

MARKETS TODAY



You gotta lift and sometimes that's how it is

Good morning

Lift was Shannon Noll's first post Australian Idol hit. The lyrics "seems like forever that you've been falling, it's time to move on" are an apt description of the mood of central banks, which have been removing expectations of further policy easing and getting the market into thinking of central banks tightening policy. This theme continued overnight with comments from the Bank of Canada's Poloz and Bank of England's Carney.

In terms of market moves, most action happened in currencies: Canadian Dollar (+1.3%); British Pound (+0.9%); Euro (+0.4%) and the Aussie (+0.8%) – mostly on the back of central bank commentary and a move higher in commodity prices. There was some intra-day volatility in bond yields, while equities were mixed with Europe flat (EuroStoxx -0.1%) and the US higher (S&P500 +0.9%).

The Canadian dollar surged 1.3% on the back of continued hawkish comments from the Bank of Canada and higher oil prices. Governor Poloz reinforced the view of a possible rate hike in the near future: "[rate cuts] have done their job. We're just approaching a new interest rate decision... certainly we need to be at least considering that whole situation now that capacity – excess capacity – is being used up steadily". Markets have correspondingly shifted to pricing a 70% chance of a rate hike in July, up from just 35% a couple of days ago.

The Pound also got into the action up 0.9% overnight. Comments from Bank of England Governor Carney were interpreted as being more hawkish than his previous comments on the economy, noting: "some removal of monetary stimulus is likely to become necessary if the trade-off facing the MPC continues to lessen and the policy decision accordingly becomes more conventional". Markets are now pricing a 55% chance of a rate hike by November 2017 compared to 44% a couple of days ago.

Rates markets have experienced some volatility. While German Bund yields finished unchanged at 0.37%, they did trade in a wide range of 0.33-0.41 after yesterday's 13bps increase. Yields did open higher in Europe, but they were taken lower on comments by unnamed ECB sources who said the market had misinterpreted Draghi yesterday ("[it] was intended to strike a balance between recognising the currency bloc's economic strength and warning that monetary support is still needed"). This move was subsequently reversed on Carney's comments and Draghi did not seek to clarify his earlier speech. Moves in US Treasuries were similar, up 1bps to 2.22%.

Why have central banks become hawkish all of a sudden? Draghi speech yesterday is worth re-reading on this, but it seems: (1) the link between monetary policy and the real economy is working; (2) the link between a growing real economy and inflation is more subdued than in the past, but the factors holding this back are temporary and thus brings the fear of inflation breaking out as the economy continues to improve; and (3)

financial conditions are becoming easier as the real economy expands (see chart below). Thus a constant policy stance is becoming more accommodative.

Will Australia join the central bank party? A Bloomberg article covering a three day old article by ex-RBA board member John Edwards suggested it may. Dr Edwards opined "if the RBA's economic forecasts prove correct. It's possible the tightening could start earlier, or if not the tightening itself, at least the signalling which should precede it. We may be seeing a little of that now...it would [see a]...natural policy rate as at least 3.5%."

Moves in commodities were supportive for the Aussie: WTI up 1.2% to \$47.37 a barrel its fifth consecutive daily increase. Iron Ore was also stronger, up 4.4% to \$62.3 a tonne and well up on the recent lows of \$53 a tonne.

Coming Up

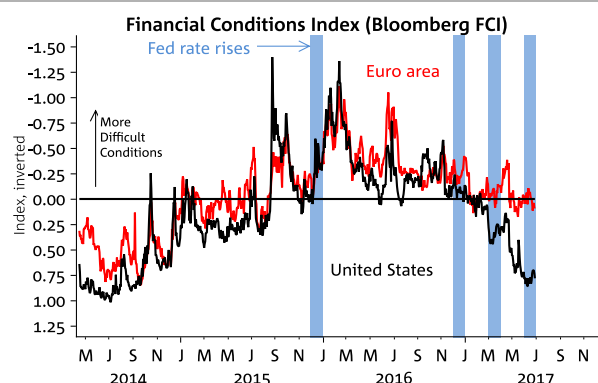
International focus will be on the first cut of the German CPI for June (10.00pm AEST). The market consensus looks for 1.4% y/y, down slightly from the 1.5% y/y pace in May. Also out in the Euro area is German GfK Consumer Confidence (4.00pm AEST). Other international touch points are unlikely to move the markets. In NZ the ANZ Activity Outlook (11.00am AEST), Japan has Retail Sales (3.00pm AEST), and China has Current Account Balance.

The US has the third estimate of Q1 GDP – markets still thinking of unrevised growth of 1.2% annualised, along the usual Weekly Jobless Claims. Fed speak continues with Bullard (non-voter, dove) talking in London about the US economy and monetary policy.

Overnight

On global stock markets, the S&P 500 was +0.92%. Bond markets saw US 10-years +1.22bp to 2.22%. In commodities, Brent crude oil +1.54% to \$47.37, gold+0.1% to \$1,248, iron ore +4.4% to \$62.33, steam coal +0.1% to \$80.65, met. coal +0.0% to \$146.50. AUD is at 0.7641 and the range since yesterday 5pm Sydney time is 0.7577 to 0.7645.

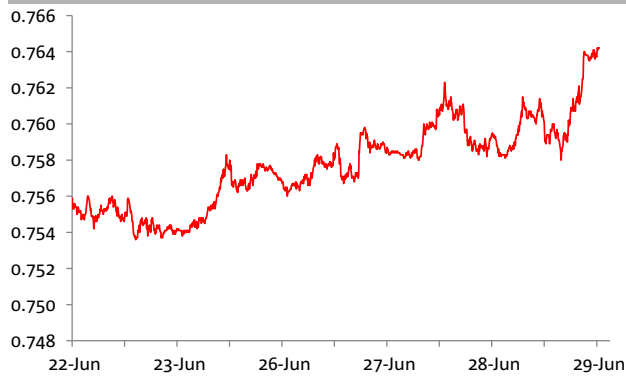
Chart 1: Financial conditions ease despite US rate hikes



Source: National Australia Bank, Bloomberg

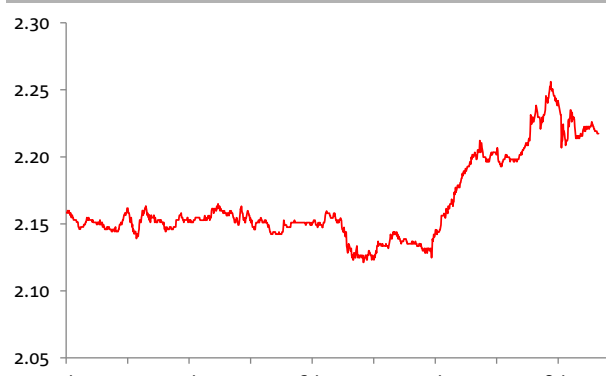
Markets

AUD/USD - past week



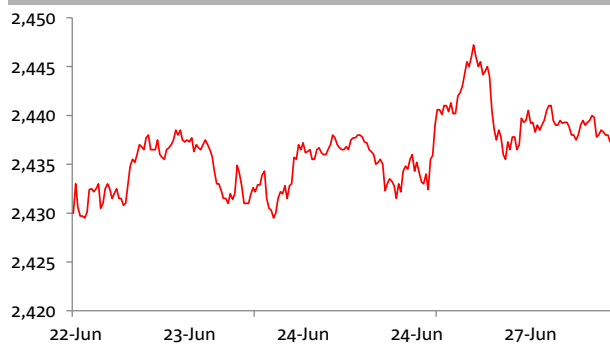
Source: Bloomberg.

US 10yr - past week



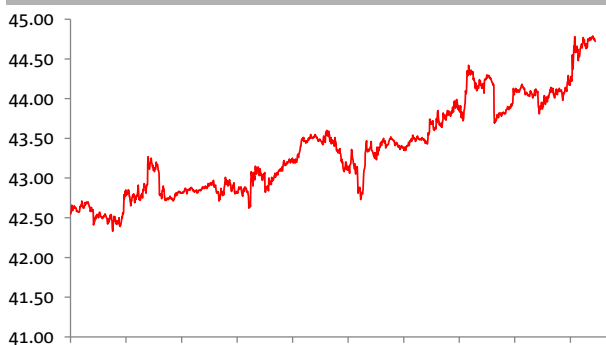
Source: Bloomberg.

S&P Future - past week



Source: Bloomberg.

WTI - past week



Source: Bloomberg.

Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7641	0.8	0.7577	0.7645	HKD	7.8038 0.0
NZD	0.7310	0.5	0.7254	0.7314	CNY	6.7998 -0.2
EUR	1.1381	0.4	1.1292	1.1391	SGD	1.3815 -0.4
GBP	1.2931	0.9	1.2794	1.2972	IDR	13,342 0.3
JPY	112.26	-0.1	111.83	112.42	THB	33.97 0.0
CAD	1.3031	-1.3	1.3013	1.3199	KRW	1,144 0.6
AUD/EUR	0.6714	0.4	0.6667	0.6726	TWD	30.44 0.4
AUD/JPY	85.78	0.7	84.91	85.86	PHP	50.55 0.6
AUD/GBP	0.5909	-0.1	0.5867	0.5945	CHF	0.96 -0.1
AUD/NZD	1.0452	0.2	1.0422	1.0468	SEK	8.54 -0.8
AUD/CNH	5.1801	0.2	5.1545	5.2069		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.30	1.57	2.19	USD 10	2.22	1.22
AUD	1.50	1.72	1.87	2.76	AUD 10	2.46	10.30 0.24
NZD	1.75	1.96	2.25	3.22	NZD 10	2.80	7.80 0.58
EUR	0.00	-0.33	-0.16	0.81	CAD 10	1.62	4.70 -0.60
GBP	0.25	0.30	0.66	1.26	EUR 10	0.37	-0.20 -1.85
JPY	-0.07	0.00	0.04	0.24	GBP 10	1.15	6.40 -1.06
CAD	0.50	1.02	1.35	1.94	JPY 10	0.06	1.70 -2.15

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,455	0.68	23.2
S&P 500	2,442	0.92	19.9
Nasdaq	6,234	1.43	32.9
VIX	10.01	-9.49	-46.6
FTSE	7,388	-0.6	20.3
DAX	12,647	-0.2	33.9
CAC 40	5,253	-0.1	28.5
Nikkei	20,130	-0.5	29.3
Shanghai	3,173	-0.6	8.2
Hang Seng	25,684	-0.6	25.7
ASX 200	5,756	0.7	11.9

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.27	-1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.49	-12.00
3/10 sprd	0.31	15.00
SPI	5729.0	-75.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	47.37	1.5
Oil (WTI)	44.77	1.2
Oil (Tapis)	46.92	0.9
Gold	1248.00	0.1
CRB	170.98	0.6
GS Metals	324.4	0.4
Aluminium	1888.0	0.7
Copper	5865.5	0.4
Nickel	9235.5	0.1
Zinc	2736.5	-0.5
Ch. steel	3270.0	3.1
Iron ore	62.3	4.4
St. Coal	80.7	0.1
Met.coal	146.5	0.0
Wheat Chic.	473.0	0.9
Sugar	12.6	-0.8
Cotton	74.4	0.0
Coffee	124.4	-0.7
Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-0.2	-1.0%
FED	#N/A	#N/A

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/Job-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	AiG 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.