5 July 2016

Markets Today

National Australia Bank

Take the long way home

The USD weakened overnight, in a night of focus on Europe with the US out for its Independence Day holiday. Despite further ructions in UK politics and soft data (admittedly second tier), Sterling managed a slight gain in a session also marked by some support for the EUR. Sterling and the EUR dipped, but only briefly, after a weak UK Construction PMI (the sharpest contraction since 2009, and for June, pre-Brexit) and for the Euro, the EC's Sentix Investor Confidence Survey for July revealing a sharp decline in expectations.

Seemingly at his moment of political triumph, UK Independence Party leader Nigel Farage, resigned saying now he has his "country back", "I want my life back". Meanwhile, in a FT interview, the Chancellor of the Exchequer, George Osborne had set a goal of further reducing the company tax rate from 20% to 15% to support businesses investing in the UK. (The rate is already scheduled to fall to 17% by 2020.) The GBP/USD sits just below 1.3300 currently, having briefly spiked to 1.3340 in the early hours of this morning.

The AUD and the NZD sit at the top of the overnight major FX leader board, the AUD trading toward the mid 0.75s this morning and the NZD comfortably over 0.72. In fact, the NZD, AUD, CAD and NOK have all traded higher since the start of the week, despite a drift lower in oil and base metals overnight, though iron ore rose 3.48% to $56.22/t, the highest since May 18. The AUD/USD had opened lower, given the overhang of the undecided Federal election, but the impact proved temporary. Not even sterner words yesterday from S&P could hold the AUD back, S&P saying that "we could lower the rating if parliamentary gridlock on the budget continues and Australia's budgetary performance does not improve broadly as we expected a year ago". Moody's commented that short-lived political uncertainty would have limited implications for Australia.

Coming up

The focus will be on retail sales (and international trade) for May at 11.30, followed by the RBA at 2.30. For retail sales, our stronger 0.5% pick (market 0.3%) is based on some expectation higher clothing/department store sales from increased discounting to reduce inventories. (The arrival of the colder weather (and continued rains) did not really gather force until June and could have boosted clothing sales further.)

For international trade, NAB looks for a similar deficit as in April with higher iron ore and coal loadings likely offset by a monthly pull-back in gold exports in May, after two very strong months in March and April.

As for the RBA, it seems unlikely to us that not only will the RBA would include any explicit easing bias given 1) the non-mining economy has been performing reasonably well over the past month, and 2) immediate post-Brexit volatility evident in global markets looks to have dissipated with capital markets showing signs of re-opening, providing issuers with access again to financing. The July 27 release of the June quarter CPI remains the upcoming event risk as far as the RBA is concerned and whether it will change, or put at risk, the RBA's inflation forecast track, including the return to surplus in 2018. The current RBA track embodies a forecast for underlying inflation of around 0.4% for Q2.

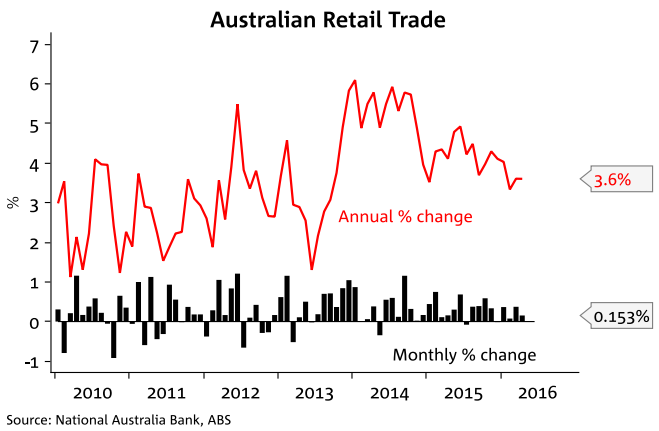
Tonight, the US markets re-open after the Independence Day holiday long weekend. There is no major US data but influential NY Fed President Bill Dudley is speaking. There will likely be some more focus on Brexit with the five nominations for leadership of the Conservative Party being narrowed down to two tonight. There is also another GDT dairy auction tonight, our BNZ colleagues suggesting that it could be affected by negative Brexit sentiment.

Overnight

US markets were closed. The Eurostoxx 600 index fell 0.74%; German 10 year bund yields eased 1.5 bps to -0.141%. In commodities, Brent crude oil -0.50% to $50.1, gold+1.1% to $1,354, iron ore +3.5% to $56.22. AUD is at 0.754 and the range since yesterday 5pm Sydney time is 0.7504 to 0.7543.

Good luck.

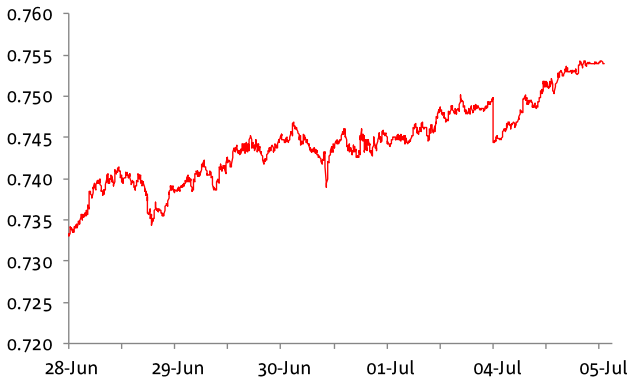
Chart of the day: Retail sales



Source: National Australia Bank, ABS

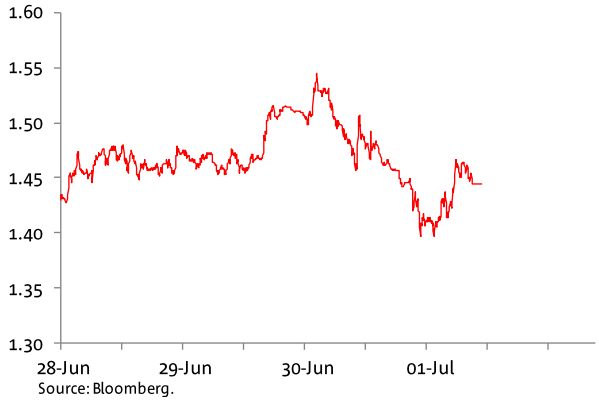
Author:
David de Garis, Senior Economist

AUD/USD - past week



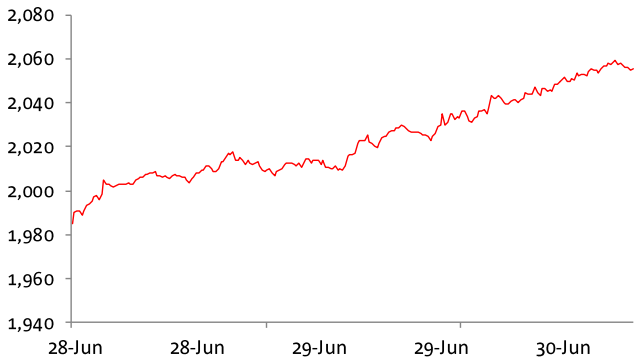
Source: Bloomberg.

US 10 yr - past week



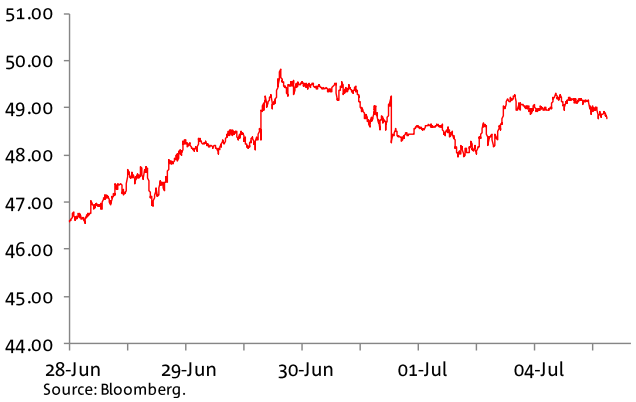
Source: Bloomberg.

S&P Futures - past week



Source: Bloomberg.

WTI - past week



Source: Bloomberg.

Foreign Exchange

	Last	% chge	Indicative 24hr ranges (**) Low	High
AUD	0.7540	0.6	0.7441	0.7545
NZD	0.7232	0.9	0.7196	0.7244
EUR	1.1160	0.3	1.1121	1.1165
GBP	1.3290	0.0	1.3241	1.3342
JPY	102.51	-0.1	102.48	102.66
CAD	1.2853	-0.6	1.2832	1.2874
AUD/EUR	0.6758	0.5	0.6754	0.6774
AUD/JPY	77.29	0.6	77.21	77.42
AUD/GBP	0.5672	0.7	0.5652	0.5684
AUD/NZD	1.0426	-0.1	1.0415	1.0460
AUD/CNH	5.0274	1.0	5.0248	5.0299

Other FX	Last	% chge
HKD	7.7583	0.0
CNY	6.6678	0.2
SGD	1.3454	0.1
IDR	13,096	-0.1
THB	35.05	-0.1
KRW	1,150	0.2
TWD	32.22	0.0
PHP	46.86	-0.3
CHF	0.97	-0.4
SEK	8.42	-0.5

Equities

Major Indices	Last	% day	% y/y
Dow	17,949	0.0	1.2
S&P 500	2,103	0.0	1.3
Nasdaq	4,863	0.0	-2.9
VIX	15	0.0	-12.0
FTSE	6,522	-0.8	-1.0
DAX	9,709	-0.7	-12.2
CAC 40	4,235	-0.9	-11.9
Nikkei	15,776	0.6	-23.2
Shanghai	2,989	1.9	-18.9
Hang Seng	21,059	1.3	-19.2
ASX 200	5,282	0.7	-4.6

Commodities*

	Last	% day
Oil (Brent)	50.10	-0.5
Oil (WTI)	48.76	-0.5
Oil (Tapis)	50.01	2.5
Gold	1353.50	1.1
CRB	194.26	0.0
GS Metals	277.1	0.0
Aluminium	1643.8	-0.9
Copper	4883.3	-0.4
Nickel	10158.5	2.2
Zinc	2114.0	-1.8
Ch. steel	2395.0	2.2
Iron ore	56.2	3.5
Coal	59.2	1.8
Wheat Chic.	450.8	0.0
Sugar	20.8	0.0
Cotton	65.0	0.0
Coffee	146.4	0.0

Interest Rates

Indicative Swap Rates	Cash	3mth	2Yr	10Yr
USD	0.50	0.65	0.76	1.35
AUD	1.75	1.95	1.77	2.16
NZD	2.25	2.42	2.19	2.60
EUR	0.00	-0.29	-0.24	0.30
GBP	0.50	0.52	0.49	0.94
JPY	-0.04	-0.02	-0.15	-0.08
CAD	0.50	0.88	0.86	1.27

Benchmark 10 Year Bonds	Last	chge	Sprd
USD 10	1.44	-2.56	
AUD 10	2.01	5.30	0.56
NZD 10	2.31	-1.90	0.87
CAD 10	1.04	-1.70	-0.40
EUR 10	-0.14	-1.50	-1.59
GBP 10	0.83	-3.00	-0.61
JPY 10	-0.24	1.30	-1.68

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.10	-2.00
3 Yr bond	97.8	3.00
10 Yr bond	98.02	0.50
3/10 sprd	-0.22	2.50
SPI	5255.0	-52.0

*Change in bps

CO_2 Emissions - Euros

	Last	% day
Dec-2016	4.96	7.1
Jun-2017	4.98	7.3
Dec-2017	4.99	7.5

* 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
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		1.75	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 candiates nominated						sometime	
UK	Markit/CIPS UK Services/Composite PMI	Jun		52.8/52		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		1/0.9		-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		51.3/		51.3/51.2	13.45	23.45
US	ISM Non-Manf. Composite	Jun		53.3		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		3165		3191.7	8.05	18.05
UK	Industrial Production MoM/YoY	May		-1/0.5		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		160		173.0	12.15	22.15
CA	Building Permits MoM	May		2		-0.3	12.30	22.30
US	Initial Jobless Claims	Jul 2		267		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		24.6		28.8	6.00	16.00
UK	Trade Balance	May		-3575		-3294.0	8.30	18.30
US	Change in Nonfarm Payrolls/Unemployment rate	Jun		175/4.8		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		1000/1054		986/660	10-15 July release	
CH	Aggregate Financing CNY	Jun		1054		660	10-15 July release	
Monday, 11 July 2016								
NZ	*REINZ House Sales YoY*	*Jun*				*13.6*	*8-14 July release*	
CH	*Foreign Direct Investment YoY CNY*	*Jun*				*-1.0*	*8-14 July release*	
CH	*Aggregate Financing CNY*	*Jun*		*1054*		*660*	*10-15 July release*	
CH	*New Yuan Loans CNY*	*Jun*		*1000*		*986*	*10-15 July release*	
NZ	Card Spending Retail MoM/YoY	Jun				-0.3/-0.6	22.45	8.45
JN	Machine Orders MoM	May				-11.0/-8.2	23.50	9.50
AU	Home Loans # MoM/Investment Lending $ MoM	May				1.7/-5.0	1.30	11.30
AU	Owner-Occupier Loan Value MoM	May				0.1	1.30	11.30
JN	Machine Tool Orders YoY	Jun P				-24.7	6.00	16.00
CA	Housing Starts	Jun				188.6	12.15	22.15
US	Labor Market Conditions Index Change	Jun				-4.8	14.00	0.00
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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