

## Two Steps Forwards, One Step Back

The previous Friday's strong US payrolls report has become a somewhat hazy memory after a much softer than expected retail sales report on Friday that challenged prevailing confidence that the US consumer has entered Q3 in rude health. In truth, the flat month-on-month readings for both the headline and so-called Control Group readings (the latter feeding the retail component of GDP and which makes up about 50% of consumption) suffered both from a very strong Q2 (revised higher on Friday, ex-autos in June now +0.9%) and a slump in petrol prices depressing sales values.

That said August preliminary consumer sentiment also underwhelmed while PPI readings were much weaker than expected. The dollar swooned on the retail sales report before an afternoon recovery, bonds yields fell by more than 5bps across the curve before lifting slightly into the close, while equities finished down smalls.

In FX, the narrow DXY dollar index ended 0.14% lower at 95.68 having slumped from 95.75 to 95.25 straight after retail sales and PPI. The broader BBDXY ended just 0.05% down on the day while against Asian EM, the dollar rose slightly, ADXY -0.2%. In individual currencies, JPY was strongest, USD/JPY -0.65% to ¥101.30, and AUD the weakest, -0.61% to 0.7652. CAD gained 0.3% and NOK another 0.5% with both benefiting from further gains in oil prices.

In stocks the S&P finished just 0.1% down at 2182.9 after Thursday's new record high. The VIX finished in NY -0.13 to 11.39. In bonds, Treasury yields rebounded slightly in late trade but finished between 3.6 and 4.7bps lower (2s -3.6bps to 0.7221% and 10s -4.6bps to 1.5135%).

Commodities saw gold lose \$3 to \$1336 (unchanged on the week) while oil continued to rally on speculation of a forthcoming OPEC agreement on production cuts, WTI +\$1.0 to \$44.49 (+\$2.69 on the week) and Brent +\$0.93 to \$46.97 (+2.72 on the week). The LME index ended down 1.35% while iron ore firmed by \$1.01 to \$60.37 (-\$0.37 on a week ago).

Fed speak on Friday came from St Louis Fed President James Bullard in a local radio interview and who repeated his 'one then done' view of Fed policy, saying 'We think the regime will persist so that the policy rate can stay about flat over the policy horizon with just one rate increase'.

So to summarise the data, U.S. July retail sales saw headline 0.0% (0.4%E, 0.8%P revised up from 0.6%). Ex-autos sales were -0.3% (0.1%E, 0.9%P revised up from 0.7%). 'Control Group' sales were 0.0% (0.3%E, 0.5%P).

The University of Michigan preliminary August consumer sentiment came in at 90.4 (91.5E, 90.0P). 5-10 year inflation expectations were unchanged at 2.6%, 1-year 2.5% down from 2.7%. The Fed pays more attention to the 5-10 year read.

U.S. July PPI Final Demand was weak at -0.4% M/M (0.1%E, 0.5%P). Core PPI was -0.3% (0.2%E, 0.4%P) for 0.7% Y/Y down from 1.3% in June. Price discounting in the auto sector and, according to one of advisory firm we respect, an inexplicable compression in margins (probably not to be repeated) accounted for the weakness.

China's July money supply data published late Friday showed Aggregate Social Financing at just CNY487.9bn down sharply from 1,629.3bn in June and 1,000bn expected. New Yuan loan 463.6bn down from 1,380bn and 850bn expected. M2 money supply 10.2% Y/Y (11.0%E, 11.8%P).

## Coming Up

Locally, wages on Wednesday and Thursday's Labour Force report will be key; RBA Minutes will get some attention but unlikely to offer too much new.

Offshore, it's US housing reports (NAHB and housing starts, today and tomorrow respectively) then CPI and industrial production (both Tuesday) followed by FOMC minutes Wednesday and the Philly Fed survey Thursday. Several Fed speeches are under the spotlight. Japan has its first estimate of Q2 GDP this morning, seen rising 0.2% in Q/Q terms and 0.7% y/y down from 1.9% in Q1.

Conflicting forces look set to operate on AUD and NZD this week. USD sentiment is on the back foot again after Friday's data despite which both crosses closed on Friday lower on the day and suggests we will struggle to re-test last week's highs (in AUD around 0.7750). Again this, Friday's weak China credit data compounds the slowdown signal from the earlier July activity readings while concerns over future China FDI inflows to Australia after last Thursday's Ausgrid ruling and China's public reaction, can also weigh on sentiment. AU employment data is a wild card for Thursday. Overall, AUD may struggle a bit this week, but with little reason at this stage to suggest much deeper corrections lower.

## Overnight

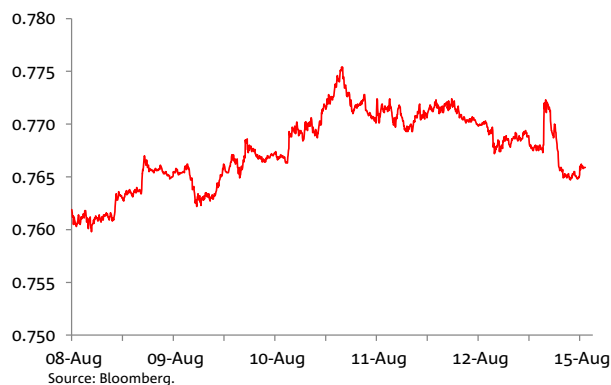
On global stock markets, the S&P 500 was +0.39%. Bond markets saw US 10-years -4.58bp to 1.51%. In commodities, Brent crude oil +6.63% to \$46.97, gold -0.6% to \$1,336, iron ore -0.3% to \$60.37. AUD is at 0.7659 and the range since Friday 5pm Sydney time is 0.7647 to 0.7723.

### Author:

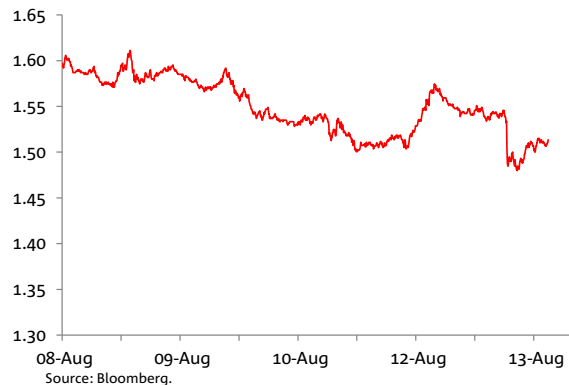
Ray Attrill – Co-Head of FX Strategy

## Markets

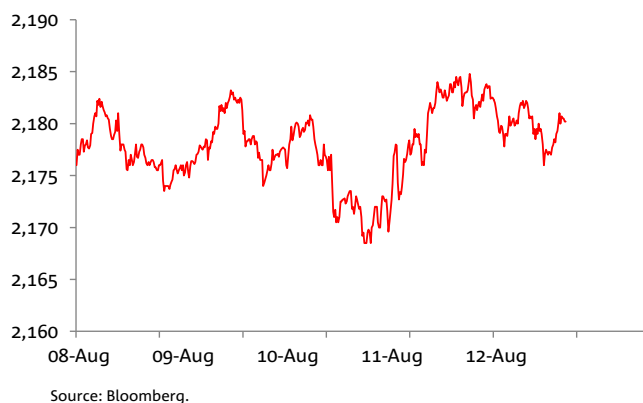
### AUD/USD - past week



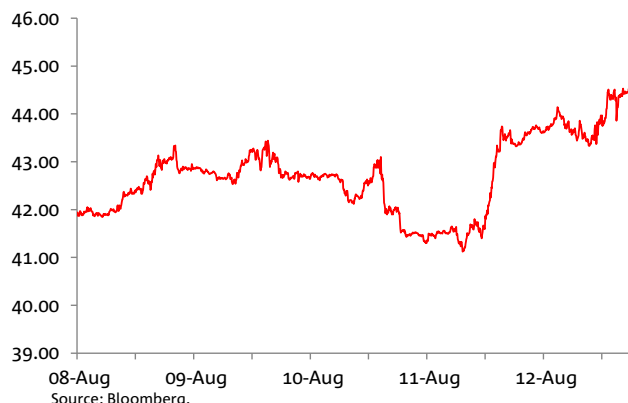
### US 10 yr - past week



### S&P Futures - past week



### WTI - past week



### Foreign Exchange

	Indicative 24hr ranges (**)				Other FX		
	Last	% chge	Low	High	Last	% chge	
AUD	0.7659	-0.5	0.7646	0.7725	HKD	7.7562	0.0
NZD	0.7189	-0.3	0.7184	0.7255	CNY	6.6362	0.0
EUR	1.1170	0.3	1.1131	1.1221	SGD	1.3460	0.2
GBP	1.2929	-0.2	1.2904	1.3035	IDR	13,118	0.0
JPY	101.17	-0.8	100.83	102.27	THB	34.77	0.1
CAD	1.2957	-0.3	1.2925	1.2994	KRW	1,103	0.7
AUD/EUR	0.6855	-0.6	0.6847	0.6917	TWD	31.43	0.9
AUD/JPY	77.52	-0.6	77.34	78.55	PHP	46.63	-0.2
AUD/GBP	0.5921	0.0	0.5914	0.5956	CHF	0.97	-0.1
AUD/NZD	1.0623	-0.6	1.0619	1.0702	SEK	8.44	-0.3
AUD/CNH	5.1022	-0.3	5.0868	5.1308			

### Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.50	0.82	0.96	1.40	USD 10	1.51	0.61
AUD	1.50	1.75	1.62	2.08	AUD 10	1.91	3.80
NZD	2.00	2.22	1.96	2.42	NZD 10	2.12	-2.80
EUR	0.00	-0.30	-0.23	0.28	CAD 10	1.01	1.50
GBP	0.25	0.39	0.40	0.67	EUR 10	-0.11	0.10
JPY	-0.04	-0.02	-0.05	0.06	GBP 10	0.52	-0.90
CAD	0.50	0.90	0.87	1.23	JPY 10	-0.10	-0.70

### Equities

#### Major Indices

	Last	% day	% y/y
Dow	18,576	0.4	6.3
S&P 500	2,184	0.4	4.4
Nasdaq	5,233	0.5	3.7
VIX	12	-4.1	-10.0
FTSE	6,916	0.7	5.6
DAX	10,713	0.6	-2.5
CAC 40	4,500	1.1	-9.2
Nikkei	16,920	1.1	-17.5
Shanghai	3,051	1.1	-23.1
Hang Seng	22,767	1.2	-5.1
ASX 200	5,531	-0.2	3.3

### Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.24	1.00
3 Yr bond	97.8	1.00
10 Yr bond	98.11	3.00
3/10 sprd	-0.31	-2.00
SPI	5474.0	14.0

\*Change in bps

### Commodities\*

	Last	% day
Oil (Brent)	46.97	6.6
Oil (WTI)	44.49	6.7
Oil (Tapis)	45.54	4.0
Gold	1335.80	-0.6
CRB	182.68	1.7
GS Metals	274.6	-0.9
Aluminium	1643.3	0.5
Copper	4749.3	-1.4
Nickel	10261.8	-5.2
Zinc	2232.0	-2.2
Ch. steel	2532.0	-2.1
Iron ore	60.4	-0.3
Coal	68.3	0.7
Wheat Chic.	440.0	-0.3
Sugar	19.7	0.4
Cotton	69.9	-1.8
Coffee	140.4	-1.4

### CO<sub>2</sub> Emissions - Euros

	Last	% day
Dec-2016	4.90	2.3
Jun-2017	4.92	2.3
Dec-2017	4.93	0.4

\* 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
<b>Monday, 15 August 2016</b>								
NZ	Performance Services Index	Jul				56.7	22.30	8.30
UK	Rightmove House Prices MoM	Aug				-0.9/4.5	23.10	9.10
JN	GDP SA QoQ/GoQ saar	2Q P		0.2/0.7		0.5/1.9	23.50	9.50
JN	Industrial Production MoM/YoY	Jun F		/		1.9/-1.9	4.30	14.30
US	Empire Manufacturing	Aug		2		0.6	12.30	22.30
CA	Existing Home Sales MoM	Jul				-0.9	13.00	23.00
CA	Bloomberg Nanos Confidence	Aug 12				59.9	14.00	0.00
US	NAHB Housing Market Index	Aug		60		59.0	14.00	0.00
US	Net Long-term/Total Net TIC Flows	Jun				41.1/-11.0	20.00	6.00
<b>Tuesday, 16 August 2016</b>								
NZ	<b>RBNZ Governor Wheeler Speaks in Tauranga (Not Public)</b>							
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Aug 14				114.7	23.30	9.30
AU	RBA Aug. Meeting Minutes						1.30	11.30
AU	New Motor Vehicle Sales MoM/YoY	Jul				3.1/2.1	1.30	11.30
NZ	Non Resident Bond Holdings	Jul				67.4	3.00	13.00
UK	CPI MoM/YoY	Jul		-0.1/0.5		0.2/0.5	8.30	18.30
UK	CPI Core YoY	Jul		1.3		1.4	8.30	18.30
UK	PPI Input NSA MoM/YoY	Jul		0.5/1.4		1.8/-0.5	8.30	18.30
UK	PPI Output Core NSA MoM/YoY	Jul		0.1/0.8		0.1/0.7	8.30	18.30
UK	House Price Index YoY	Jun				8.1	8.30	18.30
EC	Trade Balance SA	Jun				24.5	9.00	19.00
GE	ZEW Survey Current Situation/Expectations	Aug		/		49.8/-6.8	9.00	19.00
EC	ZEW Survey Expectations	Aug				-14.7	9.00	19.00
CA	Manufacturing Sales MoM	Jun		0.7		-1.0	12.30	22.30
US	Housing Starts, #/MoM	Jul		1176/-1.1		1189/4.8	12.30	22.30
US	Building Permits, #/MoM	Jul		1160/0.6		1153/1.5	12.30	22.30
US	CPI MoM/YoY	Jul		0/0.9		0.2/1.0	12.30	22.30
US	CPI Ex Food and Energy MoM	Jul		0.2/2.3		0.2/2.3	12.30	22.30
US	Real Avg Weekly Earnings YoY	Jul				1.2	12.30	22.30
US	Industrial Production MoM/Capacity use	Jul		0.2/75.6		0.6/75.4	13.15	23.15
US	Manufacturing (SIC) Production	Jul		0.2		0.4	13.15	23.15
US	Fed's Lockhart Speaks to Rotary Club of Knoxville						16.30	2.30
NZ	Global Dairy Auction, GDT-weighted price index		+5-10			6.6	early am, NZT time	
<b>Wednesday, 17 August 2016</b>								
NZ	PPI Input/Output QoQ	2Q				-1.0/-0.2	22.45	8.45
NZ	Employment Change QoQ/YoY	2Q	0.7/2.5	0.6/2.3		1.2/2.0	22.45	8.45
NZ	Unemployment/Participation Rate	2Q	5.3/68.8	5.3/68.8		5.7/69.0	22.45	8.45
NZ	Business Price Indexes, outputs/inputs	2Q	flat/-0.1			0.1/-0.9	22.45	8.45
AU	Westpac Leading Index MoM	Jul				-0.2	0.30	10.30
AU	Wage Price Index QoQ/YoY	2Q	0.5/2.0	0.5/2		0.4/2.1	1.30	11.30
UK	Jobless Claims Change/Claimant Count Rate	Jul		5/2.2		0.4/2.2	8.30	18.30
UK	Average Weekly Earnings/Earnings ex bonus 3M/YoY	Jun		2.5/2.3		2.3/2.2	8.30	18.30
UK	Employment Change/ILO Unemployment rate 3M/3M	Jun		158/4.9		176.0/4.9	8.30	18.30
US	Fed's Lockhart Speaks to Rotary Club of Knoxville						16.30	2.30
US	Fed's Bullard Speaks in St. Louis						17.00	3.00
US	U.S. Fed Releases Minutes from July 26-27 FOMC Meeting						18.00	4.00
<b>Thursday, 18 August 2016</b>								
NZ	ANZ Job Advertisements MoM	Jul				0.5	22.00	8.00
JN	Trade Balance Adjusted	Jul		139.1		335.0	23.50	9.50
JN	Exports/Imports YoY	Jul		-13.6		-7.4/-18.8	23.50	9.50
NZ	ANZ Consumer Confidence Index/MoM	Aug				118.2/-0.6	1.00	11.00
CH	Property Prices	Jul						
AU	Employment Change/Unemployment rate	Jul	12/5.8	10/5.8		7.9/5.8	1.30	11.30
AU	Participation Rate	Jul	64.9	64.9		64.9	1.30	11.30
AU	RBA FX Transactions Market	Jul				1720	1.30	11.30
AU	RBA's Hancock in Panel Participation in Sydney							
JN	Machine Tool Orders YoY	Jul F				-19.6	6.00	16.00
EC	ECB Current Account SA	Jun				30.8	8.00	18.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Jul		0.3/3.6		-0.9/3.9	8.30	18.30
EC	Construction Output MoM/YoY	Jun		/		-0.5/-0.8	9.00	19.00
EC	CPI MoM/YoY	Jul		/		0.2/0.1	9.00	19.00
EC	CPI Core YoY	Jul F				0.9	9.00	19.00
EC	ECB account of the monetary policy meeting						11.30	21.30
CA	Int'l Securities Transactions	Jun				14.7	12.30	22.30
US	Initial Jobless Claims	Aug 13				266.0	12.30	22.30
US	Philadelphia Fed Business Outlook	Aug		1.25		-2.9	12.30	22.30
US	Fed's Dudley answers questions at press briefing in New York						14.00	0.00
US	Leading Index	Jul		0.3		0.3	14.00	0.00
US	Fed's Williams Speaks in Anchorage						20.00	6.00
<b>Friday, 19 August 2016</b>								
NZ	Net Migration SA	Jul				5670.0	22.45	8.45
NZ	Credit Card Spending MoM/YoY	Jul				-0.8/4.1	3.00	13.00
JN	All Industry Activity Index MoM	Jun		0.9		-1.0	4.30	14.30
UK	Public Finances (PSNCR)/Central Government NCR	Jul		/		14.9/20.0	8.30	18.30
CA	Retail Sales/Ex autos MoM	Jun		0.8/0.4		0.2/0.9	12.30	22.30
CA	CPI NSA MoM/YoY	Jul		0/1.5		0.2/1.5	12.30	22.30
CA	CPI Core MoM/YoY	Jul		0/2.1		0.0/2.1	12.30	22.30
CA	CPI SA MoM/YoY	Jul		0.2/0.2		0.2/0.2	12.30	22.30
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Canada, BoC		7-Sep				0.50%		
Australia, RBA		6-Sep	1.50%			1.50%		
Europe ECB		8-Sep				0.00%		
UK BOE		15-Sep				0.25%		
Japan, BoJ		21-Sep				-0.1% to +0.1%		
US Federal Reserve		22-Sep				0.25-0.50%		
New Zealand, RBNZ		22-Sep	1.75%	2.00%		2.00%		

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

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