	124.3	-1.3

Interest Rates

Indicative Swap Rates				Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.25	0.31	0.96	2.31	USD 10	2.22	-0.05
AUD	2.00	2.15	2.13	3.17	AUD 10	2.82	0.02 0.60
NZD	3.00	3.03	2.89	3.68	NZD 10	3.38	0.00 1.15
EUR	0.05	0.06	0.10	1.04	CAD 10	1.45	-0.02 -0.77
GBP	0.50	0.59	1.14	2.07	EUR 10	0.71	-0.05 -1.51
JPY	0.10	0.10	0.14	0.59	GBP 10	1.92	-0.05 -0.30
CAD	0.50	1.17	0.75	1.96	JPY 10	0.43	0.03 -1.80

Overnight Futures

	Last	Chge
<b>Australia</b>		
3 mth bill	97.88	0.00
3 Yr bond	98.03	0.01
10 Yr bond	97.16	0.03
3/10 sprd	0.87	-0.02
SPI	-37.0	-0.7

CO2 Emissions - Euros

	Last	% day
Dec-2015	7.85	0.1
Dec-2016	7.93	0.1
Dec-2017	8.05	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
<b>Friday, 7 August 2015</b>								
NZ	Fonterra Milk Price Forecast Update (2015/16)							
AU	AiG Perf of Construction Index	Jul				46.4	23.30	9.30
AU	RBA Statement on Monetary Policy						1.30	11.30
AU	Home Loans MoM	Jun	5%	5%		-6.1%	1.30	11.30
AU	Investment Lending	Jun				-3.2%	1.30	11.30
JN	BoJ Policy Statement/Kuroda Press Conference						3.00	13.00
GE	Industrial Production SA MoM	Jun		0.3%/2.1%		0%/2.1%	6.00	16.00
GE	Current account balance	Jun		16.0B		11.1B	6.00	16.00
UK	Trade Balance	Jun		-£1650		-£393	8.30	18.30
US	Change in Nonfarm Payrolls/Unemployment	Jul		225K/5.3%		223K5.3%	12.30	22.30
US	Average Hourly Earnings MoM/YoY	Jul		0.2%/2.3%		0.0%/2.0%	12.30	22.30
CA	Unemployment Rate	Jul				6.8%	12.30	22.30
CA	Building Permits MoM	Jun				-14.5%	12.30	22.30
CA	Ivey Purchasing Managers Index SA	Jul				55.9	14.00	0.00
US	Consumer Credit	Jun		\$17.000B		\$16.086B	19.00	5.00
<b>Saturday, 8 August 2015</b>								
CH	Trade Balance	Jul				-\$46.54B	14.00	0.00
CH	Imports/Exports YoY	Jul				-6.1%/2.8%	14.00	0.00
CH	Exports/Imports YoY CNY	Jul				2.1%/-6.7%	14.00	0.00
CH	Trade Balance CNY	Jul				284.20B	14.00	0.00
<b>Sunday, 9 August 2015</b>								
CH	CPI YoY	Jul				1.4%	1.30	11.30
CH	PPI YoY	Jul				-4.8%	1.30	11.30
<b>Monday, 10 August 2015</b>								
JN	BoP Current Account Adjusted	Jun				¥1636.3B	23.50	9.50
JN	Consumer Confidence Index	Jul				41.7	5.00	15.00
AU	Foreign Reserves	Jul				A\$67.3B	6.30	16.30
JN	Eco Watchers Survey Current	Jul				51	14.00	0.00
JN	Eco Watchers Survey Outlook	Jul				53.5	14.00	0.00
US	MBA Mortgage Foreclosures	2Q				2.2%	14.00	0.00
US	Mortgage Delinquencies	2Q				5.5%	14.00	0.00
JN	Machine Tool Orders YoY	Jul P				6.6%	14.00	0.00
NZ	REINZ House Sales YoY	Jul				29.2%	14.00	0.00
CH	New Yuan Loans CNY	Jul				1279.1B	14.00	0.00
CH	Aggregate Financing CNY	Jul				1860.0B	14.00	0.00
CA	Bloomberg Nanos Confidence	Aug-07					14.00	0.00
US	Labor Market Conditions Index Change	Jul				0.8	14.00	0.00
US	Fed's Lockhart Speaks to the Atlanta Press Club						16.25	2.25
<b>Upcoming Central Bank Interest Rate Announcements</b>								
UK	BOE	6-Aug				0.50%		
Japan	BoJ	7-Aug	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
Australia	RBA	1-Sep	2.00%	2.00%		2.00%		
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

## 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 lure  
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

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