

Limbo Rock – how low will inflation be?

[Limbo Rock](#) is the less famous (and in your scribe's opinion underrated) hit song by Chubby Checker. No surprises for its inclusion today, with Aussie CPI out at 11.30am and key to the RBA August Board meeting next week. But first to overnight developments.

A mostly quiet night with no top-tier data, with the exception being the currency markets where most of the action occurred in the Asian time zone. The Yen ranks number one on the G10 leader board, surging 1.1% as markets gyrate on the magnitude of the yet to be unveiled Japanese fiscal and monetary stimulus. Leaks from the papers were disappointing for those looking for a coordinated bazooka — the Nikkei times reported a figure of around ¥6 trillion, while Finance Minister Aso also said monetary policy measures should be left to the BoJ — while Kyodo News indicated all will be unveiled Tuesday. The end result was Japanese equities closed 1.4% lower, while the currency rose.

The Aussie and Kiwi were also higher, with the AUD/USD ending 0.5% higher and the NZD/USD up 0.8%. The Kiwi popped higher supported by solid trade data. For the AUD, there is no clear catalyst, with the Aussie likely being dragged higher, as well as some rumours of squaring up of positions ahead of today's CPI.

Major equity markets traded in small ranges except for the Nikkei (see above). The S&P500 ended the day unchanged, while the Euro Stoxx rose 0.2%. Profit reporting season was mixed and Apple has just reported better than expected figures as this gets sent out, but markets seem more focused on today's US Fed meeting decision. There was also a handful of US data releases coming in above expectations (New Home Sales +592k and Consumer Confidence 97.3 v expectations of 96.0).

Bond markets were also fairly muted, with US Treasury yields down 1.2 bps to 1.6%, while German Bunds were slightly higher up 1.4 bps to 0.0%. In the commodities space, the main story remains oil which on the WTI measure fell 0.6% to US\$42.88. The main themes there continue with uncertainty over refinery demand with gasoline stockpiles expected to be higher.

Coming Up

Markets will be focused on three events today. The Aussie CPI, followed overnight by UK Q2 GDP and the post meeting statement from the US Fed (4.00am Thursday AEST).

First up Aussie CPI. There's no doubt that today's outcome

will be the key factor behind whether the RBA cuts rates at the August RBA Board meeting. The market is currently pricing around a 63% chance the RBA cuts rates next week, and the consensus CPI outcome for today is 0.4% q/q for both headline and underlying.

NAB's modelling of prices and tracking of goods and services indicates a slighter higher than consensus read that points to a close but on hold outcome as far as next week's RBA meeting is concerned. We expect a headline inflation print of 0.7% q/q, resulting in an annual inflation rate of 1.4% buoyed this quarter by increases in petrol prices, and in fruit and vegetable prices. As for the underlying inflation rate, NAB expects that to average 0.5% q/q. NAB reads the RBA's May forecast track for underlying inflation as an outcome of 0.4% q/q, so an outcome of around ½% would be a comfortable enough reading for the central bank.

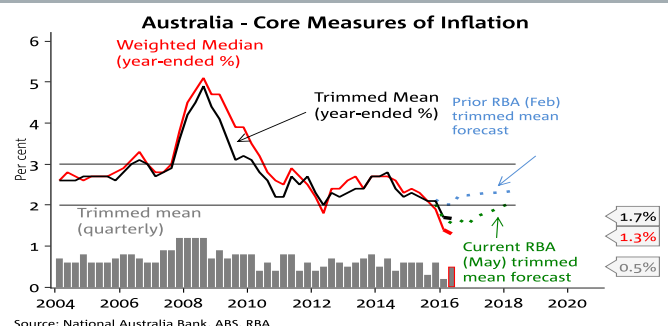
The US Fed meeting announcement tonight will be the other major focus for markets today. While the Fed is likely to keep rates unchanged, the post meeting statement will be closely scrutinised to see whether the Fed is edging towards a rate hike at upcoming meetings given recent Fed commentary. Many of the ambiguities that the Fed cited in the June FOMC Minutes — the labour market and Brexit — have cleared following the stellar June payrolls print and limited spillovers from the Brexit vote on financial markets. Ahead of the meeting, the market prices around 14bps of Fed hikes by year-end.

Finally, UK Q2 GDP is out tonight. While it mostly predates the Brexit vote (it took place 23 June), it is still worth watching to judge the pace of activity pre-Brexit.

Overnight

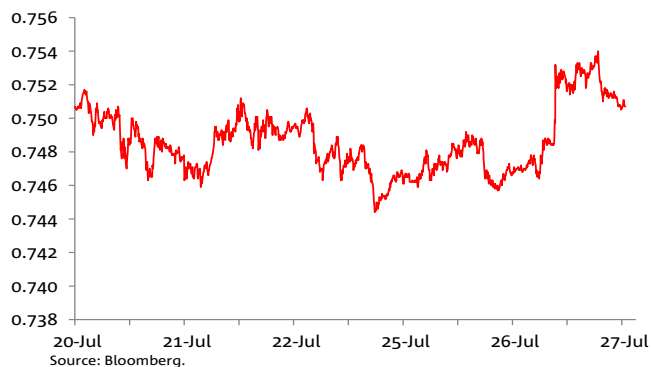
On global stock markets, the S&P 500 was -0.02%. Bond markets saw US 10-years -1.20bp to 1.56%. In commodities, Brent crude oil +0.27% to \$44.84, gold+0.1% to \$1,320, iron ore +2.1% to \$58.08. AUD is at 0.7507 and the range since yesterday 5pm Sydney time is 0.7505 to 0.754.

Chart of the day: It's all about Aussie CPI – on target or off?

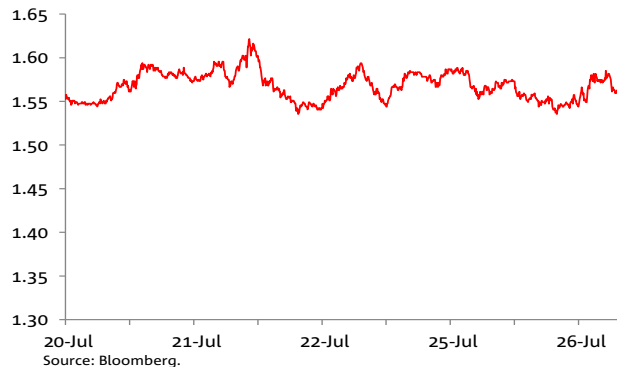


Markets

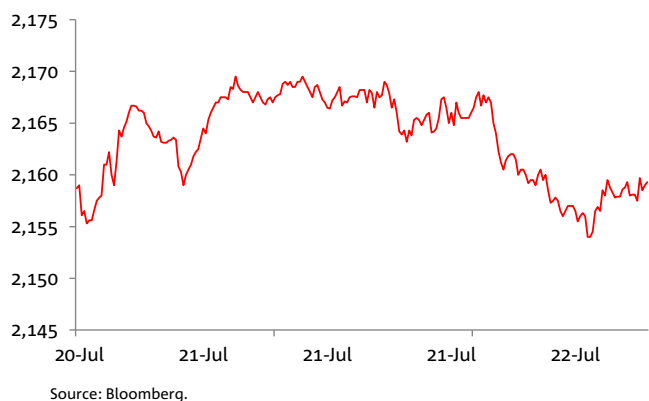
AUD/USD - past week



US 10 yr - past week



S&P Futures - past week



WTI - past week



Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7507	0.5	0.7463	0.7540	HKD	7.7575 0.0
NZD	0.7050	0.8	0.6984	0.7086	CNY	6.6720 -0.1
EUR	1.0988	-0.1	1.0978	1.1030	SGD	1.3587 -0.3
GBP	1.3134	0.0	1.3058	1.3176	IDR	13,175 0.3
JPY	104.63	-1.1	103.99	105.89	THB	34.98 -0.2
CAD	1.3186	-0.2	1.3176	1.3244	KRW	1,135 -0.2
AUD/EUR	0.6831	0.6	0.6791	0.6857	TWD	32.10 -0.2
AUD/JPY	78.54	-0.6	78.16	79.14	PHP	47.16 0.0
AUD/GBP	0.5716	0.5	0.5682	0.5757	CHF	0.99 0.6
AUD/NZD	1.0648	-0.3	1.0634	1.0699	SEK	8.66 0.2
AUD/CNH	5.0156	0.7	4.9904	5.0115		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.50	0.73	0.97	1.46	USD 10	1.56	-1.20
AUD	1.75	1.87	1.76	2.19	AUD 10	1.92	0.80 0.36
NZD	N/A	N/A	2.28	2.46	NZD 10	2.22	-0.20 0.66
EUR	0.00	-0.30	-0.21	0.35	CAD 10	1.12	1.00 -0.44
GBP	0.50	0.52	0.50	0.90	EUR 10	-0.03	1.40 -1.59
JPY	-0.03	-0.03	-0.16	-0.06	GBP 10	0.82	1.20 -0.74
CAD	0.50	0.89	0.95	1.36	JPY 10	-0.25	-0.50 -1.81

Equities

Major Indices

	Last	% day	% y/y
Dow	18,465	-0.2	5.1
S&P 500	2,168	0.0	4.3
Nasdaq	5,108	0.2	0.4
VIX	13	1.4	-5.1
FTSE	6,724	0.2	2.2
DAX	10,248	0.5	-9.7
CAC 40	4,395	0.2	-13.1
Nikkei	16,383	-1.4	-19.5
Shanghai	3,050	1.1	-18.1
Hang Seng	22,130	0.6	-9.1
ASX 200	5,537	0.1	-0.9

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.15	-2.00
3 Yr bond	97.8	3.00
10 Yr bond	98.04	-5.00
3/10 sprd	-0.23	8.00
SPI	5502.0	-19.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	44.84	0.3
Oil (WTI)	42.88	-0.6
Oil (Tapis)	43.73	-1.6
Gold	1320.30	0.1
CRB	181.22	-0.1
GS Metals	274.8	-0.2
Aluminium	1582.0	-0.8
Copper	4921.5	0.6
Nickel	10318.5	-1.2
Zinc	2227.8	-0.9
Ch. steel	2404.0	3.1
Iron ore	58.1	2.1
Coal	61.1	-0.3
Wheat Chic.	442.0	-3.1
Sugar	19.5	-1.9
Cotton	73.6	2.1
Coffee	141.6	0.4

CO₂ Emissions - Euros

	Last	% day
Dec-2016	4.51	-1.7
Jun-2017	4.52	-2.0
Dec-2017	4.54	-1.7

* clsd = market holiday

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	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Wednesday, 27 July 2016								
CH	Industrial Profits YoY	Jun				3.7	1.30	11.30
AU	CPI QoQ/YoY	2Q	0.7/1.4	0.4/1.1		-0.2/1.3	1.30	11.30
AU	CPI Trimmed Mean QoQ/YoY	2Q	0.5/1.7	0.4/1.5		0.2/1.7	1.30	11.30
AU	CPI Weighted Median QoQ/YoY	2Q	0.4/1.3	0.4/1.3		0.1/1.4	1.30	11.30
CH	Westpac-MNI Consumer Sentiment	Jul				115.9	1.45	11.45
JN	Small Business Confidence	Jul				46.5	5.00	15.00
GE	GfK Consumer Confidence	Aug		9.9		10.1	6.00	16.00
EC	M3 Money Supply YoY	Jun		5		4.9	8.00	18.00
UK	GDP QoQ/YoY	2Q A		0.5/2.1		0.4/2.0	8.30	18.30
UK	Index of Services MoM/3M/3M	May		0.1/0.3		0.6/0.5	8.30	18.30
UK	CBI Retailing Reported Sales/Total Dist. Sales	Jul		1/		4.0/14.0	10.00	20.00
US	Durable Goods Orders	Jun P		-1.4		-2.3	12.30	22.30
US	Cap Goods Core Orders/Shipments	Jun P		0.2/0.4		-0.4/-0.5	12.30	22.30
US	Pending Home Sales MoM/YoY	Jun		1.2/3		-3.7/2.4	14.00	0.00
US	FOMC Rate Decision (Lower/Upper Bound)	Jul 27		0.25		0.3	18.00	4.00
Thursday, 28 July 2016								
AU	Export/Import Price Index QoQ	2Q	1.3/3.2	3/1.5		-4.7/-3.0	1.30	11.30
AU	NAB SME Business Survey	2Q					1.30	11.30
GE	Unemployment Change ('000's)	Jul		-4		-6.0	7.55	17.55
EC	Business Climate Indicator	Jul		0.17		0.2	9.00	19.00
GE	CPI EU Harmonized MoM/YoY	Jul P		0.3/0.3		0.1/0.2	12.00	22.00
US	Advance Goods Trade Balance	Jun		-61		-60.6	12.30	22.30
US	New U.S. Census Bureau Report on Advance Economic Indicators	Jul 23		260.5		253.0	12.30	22.30
US	Initial Jobless Claims	Jul 23				42.9	13.45	23.45
US	Bloomberg Consumer Comfort	Jul 24				42.9	13.45	23.45
UK	Nationwide House PX MoM/YoY	Jul		0/4.5		0.2/5.1	28 Jul-4 Aug release	
US	Kansas City Fed Manf. Activity	Jul		4		2.0	15.00	1.00
EC	ECB's Coeure speaks on financial crisis management							
Friday, 29 July 2016								
NZ	Building Permits MoM	Jun				-0.9	22.45	8.45
UK	Lloyds Business Barometer	Jul				6.0	23.10	9.10
UK	GfK Consumer Confidence	Jul		-8		-1.0	23.50	9.50
JN	Jobless Rate/Jobs-to-applicants ratio	Jun		3.2/1.37		3.2/1.4	23.30	9.30
JN	Overall Household Spending YoY	Jun		-0.4		-1.1	23.30	9.30
JN	Natl CPI YoY/Ex Fresh Food YoY	Jun		-0.4/0.5		-0.4/0.6	23.30	9.30
JN	Industrial Production MoM/YoY	Jun P		0.5/-2.9		-2.6/-0.4	23.50	9.50
JN	Retail Sales MoM/YoY	Jun		0.3/-1.2		0.0/-1.9	23.50	9.50
NZ	ANZ Activity Outlook/Business Confidence	Jul				35.1/20.2	1.00	11.00
AU	Private Sector Credit MoM/YoY	Jun	0.5/6.6	0.45/6.5		0.4/6.5	1.30	11.30
JN	BOJ Policy Rate	Jun				-0.1	2.45	12.45
NZ	Credit aggregates, household YoY	Jun				8.1	3.00	13.00
JN	Natl CPI Ex Fresh Food, Energy YoY	Jun		0.7		0.8	5.00	15.00
UK	Mortgage Approvals	Jun		65.8		67.0	8.30	18.30
EC	Unemployment Rate	Jun		10.1		10.1	9.00	19.00
EC	CPI Estimate YoY/Core YoY	Jul		0.1/0.8		0.1/0.9	9.00	19.00
EC	GDP SA QoQ/YoY	2Q A		0.3/1.5		0.6/1.7	9.00	19.00
US	Employment Cost Index	2Q		0.6		0.6	12.30	22.30
US	GDP Annualized QoQ	2Q A		2.6		1.1	12.30	22.30
CA	Industrial Product Price/Raw Material Prices MoM	Jun		0.3		1.1/6.7	12.30	22.30
US	Fed's Williams Discusses at event "What's Left in the Fed's Toolkit?"						13.30	23.30
CA	GDP MoM/YoY	May		-0.5/1.3		0.1/1.5	12.30	22.30
US	Chicago Purchasing Managers' Index	Jul		54		56.8	13.45	23.45
US	U. of Mich. Sentiment/5-10yr Inflationary Expectations	Jul F		90.2/		89.5/2.6	14.00	0.00
Monday, 1 August 2016								
UK	Nationwide House PX MoM/YoY	Jul		0		0.2/5.1	28 Jul-4 Aug release	
AU	AiG Perf of Mfg Index	Jul				51.8	23.30	9.30
AU	Melbourne Institute Inflation MoM/YoY	Jul				0.6/1.5	1.00	11.00
AU	HIA New Home Sales MoM	Jun				-1.8	1.00	11.00
CH	Manufacturing/Non-manufacturing PMI	Jul		50/		50.0/53.7	1.00	11.00
CH	Caixin China PMI Mfg	Jul		48.9		48.6	1.45	11.45
JN	Nikkei Japan PMI Mfg	Jul F				49.0	2.00	12.00
GE	Markit/BME Germany Manufacturing PMI	Jul F				53.7	7.55	17.55
EC	Markit Eurozone Manufacturing PMI	Jul F				51.9	8.00	18.00
UK	Markit UK PMI Manufacturing SA	Jul F				49.1	8.30	18.30
US	Markit US Manufacturing PMI	Jul F				52.9	13.45	23.45
US	Construction Spending MoM	Jun		0.7		-0.8	14.00	0.00
US	ISM Manufacturing	Jul		53		53.2	14.00	0.00
Tuesday, 2 August 2016								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 24				114.9	23.30	9.30
AU	CoreLogic House Px MoM	Jul				0.5	0.00	10.00
NZ	QV House Prices YoY	Jul				13.5	0.00	10.00
AU	Trade Balance	Jun				-2218.0	1.30	11.30
AU	Building Approvals MoM/YoY	Jun		/		-5.2/-9.1	1.30	11.30
NZ	2Yr Inflation Expectation	3Q				1.6	3.00	13.00
AU	RBA Cash Rate Target	Aug 2		1.5		1.8	4.30	14.30
JN	Consumer Confidence Index	Jul				41.8	5.00	15.00
AU	Commodity Index AUD/YoY	Jul				89.7/-9.9	6.30	16.30
UK	Markit/CIPS UK Construction PMI	Jul				46.0	8.30	18.30
EC	PPI MoM/YoY	Jun				0.6/-3.9	9.00	19.00
CH/US	Fed's Kaplan Speaks in Lecture in Beijing						10.15	20.15
US	Personal Income/Spending	Jun		0.3/0.3		0.2/0.4	12.30	22.30
US	PCE Deflator MoM/YoY	Jun		0.2		0.2	12.30	22.30
US	PCE Core MoM/YoY	Jun		0.1		0.2	12.30	22.30
CA	RBC Canadian Manufacturing PMI	Jul				51.8	13.30	23.30
US	ISM New York	Jul				45.4	13.45	23.45
CA	Bloomberg Nanos Confidence	Jul 29				57.5	14.00	0.00
Upcoming Central Bank Interest Rate Announcements								
US	Federal Reserve	27-Jul				0.25-0.50%		
Japan	BoJ	29-Jul				-0.1% to +0.1%		
Australia	RBA	2-Aug	1.75%	1.50%		1.75%		
UK	BOE	4-Aug		0.25%		0.50%		
New Zealand	RBNZ	11-Aug	2.00%	2.00%		2.25%		
Canada	BoC	7-Sep				0.50%		
Europe	ECB	8-Sep				0.00%		

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

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