4 July 2017

MARKETS TODAY

Little wonder

National Australia Bank

Good morning

I always liked David Bowie, but with my boss Ray Attrill a big fan, I have definitely developed a bigger appreciation for him. Bowie's song titles have an amazing suitability for morning note titles, lyrics on the other hand don't always suit. "Little wonder" lyrics are mainly nonsense and supposedly they have to do with Bowie's wish to write a song about the seven dwarves from Snow White...enough said. Meanwhile markets have begun Q3 in a risk positive tone supported by mostly positive data releases. Equities had a good day in Europe and a solid one in the US, although technology shares were the exception with the NASDAQ down 0.49%. Bond yields have continued to move higher led by US Treasuries, a factor that has contributed to the USD outperforming across the board. The USD outperformance is also reflective of an emerging theme with the market questioning last week's central bank policy shift in Europe.

In what was a holiday shortened trading session in the US, ahead of Independence day on Tuesday, the ISM manufacturing PMI beat expectations (57.8 vs 55.3 exp and 52.1 prev.) reaching an almost 3-year high, backed by strong new orders and employment components. The data release triggered a bond selloff with 10y UST yields leading the way. 10y UST closed at 2.3499%, 3.5bps higher relative to Sydney's closing levels.

After four days of decline, the uplift in UST yields boosted the USD index (DXY) with the big dollar outperforming across the board. The yen was the biggest loser, down 0.88%, more than erasing yesterday's gains after PM Shinzo Abe's LDP's drubbing in Tokyo assembly elections over the weekend. USD/JPY is now trading with a 113 handle for the first time in seven weeks and if US data this week continues to surprise on the positive side (non- farm payrolls on Friday), a move above ¥114 could well be on the cards.

Some of the USD strength is also reflecting some doubts on how quickly European central banks will take their foot of the easing pedal. Overnight Reuters reported a conversation with six ECB policy makers indicating some concern over recent market turbulence, suggesting some are having doubts about signalling in July that they are moving closer to dialling back their easy policy (we think an announcement in September is more likely). Yves Mersch, a member of the ECB's executive board, noted that "we need to have patience" with its accommodative policy stance but added that "we don't necessarily have to wait for prices to reach 2 % before adjusting monetary policy". The Euro traded softer overnight with a move above the mid1.14s looking like a big barrier at the moment.

Meanwhile, spoiling the better than expected data releases, the UK manufacturing PMI underwhelmed (54.3 vs56.3 exp) and although it still suggestive of expansion it fell to a 3 month low. Cable is 0.66% lower at 1.2942 and it continues to find the air quite thin above 1.30. This morning BoE Vlieghe notes that a premature hike would be a bigger mistake than a late one.

Although not the biggest underperformers, commodity link currencies could not avoid the stronger USD wave, with NOK, CAD, AUD and NZD down between 0.30% and 0.50%. Looking at the intraday chart, it is interesting to note that most of the AUD underperformance came yesterday and although the pair traded to a low of 0.7645 post the ISM release overnight , most of the move has been reversed over the past few hours. While the RBA is expected to stand pat today, the tone of the statement will be important for the AUD near term direction (see more below).

FT reports China's president XI has warned President Trump of "negative factors" emerging in their relationship amid tensions over Taiwan, North Korea, steel and the South China Sea. The two leaders are due to meet later in the week as part of the G20 summit. Trump is also scheduled to meet President Putin.

Coming Up

We have a pretty busy day of data releases and central bank events with the RBA and Sweden's Riksbank policy announcement the major highlights. In terms of data releases, Australia's weekly consumer confidence reading is the first cab off the rank followed by retail sales figures for May. Later in Europe, the Eurozone gets PPI figures (May) and the UK releases its constructions PMI (June) while ECB Praet speaks in Rome and ECB Nowotny speaks in Vienna. The US is out celebrating Independence Day and Canada gets its Manufacturing PMI figures for June.

After an impressive jump of 1% in April, the consensus forecast is looking for Australian retail sales to edge up by 0.2% in May. Our economists, however, have a more optimistic outlook and have pencilled in a 0.4%m/m outcome, largely driven by retailers bringing forward their half-year sales.

As for the RBA, while everyone and their beloved pet expects the Bank to stand pat, the big question is whether the RBA will be joining the hawkish party after what now seems like a coordinated effort by many central banks to signal a move towards policy normalisation. NAB's view is that Australia will lag the rest of the world in this process given still elevated spare capacity in the labour market and subdued inflation. That said, the Bank faces an interesting challenge, on the one hand it will have to acknowledge the improvements in the domestic front, including last month's solid labour force report while at the same time it would want to avoid sounding too upbeat and risk a hawkish interpretation by the market. This is particularly relevant for the AUD, given that an appreciating exchange rate

Rodrigo Catril, FX strategist

could complicate the adjustment under way in the economy.

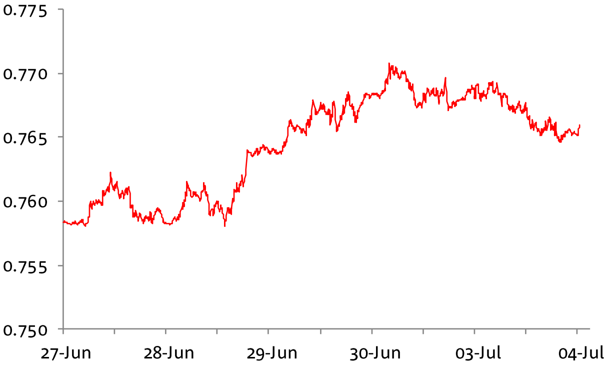
Similar to the RBA, the Riksbank is unanimously expected to leave its policy measures unchanged today, but the post meeting Statement will be scrutinized to see if the easing bias has been removed. Late in April, the Bank surprised the market by extending its QE programme (additional SEK15 bn), noting that inflation was expected to take longer before stabilising around 2% while also stressing "considerable uncertainty over political and economic developments abroad". Since then, European political concerns have eased thanks to Macron's presidential election win in France and domestically the economy has performed well with inflation printing above expectations. Given this backdrop we expect the Riskbank will remove its bias for a near term cut.

Overnight

On global stock markets, the S&P 500 was +0.23%. Bond markets saw US 10-years +4.62bp to 2.35%. In commodities, Brent crude oil +1.66% to $49.58, gold-1.8% to $1,220, iron ore -1.0% to $64.29, steam coal +2.3% to $79.45, met. coal +1.0% to $155.00. AUD is at 0.7656 and the range since yesterday 5pm Sydney time is 0.7645 to 0.7695.

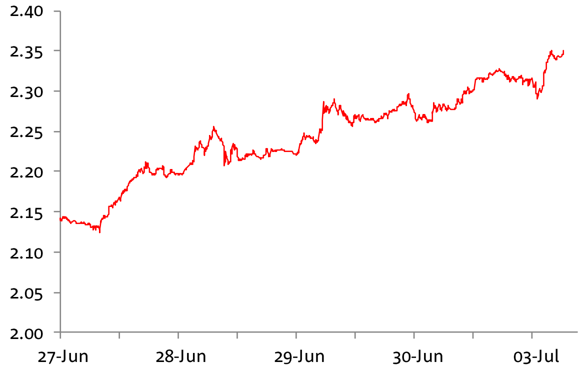
Markets

AUD/USD - past week



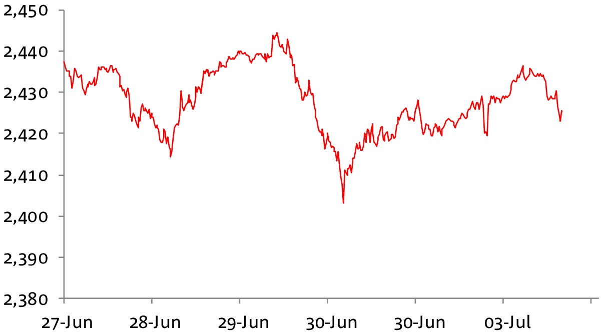
Source: Bloomberg.

US 10yr - past week



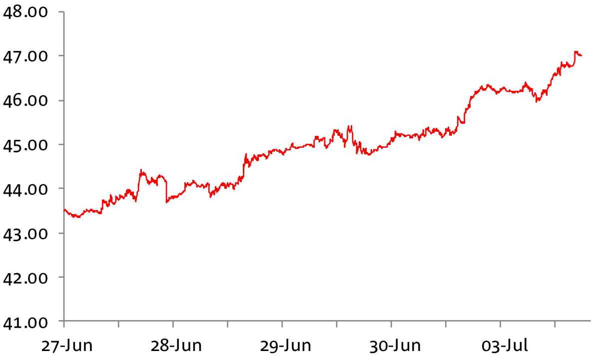
Source: Bloomberg.

S&P Future - past week



Source: Bloomberg.

WTI - past week



Source: Bloomberg.

Foreign Exchange

			Indicative 24hr ranges (**)	
	Last	% chge	Low	High
AUD	0.7656	-0.4	0.7645	0.7695
NZD	0.7293	-0.5	0.7273	0.7345
EUR	1.1361	-0.6	1.1355	1.1427
GBP	1.2937	-0.7	1.2932	1.3024
JPY	113.40	0.9	111.91	113.47
CAD	1.3011	0.4	1.2965	1.3014
AUD/EUR	0.6738	0.2	0.6718	0.6745
AUD/JPY	86.82	0.5	86.02	86.94
AUD/GBP	0.5918	0.3	0.5890	0.5921
AUD/NZD	1.0498	0.1	1.0459	1.0533
AUD/CNH	5.2020	0.0	5.1966	5.2179

Other FX	Last	% chge
HKD	7.8119	0.1
CNY	6.8003	0.3
SGD	1.3828	0.5
IDR	13,368	0.1
THB	33.99	0.2
KRW	1,147	0.2
TWD	30.43	0.0
PHP	50.65	0.4
CHF	0.96	0.6
SEK	8.49	0.6

Equities

Major Indices	Last	% day	% y/y
Dow	21,479	0.61	19.7
S&P 500	2,429	0.23	15.5
Nasdaq	6,110	-0.49	25.7
VIX	11.22	0.36	-24.0
FTSE	7,377	0.9	12.2
DAX	12,475	1.2	27.6
CAC 40	5,196	1.5	21.6
Nikkei	20,056	0.1	27.1
Shanghai	3,196	0.1	6.9
Hang Seng	25,784	0.1	22.4
ASX 200	5,684	-0.6	7.6

Commodities*

	Last	% day
Oil (Brent)	49.58	1.7
Oil (WTI)	47.05	2.2
Oil (Tapis)	49.05	2.2
Gold	1219.50	-1.8
CRB	176.16	0.8
GS Metals	328.8	0.4
Aluminium	1918.0	0.4
Copper	5908.8	-0.2
Nickel	9351.5	0.0
Zinc	2806.8	1.8
Ch. steel	3437.0	4.0
Iron ore	64.3	-1.0
St. Coal	79.5	2.3
Met.coal	155.0	1.0
Wheat Chic.	555.0	5.5
Sugar	13.9	1.8
Cotton	73.7	-2.2
Coffee	127.7	1.6

Interest Rates

Indicative Swap Rates	Cash	3mth	2Yr	10Yr
USD	1.25	1.30	1.64	2.32
AUD	1.50	1.71	1.93	2.91
NZD	1.75	2.00	2.38	3.42
EUR	0.00	-0.33	-0.13	0.91
GBP	0.25	0.31	0.68	1.33
JPY	-0.04	0.00	0.05	0.26
CAD	0.50	1.07	1.42	2.09

Benchmark 10 Year Bonds	Last	chge	Sprd
USD 10	2.35	4.62	
AUD 10	2.67	7.00	0.32
NZD 10	3.03	5.50	0.68
CAD 10	1.76	0.00	-0.59
EUR 10	0.48	1.00	-1.87
GBP 10	1.26	0.70	-1.09
JPY 10	0.09	0.00	-2.26

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.25	0.00
3 Yr bond	97.8	0.00
10 Yr bond	97.31	-4.50
3/10 sprd	0.49	4.50
SPI	5670.0	-21.0

*Change in bps

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-0.2	-1.0%
FED	-0	-0.4%

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
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	0.4	0.2		1.0	2.30	11.30
AU	RBA Cash Rate Target	Jul 4	1.5	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		-0.2		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		-0.5		-0.2	15.00	0.00
US	FOMC Meeting Minutes	Jun 14					19.00	4.00
Thursday, 6 July 2017								
AU	Trade Balance	May	-200	1100		555.0	2.30	11.30
GE	Factory Orders MoM/YoY	May		1.8		-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		190		253.0	13.15	22.15
CA	Building Permits MoM	May		1		-0.2	13.30	22.30
CA	Int'l Merchandise Trade	May		-0.4		-0.4	13.30	22.30
US	Initial Jobless Claims	Jul 1		243		244.0	13.30	22.30
US	Trade Balance	May		-46.25		-47.6	13.30	22.30
US	Markit US Services PMI	Jun F		53		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		0.2		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		0.2		0.4	8.30	17.30
CH	Foreign Reserves	Jun		3062		3053.6	9.00	18.00
UK	Industrial Production MoM/YoY	May		0.4		0.2	9.30	18.30
UK	Manufacturing Production MoM/YoY	May		0.4		0.2	9.30	18.30
UK	Construction Output SA MoM/YoY	May		0.6		-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		177		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		11.25		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	Jul 7				940	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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