

Low

Core global yields have made new record lows amid an increase in risk aversion following news that a number of UK asset managers led by Standard Life were suspending redemptions on their property funds. Italian banks have also remained a cause of concern given the magnitude of their bad loans and as a result the fall in equities has been led by financial shares followed closely by materials and energy sectors given the souring global growth outlook. The Pound had another sharp fall while the Yen and USD have outperformed.

Fears of financial contagion have triggered a demand for safety dragging core global yields to new historical lows. 10y US Treasury yields dropped to 1.365% in the overnight sessions and at 1375% they have closed the New York session below 1.40% for the first time on record. In a similar pattern 10y benchmark bond yields from Germany, the UK, Switzerland and France have also made fresh historical lows.

Early in the session, a softer than expected (52.3 vs 52.8 exp) UK services PMI did little to improve the mood, particularly given the outlook on the survey (lowest since Dec 12) and the fact that 89% of the responses were received before the referendum outcome was known. Also not helping sentiment, the BoE stability report noted that “there will be a period of uncertainty and adjustment following the result of the referendum”. The report also highlighted risks facing the UK current account and commercial real estate. BoE Governor Carney attempted to ease concerns by cutting capital requirements for UK lenders and stressing that this was not a repeat of the 2007/08 GFC.

Although GBP had a small reaction to Carney’s comments, the overnight slide in the Pounds was fairly uninterrupted. Relative to other G10 currencies, GBP is the worst performer, down 1.91% and now a move sub 1.30 appears to be just a matter of time. Unsurprisingly, given its preeminent safe haven attributes, JPY is the only G10 currency that has outperformed the USD. Meanwhile as commodity prices were also under pressure the AUD and NZD also lost some ground, down 0.98% and 1.11% respectively.

Yesterday the RBA left the cash rate unchanged at 1.75%, but the statement left us with the impression that the Bank may be more open to the idea of another rate cut over the near term. The Bank remains data dependent making next CPI print very important. Our economist judge that an inflation number sub 0.4%q/q would probably be enough to get the Bank over the line for a cut in August.

The GTD auction saw a small drop in dairy prices, but as a soft number was largely expected there was little reaction by the NZD. The GDT Price Index fell 0.4% and whole milk powder prices fell 1.6%, to an average price of US\$2,062.

In other news, the FBI has recommended not to charge Hilary Clinton over her use of private emails while at the same time acknowledging Clinton and her staff were “extremely careless in their handling of very sensitive, highly classified information.” In the UK, Theresa May was comfortably won the first round for the Conservative leader contest (Leadsom was second and Gove was third). The three remaining contenders are due to face a second MPs' vote on Thursday, followed by a final round next Tuesday to carve the field down to two. These two candidates will seek votes from the entire conservative membership with the outcome expected 9 September.

Coming up

We have no Australian data releases on the schedule today. RBA Guy Debelle is speaking this evening (17:30, AEST), but given the topic of discussion is on FX Code of Conduct, we don’t think his comments will be market moving.

As for offshore markets all the highlights come courtesy of the US. As a warming act we have Fed Tarullo speaking on regulation and monetary policy (23:00 AEST), then right at the stroke of midnight we get the ISM non-manufacturing survey followed by the June FOMC minutes at 4:00 am on Thursday.

Ahead of US payrolls on Friday, the ISM non-manufacturing survey will be important. Market expectations are for a June headline print of 53.3 vs 52.9 prev. After the strong ISM manufacturing number there has been some market chat of upside risk to the non-manufacturing print, we would caution however that the correlation between the two ISM indices is not that strong. That said, the employment non-manufacturing component will be just as important. In May the sharp fall in the employment sub index precluded the outrageously soft May payrolls number (38k vs 160 exp) and with the focus back on the US this week, strong data prints could have a material impact on Fed rate hike expectations and the USD.

The June FOMC minutes will no doubt grab some of the headlines, but given that the unanimous decision to leave rates on hold, the dovish tone of the statement and the fact that the meeting preceded the UK referendum; it is hard to envisage that we will learn much more from the Minutes.

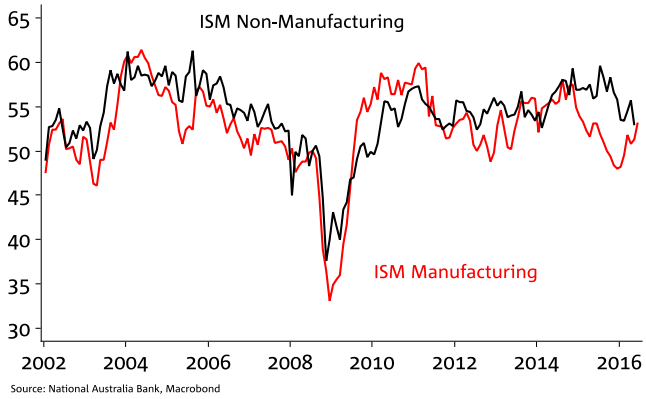
Author:

Rodrigo Catril, Currency Strategist

Coming up

On global stock markets, the S&P 500 was -0.68%. Bond markets saw US 10-years -6.91bp to 1.38%. In commodities, Brent crude oil -3.66% to \$48.21, gold+1.0% to \$1,359, iron ore +2.9% to \$55.93. AUD is at 0.7462 and the range since yesterday 5pm Sydney time is 0.75 to 0.7543.

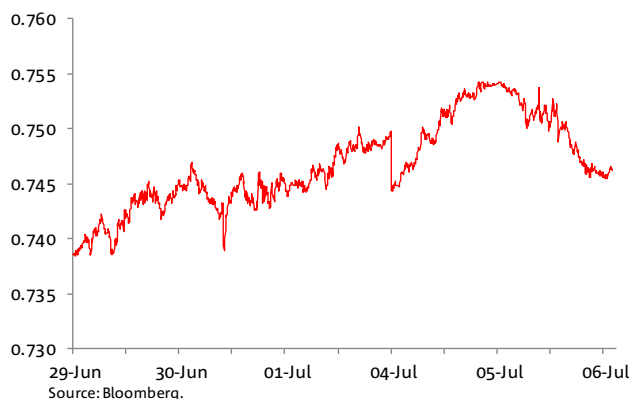
Chart of the day: ISM manufacturing vs non



Good luck

Rodrigo

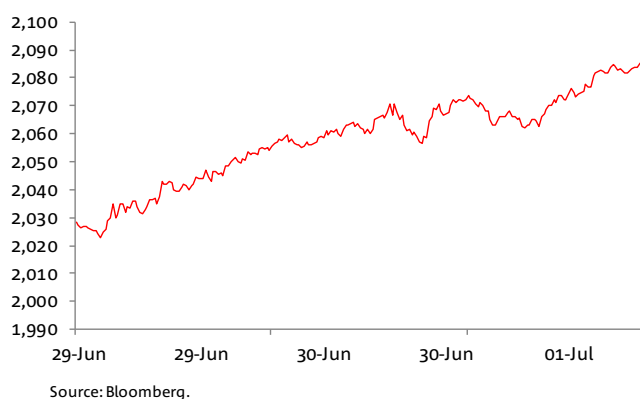
AUD/USD - past week



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	0.7462	-1.0	0.7461	0.7464	HKD	7.7584 0.0
NZD	0.7153	-1.1	0.7153	0.7157	CNY	6.6860 0.3
EUR	1.1070	-0.8	1.1070	1.1076	SGD	1.3514 0.4
GBP	1.3023	-2.0	1.3018	1.3024	IDR	13,203 0.6
JPY	101.76	-0.8	101.71	101.76	THB	35.19 0.4
CAD	1.2985	1.1	1.2980	1.2987	KRW	1,155 0.7
AUD/EUR	0.6741	-0.2	0.6737	0.6741	TWD	32.27 0.3
AUD/JPY	75.94	-1.8	75.90	75.94	PHP	47.07 0.4
AUD/GBP	0.5730	1.0	0.5730	0.5732	CHF	0.98 0.6
AUD/NZD	1.0433	0.0	1.0425	1.0435	SEK	8.53 1.3
AUD/CNH	4.9926	-0.7	4.9903	5.0407		

Equities

Major Indices	Last	% day	% y/y
	Dow	17,841	-0.6
S&P 500	2,089	-0.7	0.6
Nasdaq	4,823	-0.8	-3.7
VIX	16	5.5	-7.2
FTSE	6,545	0.4	-0.6
DAX	9,533	-1.8	-13.8
CAC 40	4,163	-1.7	-13.4
Nikkei	15,669	-0.7	-22.1
Shanghai	3,006	0.6	-20.4
Hang Seng	20,751	-1.5	-17.8
ASX 200	5,228	-1.0	-4.5

Commodities*

	Last	% day
Oil (Brent)	48.21	-3.7
Oil (WTI)	46.86	-4.9
Oil (Tapis)	48.25	-3.5
Gold	1358.70	1.0
CRB	189.66	-2.4
GS Metals	272.8	-1.6
Aluminium	1645.5	0.1
Copper	4802.5	-1.9
Nickel	9666.5	-4.8
Zinc	2106.0	-0.1
Ch. steel	2351.0	-3.0
Iron ore	55.9	-0.5
Coal	58.6	-1.0
Wheat Chic.	432.3	0.7
Sugar	20.9	1.2
Cotton	62.9	-0.3
Coffee	145.7	-0.6

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spred
USD	0.50	0.66	0.73	1.29	USD 10	1.38	-6.91
AUD	1.75	1.97	1.74	2.08	AUD 10	1.94	-6.40 0.57
NZD	2.25	2.44	2.15	2.54	NZD 10	2.27	-4.60 0.89
EUR	0.00	-0.29	-0.24	0.28	CAD 10	1.00	-4.80 -0.38
GBP	0.50	0.52	0.48	0.88	EUR 10	-0.19	-4.40 -1.56
JPY	-0.06	-0.02	-0.15	-0.09	GBP 10	0.77	-6.20 -0.60
CAD	0.50	0.88	0.84	1.23	JPY 10	-0.25	-0.70 -1.62

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.12	1.00
3 Yr bond	97.8	3.00
10 Yr bond	98.10	7.50
3/10 sprd	-0.30	-4.50
SPI	5167.0	84.0

CO₂ Emissions - Euros

	Last	% day
Dec-2016	4.69	-5.4
Jun-2017	4.71	-5.4
Dec-2017	4.73	-5.2

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
Tuesday, 5 July 2016							
AU	AiG Perf of Services Index	Jun				51.5	23.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 3				116.8	23.30
NZ	QV House Prices YoY	Jun				12.4	0.00
NZ	ANZ Commodity Price	Jun				1.0	1.00
AU	Trade Balance	May	-1750	-1700		-1579.0	1.30
AU	Retail Sales MoM	May	0.5%	0.3		0.2	1.30
CH	Caixin China PMI Services/Composite	Jun		/		51.2/50.5	1.45
JN	Nikkei Japan PMI Services/Composite	Jun		/		50.4/49.2	2.00
AU	RBA Cash Rate Target	Jul 5	1.75%	1.75		1.8	4.30
GE	Markit Germany Services/Composite PMI	Jun F		53.2/54.1		53.2/54.1	7.55
EC	Markit Eurozone Services/Composite PMI	Jun F		52.4/52.8		52.4/52.8	8.00
UK	Tory Leadership Ballot narrowed from 5 to 2						sometime
UK	Markit/CIPS UK Services/Composite PMI	Jun		52.8/52		53.5/53.0	8.30
EC	Retail Sales MoM/YoY	May		0.4/1.7		0.0/1.4	9.00
UK	BOE Financial Stability Report and Press Conference by Governor Carney						9.30
US	ISM New York	Jun				37.2	13.45
US	Factory Orders/ex transp orders	May		-0.8		1.9	14.00
US	NY Fed's Dudley speaks at a discussion round table						18.30
Wednesday, 6 July 2016							
UK	BRC Shop Price Index YoY	Jun				-1.8	23.10
GE	Factory Orders MoM/YoY	May		1/0.9		-2.0/-0.5	6.00
AU	RBA's Debelle speaks at "Examining the FX Code of Conduct" event						7.30
US	Trade Balance	May		-40		-37.4	12.30
CA	Int'l Merchandise Trade	May		-2.675		-2.9	12.30
US	Fed's Tarullo speaks on Regulation and Monetary Policy						13.00
US	Markit US Services/Composite PMI	Jun F		51.3/		51.3/51.2	13.45
US	ISM Non-Manf. Composite	Jun		53.3		52.9	14.00
US	U.S. Fed Releases Minutes from June 14-15 FOMC Meeting						18.00
Thursday, 7 July 2016							
NZ	ANZ Truckometer Heavy MoM	Jun				-1.7	22.00
AU	AiG Perf of Construction Index	Jun				46.7	23.30
JN	BoJ Governor Kuroda speaks at Branch Managers' Meeting						0.30
JN	Leading Index CI	May P		100		100.0	5.00
GE	Industrial Production SA MoM/YoY	May		0.1/1.5		0.8/1.2	6.00
CH	Foreign Reserves	Jun		3167		3191.7	8.05
UK	Industrial Production MoM/YoY	May		-1/0.5		2.0/1.6	8.30
US	Challenger Job Cuts YoY	Jun				-26.5	11.30
EC	ECB account of the monetary policy meeting						11.30
US	ADP Employment Change	Jun		160		173.0	12.15
CA	Building Permits MoM	May		2		-0.3	12.30
US	Initial Jobless Claims	Jul 2		266		268.0	12.30
UK	NIESR GDP Estimate	Jun				0.5	14.00
CA	Ivey Purchasing Managers Index SA	Jun		51.6		49.4	14.00
Friday, 8 July 2016							
JN	BoP Current Account Adjusted	May		1515.3		1625.8	23.50
JN	Labor Cash Earnings/Real Cash Earnings YoY	May		0.5		0.3/0.6	0.00
GE	Current Account Balance	May		24.6		28.8	6.00
UK	Trade Balance	May		-3575		-3294.0	8.30
US	Change in Nonfarm Payrolls/Unemployment rate	Jun		175/4.8		38/4.7	12.30
US	Average Hourly Earnings MoM/YoY	Jun		0.2/2.7		0.2/2.5	12.30
CA	Net Change in Employment/Unemployment rate	Jun		5/7		13.8/6.9	12.30
US	Consumer Credit	May		17		13.4	19.00
Sunday, 10 July 2016							
CH	CPI/PPI YoY	Jun		1.8/-2.5		2.0/-2.8	1.30
CH	New Yuan Loans/Aggregate Financing CNY	Jun		1015/1150		986/660	10-15 July
Monday, 11 July 2016							
NZ	Card Spending Retail MoM/YoY	Jun				-0.3/-0.6	22.45
JN	Machine Orders MoM	May				-11.0/-8.2	23.50
AU	Home Loans # MoM/Investment Lending \$ MoM	May				1.7/-5.0	1.30
AU	Owner-Occupier Loan Value MoM	May				0.1	1.30
JN	Machine Tool Orders YoY	Jun P				-24.7	6.00
CA	Housing Starts	Jun				188.6	12.15
US	Labor Market Conditions Index Change	Jun				-4.8	14.00
Tuesday, 12 July 2016							
UK	BRC Sales Like-For-Like YoY	Jun				0.5	23.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 3				116.8	23.30
AU	NAB Business Conditions/Confidence	Jun				10/3	1.30
US	Fed's Mester Speaks at Sydney Banking and Financial Stability						1.00
AU	RBA's Ellis Gives Speech in Sydney						3.20
JN	Tertiary Industry Index MoM	May				1.4	4.30
GE	CPI EU Harmonized MoM/YoY	Jun F				0.1/0.2	6.00
US	NFIB Small Business Optimism	Jun		94		93.8	10.00
US	Wholesale Inventories/Sales MoM	May		0.1/		0.6/1.0	14.00
US	JOLTS Job Openings	May				5788.0	14.00
US	Fed's Kashkari Holds Town Hall Meeting in Marquette, MI						21.30
Upcoming Central Bank Interest Rate Announcements							
Australia, RBA		2-Aug	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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