

4 July 2016

Markets Today



Too close to call

The outcome from this weekend's Australian election remains too close to call. This uncertainty and lack of a clear majority has had a mild negative influence on the AUD/USD at the open. On Friday, the currency pair was one of the G10 top performers, closing at 0.7498, but now it trades 0.5c lower at 0.7448. All that said if history is any guide, parliamentary elections do not typically have a lasting effect on the outlook of the economy or the currency.

Risk assets closed Friday on a positive note, aided by the expectations of a lower for longer yield environment as major central banks grapple with the added uncertainty from Brexit while at the same time a sense of calm has also been a factor, courtesy of the UK political vacuum which is not expected to be resolved until early September.

Amid low trading volumes ahead of a long holiday weekend, US equities ended the week higher with the S&P500 up 0.19% for the day (closing at 2102.95) and 3.2% for the week. On the other side of the Atlantic, the FTSE100 rose smartly on Friday (1.3%) and at 6577.83, it is now 240 points higher than where it was pre Brexit levels (3.8% higher for the period).

In Bonds, 10y UST briefly traded to a new historical low (1.385%) before recovering later in the session to end the week at 1.441%. Meanwhile 30y UST and 10y UK Gilts closed at new historical lows, 2.225% and 0.863% respectively.

The uncertainty post Brexit has increased expectations of further easing by some central banks and in the case of the Fed, delay any hikes over the short to medium term. These factors have contributed to the move lower in core global yields and it will be interesting to see to what extent a strong US payrolls report on Friday changes this perception.

On this point, the solid ISM manufacturing print (53.2 vs 51.4 exp) coincided with the move higher in UST yields on Friday's overnight session. Notably, as well, at 50.4 the employment sub index was back above the break-even line.

As for currencies, the fall in long dated UST yields and an increase in risk appetite appear to have weighed on the USD. Excluding GBP, all other G10 currencies outperformed the big Dollar on Friday. JPY was at the top of the leader board, up 0.66% followed closely by the NZD (0.51%) while the AUD is unchanged, following the "election correction" this morning. GBP's underperformance could probably still be attributed to Thursday's comments from BoE Carney that 'some monetary easing will likely be required over the summer'.

As for commodities, WTI and Brent oil closed higher on Friday (1.82 and 1.67% respectively), no doubt aided by a softer USD. Gold was up 1.52% and iron ore retraced some of its early week gains (-2.39%) to close the week at \$54.33.

In an interview on CNBC, Fed Deputy Chair Fischer sounded cautious and gave the impression the Fed is on a wait and see mode noting that May's payrolls was 'a cause for concern'. Meanwhile, speaking in London, Fed Mester said that risks and uncertainty have increased after the UK's referendum and she also noted that one mechanism in which Brexit could affect the US economy is through USD appreciation, which could dampen US export growth and delay inflation's return to 2%.

Bundesbank Weidmann said the EU should give the UK a quick and fair exit deal and although the UK leaving the EU could slow growth in the EZ, he does not see the need for further stimulus at this stage.

Sunday's CoreLogic RP Data weekend auction summary shows that 70.7% of capital city auctions held this week were successful, a decent rise compared to the previous week's clearance rate of 66.4%, albeit against a substantially lower number of auctions (811 vs 2,218 prev). Melbourne cleared a preliminary 71.6% of auctions, up from 67.3% prev. and Sydney cleared 80.4% up from 73.5% prev.

Coming Up

A quiet start to the week is expected with the US celebrating Independence Day on Monday and the RBA unanimously seen on hold Tuesday. As such focus for the week is likely to be on Friday's US payrolls with the market looking for confirmation that the May's weak print was an aberration and not the start of a new soft trend. Ahead of payrolls, on Wednesday we get the June FOMC Minutes along with US non-manufacturing ISM. As for central bank speakers, Fed Dudley and Tarullo are on the roaster this week and BoJ Kuroda speaks on Thursday. Today in Australia we get Building Approvals (May) and Melbourne Institute Inflation (Jun).

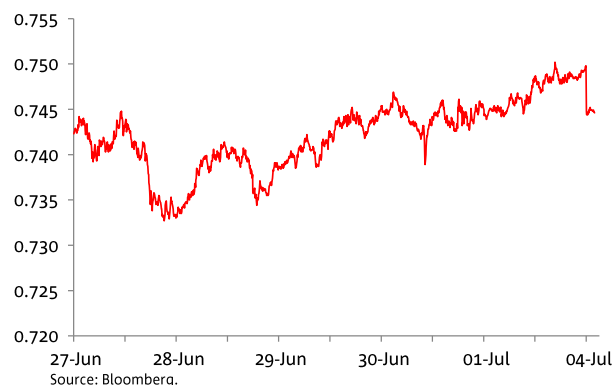
Overnight

On global stock markets, the S&P 500 was +1.55%. Bond markets saw US 10-years -2.56bp to 1.44%. In commodities, Brent crude oil -0.80% to \$50.55, gold +1.7% to \$1,345, iron ore +0.8% to \$54.33. AUD is at 0.7446 and the range since Friday 5pm Sydney time is 0.7444 to 0.7502.

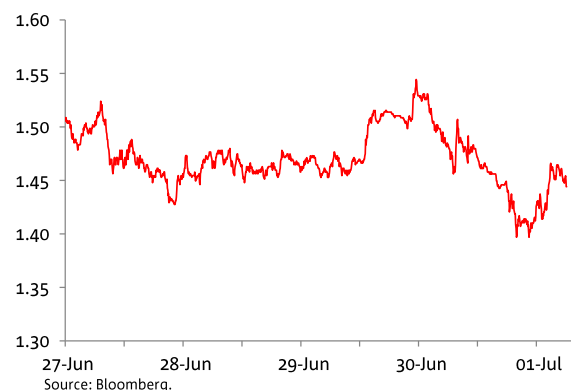
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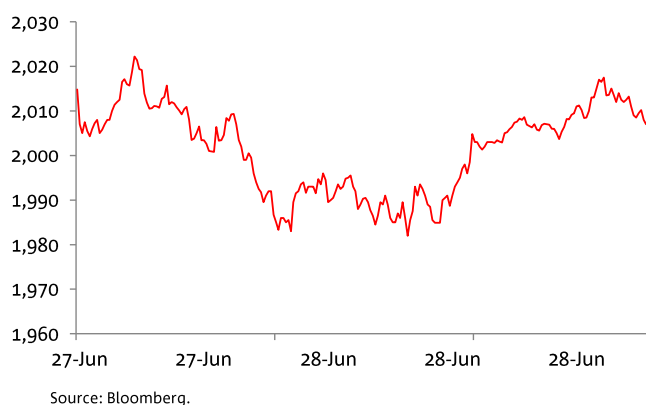
AUD/USD - past week



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	0.7446	-0.1	0.7437	0.7503	HKD	7.7583	0.0
NZD	0.7164	0.4	0.7120	0.7198	CNY	6.6597	0.3
EUR	1.1133	0.2	1.1072	1.1169	SGD	1.3460	-0.1
GBP	1.3247	-0.5	1.3232	1.3350	IDR	13,115	-0.3
JPY	102.62	-0.6	102.44	103.39	THB	35.06	-0.2
CAD	1.2917	-0.1	1.2866	1.2975	KRW	1,145	-1.3
AUD/EUR	0.6735	0.6	0.6686	0.6746	TWD	32.21	-0.3
AUD/JPY	76.85	0.3	76.25	76.96	PHP	46.95	0.0
AUD/GBP	0.5655	1.9	0.5575	0.5655	CHF	0.97	-0.2
AUD/NZD	1.0445	-0.3	1.0384	1.0470	SEK	8.44	-0.2
AUD/CNH	4.9840	0.9	4.9602	5.0089			

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.50	0.65	0.76	1.36	USD 10	1.44	-7.14
AUD	1.75	1.96	1.78	2.18	AUD 10	1.95	-5.00
NZD	2.25	2.42	2.20	2.62	NZD 10	2.32	-2.70
EUR	0.00	-0.29	-0.22	0.34	CAD 10	1.06	-6.80
GBP	0.50	0.52	0.50	0.97	EUR 10	-0.13	0.00
JPY	-0.04	-0.02	-0.15	-0.09	GBP 10	0.86	-8.60
CAD	0.50	0.88	0.86	1.29	JPY 10	-0.25	-2.30

Equities

Major Indices

	Last	% day	% y/y
Dow	17,949	1.4	1.2
S&P 500	2,103	1.6	1.3
Nasdaq	4,863	1.7	-2.9
VIX	15	-11.2	-12.0
FTSE	6,578	3.4	-0.1
DAX	9,776	1.7	-11.6
CAC 40	4,274	1.9	-11.1
Nikkei	15,682	0.7	-23.6
Shanghai	2,932	0.0	-20.5
Hang Seng	20,794	1.8	-20.8
ASX 200	5,247	2.0	-5.3

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.11	-2.00
3 Yr bond	97.8	1.00
10 Yr bond	98.03	4.50
3/10 sprd	-0.23	-3.50
SPI	5235.0	-143.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	50.55	-0.8
Oil (WTI)	49.28	-0.5
Oil (Tapis)	48.81	-0.7
Gold	1344.90	1.7
CRB	194.26	-0.2
GS Metals	277.1	2.2
Aluminium	1653.0	1.3
Copper	4895.5	1.3
Nickel	9935.0	12.6
Zinc	2142.0	3.0
Ch. steel	2458.0	9.7
Iron ore	54.3	0.8
Coal	58.2	2.1
Wheat Chic.	429.3	-3.4
Sugar	20.7	-1.1
Cotton	63.6	-1.8
Coffee	146.6	1.7

CO₂ Emissions - Euros

	Last	% day
Dec-2016	4.63	2.0
Jun-2017	4.64	1.8
Dec-2017	4.64	3.3

* 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
Monday, 4 July 2016								
US	Public Holiday - US Bond and Equity markets close - Futures opened							
UK	Lloyds Business Barometer	Jun				32.0		
AU	Melbourne Institute Inflation MoM/YoY	Jun				-0.2/1.0	1.00	11.00
AU	ANZ Job Advertisements MoM	Jun				2.4	1.30	11.30
AU	Building Approvals MoM/YoY	May		-3.5/-6.4		3.0/0.7	1.30	11.30
UK	Markit/CIPS UK Construction PMI	Jun		50.5		51.2	8.30	18.30
EC	Sentix Investor Confidence	Jul		8		9.9	8.30	18.30
EC	PPI MoM/YoY	May		0.25/-4.1		-0.3/-4.4	9.00	19.00
CA	RBC Canadian Manufacturing PMI	Jun				52.1	13.30	23.30
CA	Business Outlook Future Sales	2Q				16.0	14.30	0.30
CA	BoC Senior Loan Officer Survey	2Q				6.6	14.30	0.30
Tuesday, 5 July 2016								
AU	AiG Perf of Services Index	Jun				51.5	23.30	9.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 3				116.8	23.30	9.30
NZ	QV House Prices YoY	Jun				12.4	0.00	10.00
NZ	ANZ Commodity Price	Jun				1.0	1.00	11.00
AU	Trade Balance	May		-1700		-1579.0	1.30	11.30
AU	Retail Sales MoM	May		0.3		0.2	1.30	11.30
CH	Caixin China PMI Services/Composite	Jun		/		51.2/50.5	1.45	11.45
JN	Nikkei Japan PMI Services/Composite	Jun		/		50.4/49.2	2.00	12.00
AU	RBA Cash Rate Target	Jul 5		1.75		1.8	4.30	14.30
GE	Markit Germany Services/Composite PMI	Jun F		53.2/54.1		53.2/54.1	7.55	17.55
EC	Markit Eurozone Services/Composite PMI	Jun F		52.4/52.8		52.4/52.8	8.00	18.00
UK	Tory Leadership Ballot and hence UK PM Ballot - 5 candidates nominated						sometime	
UK	Markit/CIPS UK Services/Composite PMI	Jun		52.7/		53.5/53.0	8.30	18.30
EC	Retail Sales MoM/YoY	May		0.4/1.7		0.0/1.4	9.00	19.00
US	ISM New York	Jun				37.2	13.45	23.45
US	Factory Orders/ex transp orders	May		-0.8		1.9	14.00	0.00
US	NY Fed's Dudley speaks at a discussion round table						18.30	4.30
Wednesday, 6 July 2016								
UK	BRC Shop Price Index YoY	Jun				-1.8	23.10	9.10
GE	Factory Orders MoM/YoY	May		0.5/0.9		-2.0/-0.5	6.00	16.00
AU	RBA's Debelle speaks at "Examining the FX Code of Conduct" event						7.30	17.30
US	Trade Balance	May		-40		-37.4	12.30	22.30
CA	Int'l Merchandise Trade	May		-2.675		-2.9	12.30	22.30
US	Fed's Tarullo speaks on Regulation and Monetary Policy						13.00	23.00
US	Markit US Services/Composite PMI	Jun F		51.5/		51.3/51.2	13.45	23.45
US	ISM Non-Manf. Composite	Jun		53.4		52.9	14.00	0.00
US	U.S. Fed Releases Minutes from June 14-15 FOMC Meeting						18.00	4.00
Thursday, 7 July 2016								
NZ	ANZ Truckometer Heavy MoM	Jun				-1.7	22.00	8.00
AU	AiG Perf of Construction Index	Jun				46.7	23.30	9.30
JN	BoJ Governor Kuroda speaks at Branch Managers' Meeting						0.30	10.30
JN	Leading Index CI	May P		100		100.0	5.00	15.00
GE	Industrial Production SA MoM/YoY	May		0/1.5		0.8/1.2	6.00	16.00
CH	Foreign Reserves	Jun		3166		3191.7	8.05	18.05
UK	Industrial Production MoM/YoY	May		-0.6/0.9		2.0/1.6	8.30	18.30
US	Challenger Job Cuts YoY	Jun				-26.5	11.30	21.30
EC	ECB account of the monetary policy meeting						11.30	21.30
US	ADP Employment Change	Jun		150		173.0	12.15	22.15
CA	Building Permits MoM	May		2		-0.3	12.30	22.30
US	Initial Jobless Claims	Jul 2				268.0	12.30	22.30
UK	NIESR GDP Estimate	Jun				0.5	14.00	0.00
CA	Ivey Purchasing Managers Index SA	Jun				49.4	14.00	0.00
Friday, 8 July 2016								
JN	BoP Current Account Adjusted	May		1515.3		1625.8	23.50	9.50
JN	Labor Cash Earnings/Real Cash Earnings YoY	May		0.5		0.3/0.6	0.00	10.00
GE	Current Account Balance	May		25.4		28.8	6.00	16.00
UK	Trade Balance	May		-3.1		-3294.0	8.30	18.30
US	Change in Nonfarm Payrolls/Unemployment rate	Jun		180/4.8		38/4.7	12.30	22.30
US	Average Hourly Earnings MoM/YoY	Jun		0.2/2.7		0.2/2.5	12.30	22.30
CA	Net Change in Employment/Unemployment rate	Jun		6.5/7		13.8/6.9	12.30	22.30
US	Consumer Credit	May		17		13.4	19.00	5.00
Sunday, 10 July 2016								
CH	CPI/PPI YoY	Jun		1.9/-2.4		2.0/-2.8	1.30	11.30
CH	New Yuan Loans/Aggregate Financing CNY	Jun		1000/1100		986/660	10-15 July release	
CH	Aggregate Financing CNY	Jun		1100		660	10-15 July release	
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		5-Jul	1.75%	1.75%		1.75%		
UK BOE		14-Jul				0.50%		
Canada, BoC		14-Jul				0.50%		
Europe ECB		21-Jul				0.00%		
US Federal Reserve		27-Jul				0.25-0.50%		
Japan, BoJ		29-Jul				-0.1% to +0.1%		
New Zealand, RBNZ		11-Aug	2.00%	2.00%		2.25%		

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

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