

You Can't Always Get What You Want

It was a toss-up this morning between the Rolling Stones classic and "You Can't Hold a Good Man Down" by James and Bobby Purify (et al), both in reference (or deference) to the performance of the Aussie dollar in the aftermath of yesterday's RBA rate cut.

If one of the motives for the RBA electing to cut the Cash Rate yesterday was concern at what inaction might do to the currency (that we reckon, in terms of the RBA's preferred real trade-weighted valuation metrics, is now back in overvalued territory) then the folks in Martin Place will have been left somewhat aghast to see the currency back above pre-cut levels within about an hour of the announcement. Overnight, AUD/USD has pushed further ahead, making a high of 0.7638 in mid-afternoon London trade – just shy of its best levels in three months.

In truth, if we look at the 24-hour performance across major currencies, the AUD only just makes it into the top half of the G10 table, sitting behind the Japanese Yen (+1.47% after Japan's fiscal stimulus package underwhelmed) British Pound (+1.24%, and where the speculative futures market has been carrying record net shorts) and Swedish Krona (1.02%). The AUD has (just) performed better on the day than the NZD (+0.9% vs. +0.86%) and where it will have dawned on the RBNZ at the end of their day yesterday that a 25 bps rate cut next Thursday, that is more discounted than was an RBA cut heading into yesterday's decision, is unlikely to make any impression on the currency whatsoever. Or if it does, more likely up than down. Anyone for -50bps, with a strong promise of more where that came from? That's not the house view by the way, just throwing it out there. Mild NZD underperformance versus the AUD has come despite the latest Global Dairy Trade auction producing a 6.6% gain in the overall price index.

The common denominator underneath overnight currency moves is the big dollar, which continues to leak lower in the aftermath of last week's FOMC statement and disappointing Q2 GDP numbers. The Atlanta Fed's Dennis Lockhart (a current non-voter considered neither a hawk nor dove) has just crossed the wires saying that consumer activity remains very strong and that there's a fair amount of data to come before the September Fed meeting. But he's made scant impression on the US rates market or the currency, albeit the Treasury yield curve had earlier bear-steepened with the 10-year 3bps higher. This is despite it being a 'risk-off' night led by a fresh pummelling for European bank shares and which sees the VIX a point higher at 13.37. The latter is evidently not enough to support the USD or harm the AUD.

In announcing a 25bps Cash Rate cut yesterday, the Board concluded that "prospects for sustainable growth in the economy, with inflation returning to target over time, would be improved by easing monetary policy at this meeting".

From here, the main debating points in markets are likely to be: (i) does the fact that the major banks have only passed on part of the cut mean the RBA might have to deliver a further near-term cut to achieve the improvement in sustainable growth and greater certainty of the return of inflation to target that this rate cut seeks to achieve?; and (ii) what will the RBA's new forecast show in the August Statement on Monetary Policy released on Friday? With markets now pricing a further interest rate cut to 1.25%, Q1 GDP coming in stronger than expected and the Q1 CPI slightly above the RBA's forecast, it's unlikely that there will be any downgrade to either the growth or inflation track forecast in May. The forecasts will of course also include the technical assumption of a further rate cut as per market pricing.

NAB is forecasting the cash rate to remain unchanged at 1.5% for the foreseeable future. But we now flag the potential for further interest rate reductions in 2017, given the likelihood that Australian inflation is expected to remain very low for an extended period. Should the economic outlook fail to improve or deteriorate, the inflation outlook continues to provide scope for further rate cuts in Australia.

Coming Up

With the dust settling on yesterday's RBA move, the main domestic economic event in front of Friday's Statement on Monetary Policy will be Thursday's retail sales figures (both nominal for June and real for Q2). Today brings NAB's on-line retail sales index. We'll also get the AiG performance of services reading for July. China has its Caixin services PMI (the official version on Monday showed a rise to 53.9 from 53.7).

Offshore tonight the main economic events will be the US ADP private sector employment read out, of some if limited relevance to Friday's US payrolls report, and the non-manufacturing ISM survey, whose employment sub-reading is also a non-farm payrolls forecasting input.

Overnight

On global stock markets, the S&P 500 was -0.64%. Bond markets saw US 10-years +3.44bp to 1.56%. In commodities, Brent crude oil -0.50% to \$41.93, gold +1.0% to \$1,364, iron ore -0.5% to \$61.94. AUD is at 0.7611 and the range since yesterday 5pm Sydney time is 0.7546 to 0.7634.

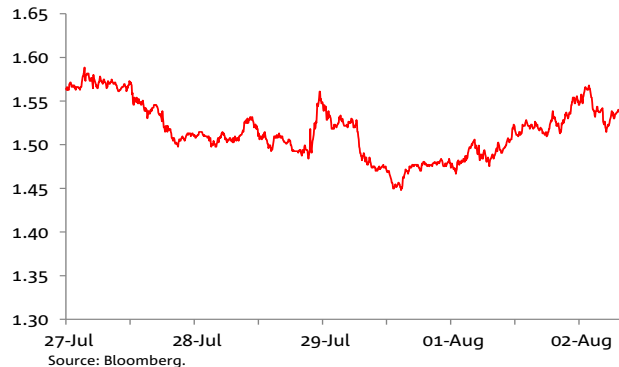
Author:

Ray Attrill – Global Co-Head of FX Strategy

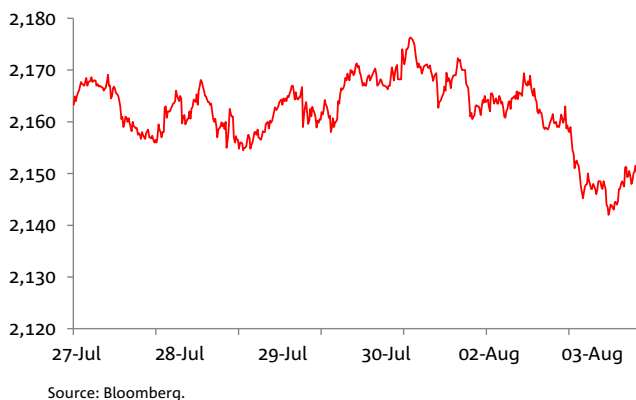
AUD/USD - past week



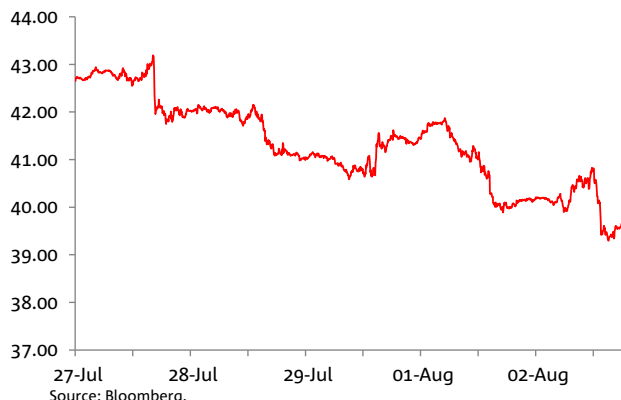
US 10 yr - past week



S&P Futures - past week



WTI - past week



Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7605	0.9	0.7491	0.7638	HKD	7.7609 0.0
NZD	0.7238	0.9	0.7163	0.7257	CNY	6.6272 -0.3
EUR	1.1223	0.5	1.1159	1.1234	SGD	1.3388 -0.3
GBP	1.3341	1.2	1.3172	1.3366	IDR	13,090 0.3
JPY	100.92	-1.4	100.68	102.83	THB	34.76 0.0
CAD	1.3104	-0.2	1.3005	1.3142	KRW	1,110 0.2
AUD/EUR	0.6777	0.4	0.6712	0.6810	TWD	31.66 0.3
AUD/JPY	76.75	-0.5	76.50	77.48	PHP	47.02 0.2
AUD/GBP	0.5701	-0.3	0.5681	0.5749	CHF	0.96 -0.4
AUD/NZD	1.0507	0.0	1.0450	1.0541	SEK	8.51 -1.0
AUD/CNH	5.0441	0.4	4.9841	5.0554		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.50	0.76	0.92	1.45	USD 10	1.56	3.44
AUD	1.75	1.84	1.68	2.12	AUD 10	1.82	-5.50 0.26
NZD	N/A N/A	2.26	2.03	2.43	NZD 10	2.17	1.00 0.61
EUR	0.00	-0.30	-0.20	0.33	CAD 10	1.08	4.80 -0.48
GBP	0.50	0.49	0.50	0.87	EUR 10	-0.04	6.20 -1.59
JPY	-0.04	-0.02	-0.05	0.07	GBP 10	0.81	7.80 -0.75
CAD	0.50	0.90	0.92	1.31	JPY 10	-0.08	6.00 -1.63

Equities

Major Indices	Last	% day	% y/y
	Dow	18,314	-0.5
S&P 500	2,157	-0.6	2.5
Nasdaq	5,138	-0.9	0.2
VIX	13	7.5	10.3
FTSE	6,645	-0.7	-0.8
DAX	10,144	-1.8	-10.3
CAC 40	4,328	-1.8	-14.8
Nikkei	16,391	-1.5	-20.2
Shanghai	2,971	0.6	-18.0
Hang Seng	22,129	0.0	-10.2
ASX 200	5,541	-0.8	-2.4

Commodities*

	Last	% day
Oil (Brent)	41.85	-0.7
Oil (WTI)	39.58	-1.2
Oil (Tapis)	41.63	-0.8
Gold	1363.60	0.9
CRB	177.32	-0.5
GS Metals	276.9	-0.1
Aluminium	1615.8	-0.6
Copper	4881.8	0.2
Nickel	10690.0	-0.1
Zinc	2273.5	0.3
Ch. steel	2490.0	1.0
Iron ore	61.9	-0.5
Coal	67.6	-0.1
Wheat Chic.	428.0	-1.2
Sugar	19.1	1.3
Cotton	73.7	-0.7
Coffee	141.3	-1.5

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.23	5.00
3 Yr bond	97.8	3.00
10 Yr bond	98.11	-6.50
3/10 sprd	-0.31	9.50
SPI	5469.0	77.0

*Change in bps

CO₂ Emissions - Euros

	Last	% day
Dec-2016	4.42	0.9
Jun-2017	4.44	0.9
Dec-2017	4.44	0.7

* 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, 3 August 2016								
NZ	Pvt Wages Ex/Incl. Overtime QoQ	2Q	0.5/0.4	0.5/0.4		0.4/0.4	22.45	8.45
NZ	Pvt Wages Inc Overtime/Average Hourly Earnings QoQ	2Q		0.4/0.9		0.4/0.3	22.45	8.45
UK	BRC Shop Price Index YoY	Jul				-2.0	23.10	9.10
AU	AiG Perf of Services Index	Jul				51.3	23.30	9.30
NZ	ANZ Commodity Price	Jul	-0.2			3.7	1.00	11.00
AU	NAB Online Retail Sales Index MoM/YoY	Jun				2.0/13.2	1.30	11.30
CH	Caixin PMI Services/Composite	Jul				52.7/50.3	1.45	11.45
JN	Nikkei PMI Services/Composite	Jul				49.4/49.0	2.00	12.00
GE	Markit Services/Composite PMI	Jul F		54.6/55.3		54.6/55.3	7.55	17.55
EC	Markit Services/Composite PMI	Jul F		52.7/52.9		52.7/52.9	8.00	18.00
UK	Markit/CIPS Services/Composite PMI	Jul F		47.4		47.4	8.30	18.30
EC	Retail Sales MoM/YoY	Jun		0/1.8		0.4/1.6	9.00	19.00
US	ADP Employment Change	Jul		170		172.0	12.15	22.15
US	Markit Services/Composite PMI	Jul F		51/		50.9/51.5	13.45	23.45
US	ISM Non-Manf. Composite	Jul		56		56.5	14.00	0.00
Thursday, 4 August 2016								
AU	Retail Sales \$ MoM/real QoQ	Jun	0.5/0.6	0.3/0.5		0.2/0.5	1.30	11.30
CH	BoP Current Account Balance	2Q P				39.3	7.30	17.30
UK	New Car Registrations YoY	Jul				-0.8	8.00	18.00
EC	ECB Publishes Economic Bulletin						8.00	18.00
CH/US	Fed's Kaplan Speaks in Shanghai						10.15	20.15
UK	Bank of England Bank Rate	Aug 4		0.25		0.5	11.00	21.00
UK	BOE Asset Purchase Target	Aug		375		375.0	11.00	21.00
UK	Bank of England Inflation Report						11.00	21.00
US	Challenger Job Cuts YoY	Jul				-14.1	11.30	21.30
US	Initial Jobless Claims	Jul 30		265		266.0	12.30	22.30
US	Factory Orders	Jun		-1.8		-1.0	14.00	0.00
Friday, 5 August 2016								
AU	AiG Perf of Construction Index	Jul				53.2	23.30	9.30
JN	Labor Cash/Real Earnings YoY	Jun		0.3		-0.2	0.00	10.00
AU	RBA Statement on Monetary Policy						1.30	11.30
JN	Leading Index CI	Jun P		99.7		99.7	5.00	15.00
GE	Factory Orders MoM/YoY	Jun		0.5		0.0	6.00	16.00
UK	Halifax House Prices MoM/3M YoY	Jul		-0.2		1.3/8.4	7.30	17.30
US	Change in Nonfarm Payrolls/Unemployment rate	Jul		180/4.8		287/4.9	12.30	22.30
US	Average Hourly Earnings MoM/YoY	Jul		0.2/2.6		0.1/2.6	12.30	22.30
US	Trade Balance	Jun		-43		-41.1	12.30	22.30
CA	Net Change in Employment/Unemployment rate	Jul		10/6.9		-0.7/6.8	12.30	22.30
CA	Int'l Merchandise Trade	Jun		-2.84		-3.3	12.30	22.30
CA	Ivey Purchasing Managers Index SA	Jul				51.7	14.00	0.00
US	Consumer Credit	Jun		16.5		18.6	19.00	5.00
EC	EU Commission Publishes Economic Forecasts							
Sunday, 7 August 2016								
CH	Foreign Reserves	Jul		3200		3205	8.15	18.15
Monday, 8 August 2016								
JN	BoP Current Account Adjusted	Jun				1414.5	23.50	9.50
AU	ANZ Job Advertisements MoM	Jul				0.5	1.30	11.30
JN	Bankruptcies YoY	Jul				-7.4	4.30	14.30
JN	Eco Watchers Survey Current/Outlook	Jul				41.2/41.5	5.00	15.00
GE	Industrial Production SA MoM/YoY	Jun				-1.3/-0.4	6.00	16.00
CH	Trade Balance CNY	Jul		306.5		311.2	7.00	17.00
CH	Exports/Imports YoY CNY	Jul		3.3		1.3/-2.3	7.00	17.00
CH	Trade Balance	Jul		48		48.1	7.30	17.30
CH	Exports/Imports YoY	Jul		-3		-4.8/-8.4	7.30	17.30
EC	Sentix Investor Confidence	Aug				1.7	8.30	18.30
CH	Foreign Direct Investment YoY CNY	Jul				9.7	8.45	18.45
CA	Building Permits MoM	Jun				-1.9	12.30	22.30
CA	Bloomberg Nanos Confidence	Jul 29				57.5	14.00	0.00
US	Labor Market Conditions Index Change	Jul				-1.9	14.00	0.00
Tuesday, 9 August 2016								
NZ	ANZ Truckometer Heavy MoM	Jul				4.7	22.00	8.00
NZ	Card Spending Retail MoM/YoY	Jul				1.2/1.0	22.45	8.45
UK	BRC Sales Like-For-Like YoY	Jul				-0.5	23.10	9.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 31				115.5	23.30	9.30
AU	NAB Business Conditions/Confidence	Jul				12.0	1.30	11.30
CH	CPI/PPI YoY	Jul		1.8		1.9/-2.6	1.30	11.30
JN	Machine Tool Orders YoY	Jul P				-19.9	6.00	16.00
GE	Current Account Balance	Jun				17.5	6.00	16.00
UK	Industrial Production MoM/YoY	Jun				-0.5/1.4	8.30	18.30
UK	Manufacturing Production MoM/YoY	Jun				-0.5/1.7	8.30	18.30
UK	Trade Balance	Jun				-2263.0	8.30	18.30
US	NFIB Small Business Optimism	Jul				94.5	10.00	20.00
US	Nonfarm Productivity	2Q P		0.6		-0.6	12.30	22.30
US	Unit Labor Costs	2Q P		1.6		4.5	12.30	22.30
CA	Housing Starts	Jul				218.3	12.15	22.15
UK	NIESR GDP Estimate	Jul				0.6	14.00	0.00
US	Wholesale Inventories/Trade Sales MoM	Jun		0.1/		0.1/0.5	14.00	0.00
US	IBD/TIPP Economic Optimism	Aug				0.0	14.00	0.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		6-Sep	1.50%	1.50%		1.50%		
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%		
Japan, BoJ		21-Sep				-0.1% to +0.1%		
US Federal Reserve		22-Sep				0.25-0.50%		

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

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