

MARKETS TODAY

Every day I love you less and less



Good morning

As summer times kicks into full mode in Europe, ECB President Draghi play list is slowly but surely moving away from the likes of Olivia Newton John "Hopelessly devoted to you", being replaced by more upbeat tunes such as Kaiser Chiefs "Every day I love you less and less". On paper, not a lot was expected from the overnight session, but in the end we had pretty decent moves in currencies, bond yields and equity markets, largely driven by hawkish comments from President Draghi (less enamoured with stimulatory measures) while softness in equities also reflect concerns over cyber-attacks and Googles European commission fine.

In his introductory speech to the ECB forum on Central Banking in Sintra, Portugal, ECB President Draghi took another step down the path of gradual exit from emergency policy measures. He provided an upbeat assessment on the Eurozone economic recovery and argued that the slow inflationary response to above-trend economic growth was largely due to temporary positive supply shock and that monetary policy is working to build deflationary pressures. The key takeaway from Draghi's speech is that "the economy continues to recover, a constant policy stance will become more accommodative, and the central bank can accompany the recovery by adjusting the parameters of its policy instruments – not in order to tighten the policy stance, but to keep it broadly unchanged". The market took that as signalling a further step towards policy normalisation, allowing a discussion of the tapering of asset purchases over coming months.

Reaction to Draghi's speech triggered a rally in the Euro, from 1.1183 to 1.1339 currently while 10y Bunds initially jumped from 0.24% to 0.28% and then continued to climb closing the day, 13bps higher at 0.37%. The market has clearly taken Draghi's message on board, QE tapering is coming and now the question is how soon and how quickly. Our base case remains for an ECB announcement in September, but today's speech clearly raises the prospect an announcement could come as early as next meeting on 20 July. The ECB will need to tread carefully from here in order to avoid a 2013 US like taper tantrum episode which saw 10y UST yields sold off by 140bps in the space of a few months.

European currencies followed the move higher in the Euro with DKK up 1.47% against the USD while CHF is +1.34% and SEK is 1.34%. European currencies outperformances reflect the bigger move in EU bond yields relative to US Treasury yields. As noted above, 10y Bunds have jumped 13bps, 10y French FRTR are +14bps and 10y UK Gilts are +8bps. In contrast 10y US Treasury yields have climbed +7.5 bps to be currently at 2.2051%.

European currencies outperformances have dragged USD indices down between 0.60-0.70%. Meanwhile the AUD and NZD are little changed against the USD and

unsurprisingly the move higher in US yields helped USD/JPY trade back above ¥112 (+0.24%)

In other news, the Bank of England released its Financial Stability Review and will raise banks' counter-cyclical capital buffer initially to 0.5% by June 2018 and then again to 1% in November 2018 in order to reduce risks posed by 10% annual gains in consumer credit and to prepare for the uncertain outcome of Brexit talks.

In the US, consumer confidence rose to 118.9 from 117.6 and well above 116.0 f/c., partly reflecting the elevated level of stocks and strong labour market/low energy prices. The IMF reduced its forecast for US growth by 0.2pp to 2.1% for 2017 and by 0.4pp to 2.5% for next year after removing the previously assumed fiscal stimulus. That remains well short of Trump's optimistic budget proposal which assumes a 3% target. Fed's Yellen's speech in London didn't offer much new. She noted that the gradual rate-hike pace is well anticipated in markets and that asset valuations are "somewhat rich by traditional metrics".

Coming Up

In a way the fact that we have so many central bank speakers today is probably not a bad thing given the lightness in the economic calendar.

As we are about to press the send button, Minneapolis Fed President Neel Kashkari speaks in Houghton, Michigan and although the title to his speech is not available the session includes a Q&A with the audience. Fed Kashkari opposed the rate hike this month preferring to wait and see if the softness in the data is indeed transitory.

There are no major data releases during our APAC session and although this afternoon we have San Francisco Fed Williams speaking in Canberra, he is the delivering the same speech from the day before so we are unlikely to learn anything new.

Later in Europe ECB's Lautenschlaeger speaks in Bonn, the Eurozone gets money supply data for May and Italy releases its preliminary CPI figures for June.

Tonight, the US releases pending homes sales data along with advance goods trade balance and wholesale inventories all for the month of May. Bank of Canada Deputy Governor Lynn Patterson speaks in Calgary and the Fed releases Part II of its annual bank stress tests.

Overnight

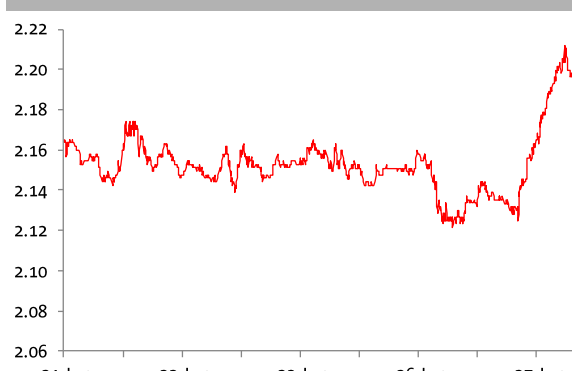
On global stock markets, the S&P 500 was -0.81%. Bond markets saw US 10-years -0.53bp to 2.21%. In commodities, Brent crude oil +0.76% to \$46.18, gold +0.2% to \$1,249, iron ore +5.2% to \$59.70, steam coal -0.1% to \$80.60, met. coal +0.4% to \$146.50. AUD is at 0.7583 and the range since yesterday 5pm Sydney time is 0.7559 to 0.7614.

Markets

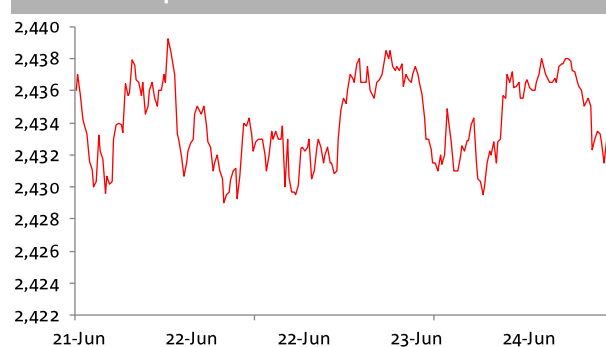
AUD/USD - past week



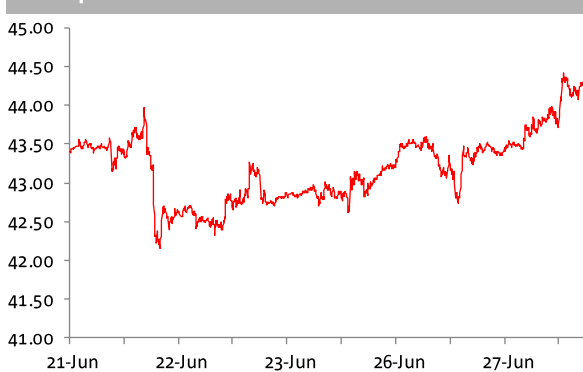
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

Indicative 24hr
ranges (**)

	Last	% chge	Low	High		Last	% chge
AUD	0.7583	0.0	0.7559	0.7614	HKD	7.8005	0.0
NZD	0.7268	-0.3	0.7262	0.7314	CNY	6.8126	-0.4
EUR	1.1335	1.4	1.1172	1.1220	SGD	1.3872	-0.1
GBP	1.2811	0.7	1.2706	1.2760	IDR	13,300	-0.1
JPY	112.32	0.4	111.13	112.08	THB	33.97	0.0
CAD	1.3196	-0.4	1.3212	1.3278	KRW	1,137	0.0
AUD/EUR	0.6689	-1.4	0.6739	0.6804	TWD	30.33	0.0
AUD/JPY	85.17	0.4	84.03	85.08	PHP	50.26	0.2
AUD/GBP	0.5919	-0.7	0.5925	0.5984	CHF	0.96	-1.2
AUD/NZD	1.0432	0.2	1.0362	1.0425	SEK	8.62	-1.1
AUD/CNH	5.1678	-0.5	5.1714	5.2070			

Other FX

Equities

Major Indices

	Last	% day	% y/y
Dow	21,311	-0.46	24.9
S&P 500	2,419	-0.81	21.9
Nasdaq	6,147	-1.61	36.0
VIX	11.06	11.72	-58.1
FTSE	7,434	-0.2	24.5
DAX	12,671	-0.8	37.5
CAC 40	5,259	-0.7	32.5
Nikkei	20,225	0.4	32.1
Shanghai	3,191	0.2	10.2
Hang Seng	25,840	-0.1	27.9
ASX 200	5,714	-0.1	11.2

Commodities*

	Last	% day
Oil (Brent)	46.18	0.8
Oil (WTI)	43.72	0.8
Oil (Tapis)	46.51	2.2
Gold	1249.00	0.2
CRB	170.01	0.9
GS Metals	323.2	1.2
Aluminium	1875.0	1.2
Copper	5842.3	1.1
Nickel	9225.0	2.7
Zinc	2749.3	1.1
Ch. steel	3267.0	4.9
Iron ore	59.7	5.2
St. Coal	80.6	-0.1
Met.coal	146.5	0.4
Wheat Chic.	469.0	0.8
Sugar	12.7	0.3
Cotton	74.4	1.0
Coffee	125.3	0.6

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.27	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.52	-7.50
3/10 sprd	0.28	10.50
SPI	5642.0	24.0

*Change in bps

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-0.2	-1.0%
FED	-0	-1.6%

Interest Rates

Indicative Swap Rates

	Cash	3mth	2Yr	10Yr		Last	chge	Spnd
USD	1.25	1.29	1.56	2.18	USD 10	2.21	6.81	
AUD	1.50	1.72	1.87	2.73	AUD 10	2.35	-2.00	0.15
NZD	1.75	1.96	2.25	3.20	NZD 10	2.76	3.10	0.56
EUR	0.00	-0.33	-0.15	0.82	CAD 10	1.57	10.60	-0.64
GBP	0.25	0.30	0.61	1.20	EUR 10	0.37	12.50	-1.84
JPY	-0.05	0.00	0.04	0.23	GBP 10	1.09	7.90	-1.12
CAD	0.50	0.98	1.31	1.90	JPY 10	0.05	-0.70	-2.16

Benchmark 10 Year Bonds

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, 28 June 2017								
AU/US	Fed's Williams Speaks at ANU in Canberra; reprise of June 27 speech						8.30	17.30
EC	ECB's Lautenschlaeger speaks in Bonn						9.45	18.45
US	Advance Goods Trade Balance	May		-66		-67.1	13.30	22.30
US	Wholesale Inventories MoM	May P		0.2		-0.5	13.30	22.30
CA	Bank of Canada's Poloz at ECB Panel						14.30	23.30
US	Pending Home Sales MoM/YoY	May		0.8/		-1.3/-5.4	15.00	0.00
CA	Bank of Canada Deputy Governor Lynn Patterson Speaks in Calgary						19.15	4.15
US	Fed releases Part II of its annual bank stress tests: Comprehensive Capital Analysis and Review (CCAR)						21.30	6.30
Thursday, 29 June 2017								
JN	Retail Sales MoM/YoY	May		-1/2.6		1.4/3.2	0.50	9.50
NZ	ANZ Activity Outlook/Business Confidence	Jun		/		38.3/14.9	2.00	11.00
AU	HIA New Home Sales MoM	May				0.8	2.00	11.00
AU	Job vacancies	May				1.8	2.30	11.30
GE	GfK Consumer Confidence	Jul		10.4		10.4	7.00	16.00
CH	BoP Current Account Balance	1Q F				19.0	7.15	16.15
JN	BOJ Harada speaks in Tokyo						7.30	16.30
UK	Mortgage Approvals	May		64		64.6	9.30	18.30
AU	RBA's Debelle Gives Speech on Global FX Code						9.30	18.30
EC	Business Climate Indicator	Jun		0.93		0.9	10.00	19.00
EC	ECB's Lautenschlaeger speaks in Berlin						10.30	19.30
GE	CPI EU Harmonized MoM/YoY	Jun P		0/1.3		-0.2/1.4	13.00	22.00
US	GDP Annualized QoQ	1Q T		1.2		1.2	13.30	22.30
US	Initial Jobless Claims	Jun 24		240		241.0	13.30	22.30
EC	ECB's Coeure speaks in Brussels						14.00	23.00
US	Fed's Bullard Speaks on the US Economy and Monetary Policy in London						18.00	3.00
Friday, 30 June 2017								
NZ	Building Permits MoM	May				-7.6	23.45	8.45
UK	GfK Consumer Confidence	Jun		-7		-5.0	0.10	9.10
UK	Lloyds Business Barometer	Jun				27.0	0.10	9.10
JN	Jobless Rate/Jobs-to-Applicants Ratio	May		2.8/1.48		2.8/1.5	0.30	9.30
JN	Overall Household Spending YoY	May		-0.7		-1.4	0.30	9.30
JN	Natl CPI YoY	May		0.5		0.4	0.30	9.30
JN	Industrial Production MoM/YoY	May P		-3/6.9		4.0/5.7	0.50	9.50
CH	Manufacturing/Non-manufacturing PMI	Jun		51/		51.2/54.5	2.00	11.00
AU	Private Sector Credit MoM/YoY	May	0.4/4.9	0.4/5		0.4/4.9	2.30	11.30
GE	Unemployment Change (000's)/Rate	Jun		-10/5.7		-9.0/5.7	8.55	17.55
UK	GDP QoQ/YoY	1Q F		0.2/2		0.2/2.0	9.30	18.30
UK	Total Business Investment QoQ/YoY	1Q F		/		0.6/0.8	9.30	18.30
UK	Current Account Balance	1Q		-16.7		-12.1	9.30	18.30
EC	CPI Estimate/Core YoY	Jun		1.2/1		1.4/0.9	10.00	19.00
US	Personal Income/Spending	May		0.3/0.1		0.4/0.4	13.30	22.30
US	PCE Deflator MoM/YoY	May		-0.1/1.5		0.2/1.7	13.30	22.30
US	PCE Core MoM/YoY	May		0.1/1.4		0.2/1.5	13.30	22.30
CA	GDP MoM/YoY	Apr		0.2/3.3		0.5/3.2	13.30	22.30
CA	Industrial Product/Raw Materials Price MoM	May		0.3/-0.5		0.6/1.6	13.30	22.30
US	Chicago Purchasing Manager	Jun		58		59.4	14.45	23.45
CA	BoC Senior Loan Officer Survey	2Q				-1.9	15.30	0.30
EC	ECB Executive Board Member Mersch speaks in Germany						16.30	1.30
US	Baker Hughes US Rig Count/Oil Rigs	Jun 30				941	18.00	3.00
Monday, 3 July 2017								
AU	AIQ Perf of Mfg Index	Jun				54.8	0.30	9.30
JN	Tankan Large Mfg Index/Outlook	2Q		15		12.0	0.50	9.50
JN	Tankan Large All Industry Capex	2Q		7.2		0.6	0.50	9.50
AU	CoreLogic House Px MoM	Jun				-1.1	1.00	10.00
JN	Nikkei Japan PMI Mfg	Jun F				52.0	1.30	10.30
AU	Melbourne Institute Inflation MoM/YoY	Jun				0.0	2.00	11.00
AU	NAB Online Retail Sales Index	May				-0.7/7.4	2.30	11.30
AU	ANZ Job Advertisements MoM	Jun				0.4	2.30	11.30
AU	Building Approvals MoM/YoY	May				4.4	2.30	11.30
CH	Caixin China PMI Mfg	Jun		49.8		49.6	2.45	11.45
JN	Vehicle Sales YoY	Jun				6.1	6.00	15.00
JN	Consumer Confidence Index	Jun				43.6	6.00	15.00
AU	Commodity Index AUD/SDR YoY	Jun				128.5	7.30	16.30
GE	Markit/BME Germany Manufacturing PMI	Jun F				59.3	8.55	17.55
EC	Markit Eurozone Manufacturing PMI	Jun F				57.3	9.00	18.00
UK	Markit UK PMI Manufacturing SA	Jun				56.7	9.30	18.30
US	Fed's Bullard Speaks at BoE Conference in London						9.30	18.30
EC	Unemployment Rate	May				9.3	10.00	19.00
US	Markit US Manufacturing PMI	Jun F				52.1	14.45	23.45
US	Wards Total Vehicle Sales	Jun				16.6		
CA	Bloomberg Nanos Confidence	Jun 23				58.0	15.00	0.00
US	ISM Manufacturing/Prices Paid	Jun		55		54.9	15.00	0.00
US	ISM New Orders/Employment	Jun				59.5	15.00	0.00
US	Construction Spending MoM	May		0.3		-1.4	15.00	0.00
Tuesday, 4 July 2017								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jun 25				112.4	0.30	9.30
JN	Monetary Base YoY	Jun				19.4	0.50	9.50
AU	Retail Sales MoM	May				1.0	2.30	11.30
AU	RBA Cash Rate Target	Jul 4		1.5		1.5	5.30	14.30
UK	Markit/CIPS UK Construction PMI	Jun				56.0	9.30	18.30
EC	PPI MoM/YoY	May				0.0	10.00	19.00
CA	MLI Leading Indicator MoM	May				0.4	12.00	21.00
CA	Markit Canada Manufacturing PMI	Jun				55.1	14.30	23.30
NZ	QV House Prices YoY	Jun				9.7	18.00	3.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		4-Jul	1.50%	1.50%		1.50%		
Canada, BoC		13-Jul				0.5%		
Japan, BoJ		20-Jul	-0.1%	-0.1%		-0.1%		
Europe ECB		20-Jul	-0.4%	-0.4%		-0.4%		
US Federal Reserve		27-Jul				1.00-1.25%		
UK BOE		3-Aug				0.25%		
New Zealand, RBNZ		10-Aug	1.75%	1.75%		1.75%		

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

CONTACT DETAILS

Authors

David de Garis
Director, Economics
+61 3 8641 3045
david.degaris@nab.com.au

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848
ray.attrill@nab.com.au

Rodrigo Catril
Currency Strategist
+61 2 9293 7109
rodrigo.h.catril@nab.com.au

Tapas Strickland
Economist
+61 2 9237 1980
tapas.strickland@nab.com.au

Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406
peter.jolly@nab.com.au

Group Economics

Alan Oster
Chief Economist
+61 3 8634 2927
alan_oster@national.com.au

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.