

MARKETS TODAY

Where is the Love?



Good morning

The narrow DXY US dollar index ended Q2 recording its biggest quarterly loss since Q3 2010. This week's top-drawer US economic data has a lot to live up to if there is to be any love left for the big dollar at the start of Q3.

A dramatic week ended without too much additional fanfare on Friday. The global yield back up extended but only slightly, the dollar finished fairly flat overall and stocks mixed (US mostly higher, Europe weaker). Neither the US core PCE deflator (1.4% from 1.5%) nor Eurozone HICP (1.3% from 1.4%) sprung surprises sufficient to prompt market volatility. Of more interest as it turned out, the Chicago PMI jumped by over 6 points to suggest upside risk to Monday's manufacturing ISM, while a very strong Canadian Q2 business survey looks to have sealed the deal in terms of the Bank of Canada being the first cab of the rank to translate the recent shift in central bank rhetoric into action.

In US stocks, the S&P finished Friday 0.15% higher at 2,423.41 but was 0.6% lower on the week. The Dow gained 0.29% (-0.2% w/w) while the NASDAQ lost 0.06% and is 2.0% down on the week. The VIX dropped back another 0.26 to 11.18 so is just 1.16 points higher on the week. The Eurostoxx 50 fell 0.85% to be 2.9% lower on the week, so European stocks seemingly more freaked out by the back-up in their bond yields than their US counterparts by higher US yields.

In FX, the dollar put in a mixed performance with DXY unchanged at 95.628 and the broader BBDXY +0.13% on a slight recovery against the EUR (-0.13% to 1.1426) and rise in USD/JPY (+0.19% to 112.39). The NZD was joint-best performer with NOK, +0.47% to 0.7333 and to its highest level since last November. SEK (+0.42%) and CAD were not far behind (USD/CAD -0.31% to 1.2964 and bringing its weekly rise to 2.3%. GBP/USD added another +0.14% so extending Thursday's push above \$1.30, to \$1.3025 and making it the second best G10 FX performer over the week (+2.4% versus +3.4% for the SEK). AUD/USD finished little changed at 0.7689.

In rates the global sovereign yields back up continued, more so in Treasuries than European bonds. 2yr USTs +1.3bps to 1.384% (+4.2bps on the week) and 10s +3.8bps to 2.305% (+16.2bps w/w). 10yr Bunds added a more modest 1.4bps to 0.466% but on the week the rise has outpaced all points on the Treasury curve (+21.1bps) only to be outdone by UK gilts, +22.6bps on the week.

In commodities oil continues its recovery from the previous week's sharp losses, WTI +\$1.1 to \$46.04 and so \$3.03 up on the week while Brent added 50 cents to \$47.92 to be \$2.38 up on the week. Friday's Baker Hughes rig count showed the first drop in 24 weeks in U.S. rigs operating, albeit by just 2 to 756. Gold in contrast lost \$3.5 to \$1,242.30 and is \$13.90 lower on the week. Iron ore added another 20 cents to \$64.95 bringing its weekly gains to \$58.20 or 14.4%.

Ray Attrill, Head of FX Strategy

Coming Up

Central Bank speak had an electrifying impact on markets last week and may well do so again this. In the case of Australia, this could come from the statement from RBA Governor Lowe following Tuesday's Board meeting. The challenge will be to find a form of words that limits risks of the AUD/USD marching still higher and threatening a test of the 80 cents level in coming weeks. Certainly we don't think the RBA is set to join the central bank chorus espousing less dovish or somewhat hawkish rhetoric, but the risk is that anything construed as more positive about the economic outlook compared to a month ago will be viewed exactly that way.

The surge in all things Euro related (including Eurozone bond yields) were inspired by ECB President Draghi's comments last Tuesday that, "As 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". Attempts by ECB official to suggest this was nothing new fell on deaf ears. This week we'll hear from ECB chief economist Peter Praet, the normally hawkish-leaning Eward Nowotny (both Tuesday), get the summary minutes of the June ECB meeting on Wednesday, and then hear from Nowotny again plus Buba chief Jens Weidmann on Friday. We very much doubt the Euro will be ending this week where it started.

It's also a big week for data after a fairly fallow two weeks save for last Friday's EZ and US inflation reports. US payrolls are on Friday, with ISM surveys for manufacturing tonight and services on Thursday. FOMC minutes are on Wednesday. Canada's employment data on Friday assumes extra significance, ahead of the Bank of Canada meeting next Tuesday (July 12th).

Following better than expected official China PMI data on Friday, the Caixin versions are on Monday (manufacturing) and Wednesday (services). UK PMIs are Monday and Wednesday and will be informative given the BoE signalling that it has its finger loosely on the rate rise trigger. In Australia, data wise the main pieces will be Building Approvals Monday, Retail Sales Tuesday and the Trade Balance Thursday.

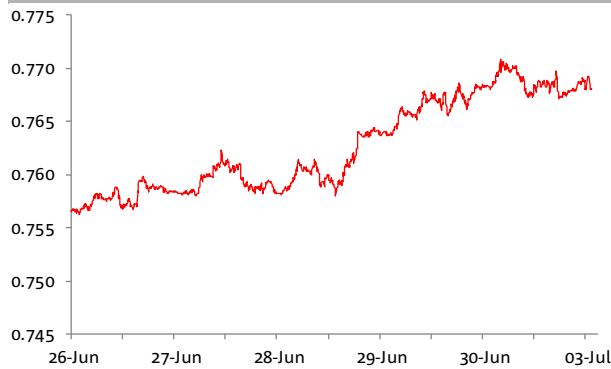
A risk factor this week is the US firing the gun on trade wars with the imposition of fresh tariffs on steel imports

Overnight

On global stock markets, the S&P 500 was +0.16%. Bond markets saw US 10-years -0.54bp to 2.14%. In commodities, Brent crude oil +0.71% to \$45.54, gold +0.7% to \$1,256, iron ore +0.4% to \$56.75, steam coal +0.1% to \$80.65, met. coal +0.2% to \$145.25. AUD is at 0.7563 and the range since Friday 5pm Sydney time is 0.7538 to 0.7588.

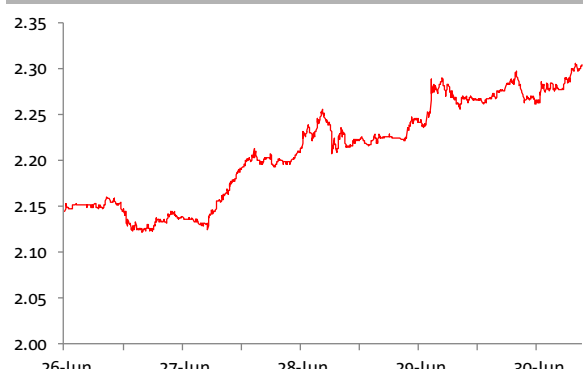
Markets

AUD/USD - past week



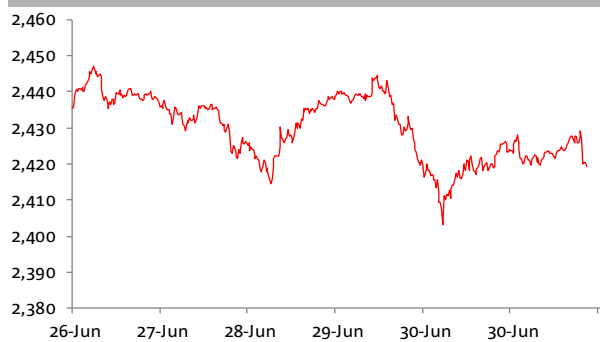
Source: Bloomberg.

US 10yr - past week



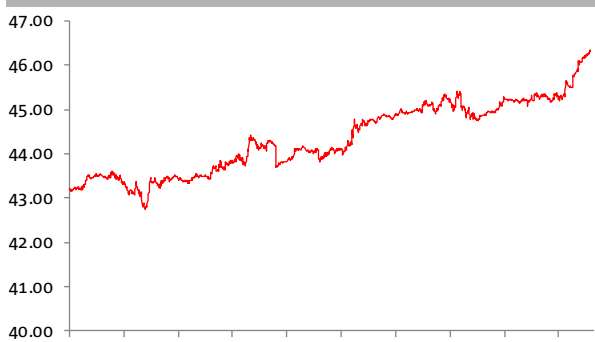
Source: Bloomberg.

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	0.7680	0.0	0.7667	0.7712	HKD	7.8080 0.0
NZD	0.7324	0.3	0.7292	0.7346	CNY	6.7809 -0.1
EUR	1.1418	-0.2	1.1392	1.1445	SGD	1.3767 -0.2
GBP	1.3012	0.0	1.2946	1.3030	IDR	13,348 0.1
JPY	112.01	-0.2	111.73	112.60	THB	33.93 -0.3
CAD	1.2975	-0.2	1.2947	1.3012	KRW	1,144 0.3
AUD/EUR	0.6726	0.1	0.6711	0.6745	TWD	30.43 0.1
AUD/JPY	86.05	-0.2	85.85	86.50	PHP	50.47 -0.1
AUD/GBP	0.5902	-0.1	0.5896	0.5930	CHF	0.96 0.3
AUD/NZD	1.0487	-0.4	1.0470	1.0535	SEK	8.43 -0.4
AUD/CNH	5.2038	-0.1	5.1974	5.2382		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spred
USD	1.25	1.30	1.62	2.28	USD 10	2.30	3.71
AUD	1.50	1.71	1.96	2.91	AUD 10	2.60	9.40 0.29
NZD	1.75	1.99	2.33	3.35	NZD 10	2.98	10.30 0.68
EUR	0.00	-0.33	-0.12	0.91	CAD 10	1.76	5.60 -0.54
GBP	0.25	0.31	0.69	1.35	EUR 10	0.47	1.40 -1.84
JPY	-0.06	0.00	0.05	0.26	GBP 10	1.26	0.70 -1.05
CAD	0.50	1.07	1.43	2.09	JPY 10	0.09	2.30 -2.22

Equities

Major Indices	Last	% day	% y/y
	Dow	21,350	0.29
S&P 500	2,423	0.15	15.2
Nasdaq	6,140	-0.06	26.3
VIX	11.18	-2.27	-24.3
FTSE	7,313	-0.5	11.2
DAX	12,325	-0.7	26.1
CAC 40	5,121	-0.7	19.8
Nikkei	20,033	-0.9	27.7
Shanghai	3,192	0.1	8.9
Hang Seng	25,765	-0.8	23.9
ASX 200	5,721	-1.7	9.1

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.26	-1.00
3 Yr bond	97.8	0.00
10 Yr bond	97.31	-17.00
3/10 sprd	0.49	17.00
SPI	5670.0	107.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	48.77	2.4
Oil (WTI)	46.04	2.5
Oil (Tapis)	48.00	0.4
Gold	1242.30	-0.3
CRB	174.78	1.7
GS Metals	327.5	0.0
Aluminium	1910.5	0.2
Copper	5923.0	0.0
Nickel	9355.0	1.1
Zinc	2756.8	0.0
Ch. steel	3372.0	2.5
Iron ore	65.0	0.4
St. Coal	81.0	-0.3
Met.coal	153.5	-0.3
Wheat Chic.	526.0	6.0
Sugar	13.7	2.9
Cotton	75.3	1.8
Coffee	125.7	-0.5

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-1.0	-4.0%
FED	-0	-0.8%

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
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	ANZ Job Advertisements MoM	Jun				0.4	2.30	11.30
AU	Building Approvals MoM/YoY	May		-1.3		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		43.9		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		59.3	8.55	17.55
EC	Markit Eurozone Manufacturing PMI	Jun F		57.3		57.3	9.00	18.00
UK	Markit UK PMI Manufacturing SA	Jun		56.5		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		16.55		16.6		
CA	Bloomberg Nanos Confidence	Jun 30				57.7	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	Jul 2				111.8	0.30	9.30
JN	Monetary Base YoY	Jun		19.2		19.4	0.50	9.50
AU	Retail Sales MoM	May		0.2		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		55		56.0	9.30	18.30
EC	PPI MoM/YoY	May		-0.1		0.0	10.00	19.00
CA	MLI Leading Indicator MoM	May				0.4	12.00	21.00
EC	ECB's Praet speaks in Rome						13.30	22.30
CA	Markit Canada Manufacturing PMI	Jun				55.1	14.30	23.30
EC	ECB's Nowotny Speaks in Vienna Panel Discussion						17.30	2.30
NZ	QV House Prices YoY	Jun				9.7	18.00	3.00
Wednesday, 5 July 2017								
NZ	ANZ Job Advertisements MoM	Jun				-0.6	23.00	8.00
UK	BRC Shop Price Index YoY	Jun				-0.4	0.10	9.10
AU	AiG Perf of Services Index	Jun				51.5	0.30	9.30
JN	Nikkei Japan PMI Services/Composite	Jun				53.0	1.30	10.30
NZ	ANZ Commodity Price	Jun				3.2	2.00	11.00
CH	Caixin China PMI Services/Composite	Jun				52.8	2.45	11.45
GE	Markit Germany Services/Composite PMI	Jun F		53.7		53.7	8.55	17.55
EC	Markit Eurozone Services/Composite PMI	Jun F		54.7		54.7	9.00	18.00
UK	New Car Registrations YoY	Jun				-8.5	9.00	18.00
UK	Markit/CIPS UK Services/Composite PMI	Jun		53.5		53.8	9.30	18.30
UK	Official Reserves Changes	Jun				1115.0	9.30	18.30
EC	Retail Sales MoM/YoY	May		0.3		0.1	10.00	19.00
US	Factory Orders/Ex Trans	May		-0.4		-0.2	15.00	0.00
US	FOMC Meeting Minutes	Jun 14					19.00	4.00
Thursday, 6 July 2017								
AU	Trade Balance	May		1100		555.0	2.30	11.30
GE	Factory Orders MoM/YoY	May		2		-2.1	7.00	16.00
GE	Markit Germany Construction PMI	Jun				55.3	8.30	17.30
US	Challenger Job Cuts YoY	Jun				71.4	12.30	21.30
EC	ECB account of the monetary policy meeting						12.30	21.30
US	ADP Employment Change	Jun		177.5		253.0	13.15	22.15
CA	Building Permits MoM	May				-0.2	13.30	22.30
CA	Int'l Merchandise Trade	May				-0.4	13.30	22.30
US	Initial Jobless Claims	Jul 1				244.0	13.30	22.30
US	Trade Balance	May		-46.2		-47.6	13.30	22.30
US	Markit US Services PMI	Jun F				53.0	14.45	23.45
US	Bloomberg Consumer Comfort	Jul 2				48.6	14.45	23.45
US	Markit US Composite PMI	Jun F				53.0	14.45	23.45
US	ISM Non-Manf. Composite	Jun		56.5		56.9	15.00	0.00
US	Fed's Powell Speaks in Washington on Housing Finance Reform						15.00	0.00
EC	ECB's Weidmann, Nowotny Discuss Future of Euro						17.00	2.00
US	Fed's Fischer speaks on Government Policy and Labor Productivity						0.30	9.30
Friday, 7 July 2017								
AU	AiG Perf of Construction Index	Jun				56.7	0.30	9.30
JN	Labor Cash Earnings/Real Earnings YoY	May		0.4		0.5	1.00	10.00
JN	Leading Index CI	May P		104.6		104.2	6.00	15.00
GE	Industrial Production SA MoM/YoY	May		0.3		0.8	7.00	16.00
AU	Foreign Reserves	Jun				88.5	7.30	16.30
CH	Foreign Direct Investment YoY CNY	Jun				-3.7	7.35	16.35
UK	Halifax House Prices MoM/3M YoY	Jun				0.4	8.30	17.30
CH	Foreign Reserves	Jun		3062		3053.6	9.00	18.00
UK	Industrial Production MoM/YoY	May		0.3		0.2	9.30	18.30
UK	Manufacturing Production MoM/YoY	May		0.3		0.2	9.30	18.30
UK	Construction Output SA MoM/YoY	May				-1.6	9.30	18.30
UK	Trade Balance	May		-2500		-2050.0	9.30	18.30
UK	NIESR GDP Estimate	Jun				0.2	13.00	22.00
US	Change in Nonfarm Payrolls	Jun		179		138.0	13.30	22.30
US	Unemployment Rate	Jun		4.3		4.3	13.30	22.30
US	Average Hourly Earnings MoM/YoY	Jun		0.3		0.2	13.30	22.30
CA	Net Change in Employment/Unemployment	Jun				54.5	13.30	22.30
CA	Ivey Purchasing Managers Index SA	Jun				53.8	15.00	0.00
US	Fed publishes its July 2017 Monetary Policy Report to Congress						16.00	1.00
US	Baker Hughes US Rig Count/Oil Rigs	Jun 30				941	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

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