

MARKETS TODAY

It only takes a minute



Good morning

It's a bit early in the morning for 'A House Divided' by Megadeth - and too strong a connotation in any event in prefacing a discussion on the FOMC minutes released a couple of hours ago. So UK soulsters Tavares' sole hit from the mid-1970s gets the gig instead.

In fact, the Fed minutes do hint at a slightly more divided FOMC than in prior meetings, with 'several', rather than 'a few' members expressing concerns that inflation is not going to pick up to the extent that it would justify a continuing albeit gradual normalisation of monetary policy. Related to this was the discussion on how wise, or otherwise, it would be to continue allowing unemployment to run below the so called NAIRU or full employment level without sparking a more significant inflation outbreak down the track (the debate about the 'flatness' or otherwise of the so-called Phillips curve). 'Several' at least are evidently happy to.

What also comes across in the minutes is increasing concern that the easing in financial conditions represented by the fall in bond yields, the rise in equity prices - and fall back in the dollar - so far this year, is adding to financial stability risks. Both Bill Dudley and Janet Yellen have alluded to this in recent comments.

As for the discussion on when to commence the process of balance sheet reduction, the Fed is divided. Some suggest it can start as early as September, others not wanting to pre-commit to a start date this early. A formal announcement may not therefore come until the September meeting (possibly July) but we certainly expect them to start no later than October, and with a further rise in the Fed funds rate then coming in December.

One other thing to note in the minutes is comment that some of the Fed's liaisons are reporting uncertainty over Trump administration economic policies as having some impact on businesses' preparedness to increase investment. Something to watch for sure.

Knee jerk reaction to the minutes was to see yields higher (by about 2bps at 10 years) and with that a firmer US dollar, but moves which have since been retraced. The bigger news to note overnight is a renewed slump in oil prices with both WTI and Brent crudes off almost \$2. This follows comments from Russia that it does not support the notion of deeper production cuts.

Unsurprisingly, this has seen the Canadian dollar give back some of its recent Bank of Canada-inspired gains, and pushed the Norwegian Krone firmly to the bottom of the G10 scoreboard. The Swedish Krone is top, after some very strong industrial production data (8% y/y).

The AUD is a little softer this morning, thanks largely to comments from RBA Board member Ian Harper in a Dow Jones interview published around 7pm last night. Harper said that there was 'no need to scare the horses' with

talk of policy tightening and that a lower Australian dollar would benefit the economy. Harper acknowledged the recent strengthening in the currency, which he put down in part to speculation the RBA might adopt a more hawkish tone at this week's meeting.

Ahead of the summary minutes of the ECB's June meeting later today, ECB Governing Council (GC) member Benoit Coeure said last night that the GC has not discussed policy changes. He also suggested that recent market moves are not very significant in the 'big picture', comments we'd wholeheartedly agree with. The Euro initially fell on his first comments before recovering on the second set.

Coming Up

We're back to hard data today both in Australia and the United States.

The US has the ADP employment survey in front of Friday's all important non-farm payrolls report (ADP seen at +183k, NFP currently +177k) and more importantly, the ISM non-manufacturing survey. Services makes up more than 88% of the US economy, manufacturing less than 12%, so in the scheme of things is much more important. Consensus sees 56.5 down from 56.7, an outcome which would represent a still very healthy rate of expansion in the sector.

Designated Fed speakers today are Governor Jerome Powell and - in Tasmania - San Francisco Fed President Williams (nice work if you can get it and following his tour of mainland Australia last week interspersed with a couple of early-week speaking engagements).

The local trade figures at 11:30 AEST could prove to be a surprise for markets. The current consensus looks for a surplus of \$1bn with a wide range of expectations from -\$0.8bn to +\$3.5bn. The divergence likely reflects the strong rebound in coal export loadings in May which would, all things being equal; argue for a higher trade surplus.

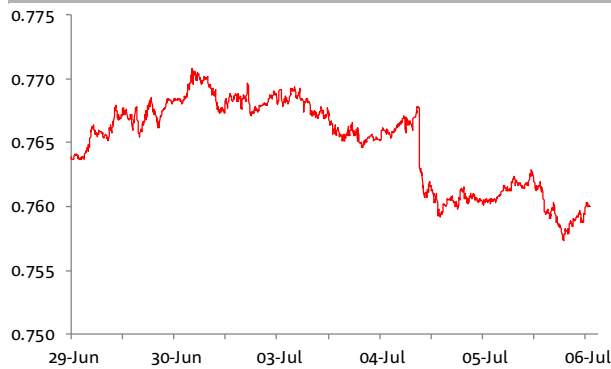
However, NAB thinks this could be more than offset by lower commodity prices in recent months, along with a likely large capital import (Central Processing Facility) for the Ichthys LNG project. NAB accordingly forecasts a \$0.2bn deficit with downside risks, and if this eventuated it would be the first deficit since October 2016.

Overnight

On global stock markets, the S&P 500 was +0.19%. Bond markets saw US 10-years -2.32bp to 2.33%. In commodities, Brent crude oil -3.91% to \$47.67, gold+0.5% to \$1,226, iron ore +0.1% to \$63.28, steam coal +2.3% to \$83.05, met. coal +2.6% to \$159.00. AUD is at 0.76 and the range since yesterday 5pm Sydney time is 0.7571 to 0.7632.

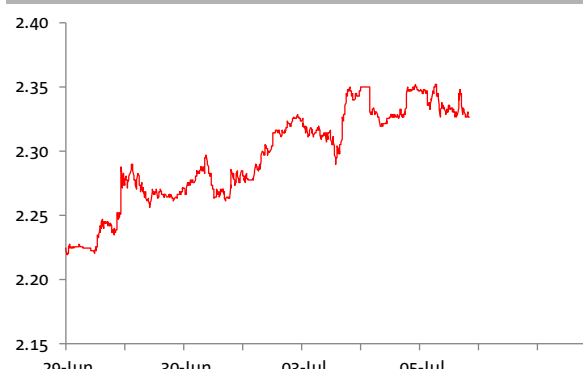
Markets

AUD/USD - past week



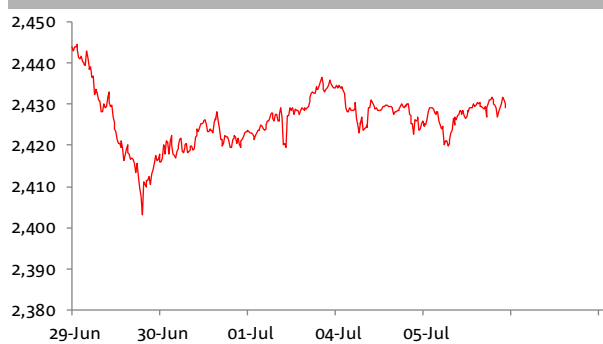
Source: Bloomberg.

US 10yr - past week



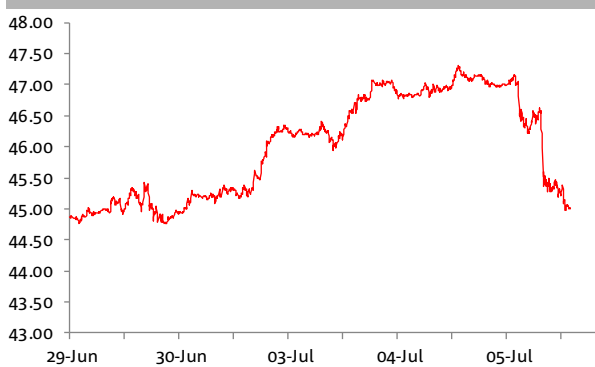
Source: Bloomberg.

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	0.7600	-0.1	0.7571	0.7632	HKD	7.8085 0.0
NZD	0.7288	0.0	0.7255	0.7297	CNY	6.8019 0.0
EUR	1.1344	0.0	1.1313	1.1369	SGD	1.3811 -0.1
GBP	1.2927	0.1	1.2894	1.2948	IDR	13,365 0.0
JPY	113.20	-0.1	112.83	113.69	THB	34.02 0.1
CAD	1.2974	0.3	1.2929	1.3015	KRW	1,150 0.0
AUD/EUR	0.67	-0.1	0.6682	0.6722	TWD	30.50 0.0
AUD/JPY	86.03	-0.1	85.67	86.55	PHP	50.65 0.3
AUD/GBP	0.5879	-0.1	0.5862	0.5906	CHF	0.96 -0.1
AUD/NZD	1.0427	-0.1	1.0425	1.0479	SEK	8.49 -0.4
AUD/CNH	5.1579	-0.3	5.1497	5.2225		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.30	1.65	2.31	USD 10	2.33	-2.32
AUD	1.50	1.71	1.91	2.85	AUD 10	2.63	0.80 0.30
NZD	1.75	1.99	2.31	3.35	NZD 10	2.96	-3.40 0.63
EUR	0.00	-0.33	-0.13	0.92	CAD 10	1.80	-4.00 -0.53
GBP	0.25	0.30	0.66	1.33	EUR 10	0.47	-0.50 -1.86
JPY	-0.05	0.00	0.05	0.28	GBP 10	1.26	1.30 -1.07
CAD	0.50	1.11	1.47	2.12	JPY 10	0.09	1.10 -2.23

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,478	-0.01	19.7
S&P 500	2,434	0.19	15.7
Nasdaq	6,151	0.67	26.5
VIX	10.85	-3.30	-26.5
FTSE	7,368	0.1	12.6
DAX	12,454	0.1	30.6
CAC 40	5,180	0.1	24.4
Nikkei	20,082	0.2	30.6
Shanghai	3,207	0.8	6.3
Hang Seng	25,522	0.5	24.5
ASX 200	5,763	-0.4	10.9

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.26	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.37	5.50
3/10 sprd	0.44	-2.50
SPI	5722.0	10.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	47.67	-3.9
Oil (WTI)	45.00	-4.4
Oil (Tapis)	49.22	-1.1
Gold	1225.70	0.5
CRB	173.65	-1.4
GS Metals	325.3	-1.1
Aluminium	1919.8	0.0
Copper	5818.0	-0.9
Nickel	9123.5	-0.2
Zinc	2782.0	-0.5
Ch. steel	3402.0	0.3
Iron ore	63.3	0.1
St. Coal	83.1	2.3
Met.coal	159.0	2.6
Wheat Chic.	560.0	0.9
Sugar	13.7	-1.4
Cotton	73.9	0.2
Coffee	130.0	1.8
Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-0.2	-1.0%
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
Thursday, 6 July 2017								
AU	Trade Balance	May	-200	1000		555.0	2.30	11.30
GE	Factory Orders MoM/YoY	May		1.9		-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		182.5		253.0	13.15	22.15
CA	Building Permits MoM	May		1		-0.2	13.30	22.30
CA	Int'l Merchandise Trade	May		-0.5		-0.4	13.30	22.30
US	Initial Jobless Claims	Jul 1		243		244.0	13.30	22.30
US	Trade Balance	May		-46.3		-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		104.5		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		3060		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		0.5		0.2	9.30	18.30
UK	Construction Output SA MoM/YoY	May		0.7		-1.6	9.30	18.30
UK	Trade Balance	May		-2500		-2050.0	9.30	18.30
UK	NIESR GDP Estimate	Jun		0.2		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		10		54.5	13.30	22.30
CA	Ivey Purchasing Managers Index SA	Jun		58		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
Monday, 10 July 2017								
CH	Foreign Direct Investment YoY CNY	Jun				-3.7		
JN	Machine Orders MoM/YoY	May				-3.1	0.50	9.50
JN	BoP Current Account Adjusted	May				1807.4	0.50	9.50
JN	Trade Balance BoP Basis	May				553.6	0.50	9.50
CH	CPI/PPI YoY	Jun		1.5		1.5	2.30	11.30
JN	Eco Watchers Survey Current SA	Jun				48.6	6.00	15.00
JN	Eco Watchers Survey Outlook SA	Jun				49.6	6.00	15.00
GE	Current Account Balance	May				15.1	7.00	16.00
EC	Sentix Investor Confidence	Jul				28.4	9.30	18.30
CH	New Yuan Loans/Aggregate Financing CNY	Jun		1300		1110	10-15 July release	
NZ	REINZ House Sales YoY	Jun				-18.4		
CA	Bloomberg Nanos Confidence	Jun 30				57.7	15.00	0.00
US	Labor Market Conditions Index Change	Jun				2.3		
US	Consumer Credit	May		15		8.2	20.00	5.00
Tuesday, 11 July 2017								
NZ	Card Spending Total MoM	Jun				-0.2	23.45	8.45
UK	BRC Sales Like-For-Like YoY	Jun				-0.4	0.10	9.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 9				114.5	0.30	9.30
AU	NAB Business Conditions/Confidence	Jun				12.0	2.30	11.30
AU	Home Loans/Investment Lending MoM	May				-1.9	2.30	11.30
JN	Machine Tool Orders YoY	Jun P				24.5	7.00	16.00
US	NFIB Small Business Optimism	Jun				104.5	11.00	20.00
CA	Housing Starts	Jun				194.7	13.15	22.15
US	JOLTS Job Openings	May				6044.0	15.00	0.00
US	Wholesale Trade Sales/Inventories MoM	May				-0.4	15.00	0.00
Wednesday, 12 July 2017								
NZ	ANZ Truckometer Heavy MoM	Jun				4.1	23.00	8.00
JN	PPI MoM/YoY	Jun				0.0	0.50	9.50
AU	Westpac Consumer Conf Index/MoM	Jul				96.2	1.30	10.30
JN	Tertiary Industry Index MoM	May				1.2	5.30	14.30
UK	Jobless Claims Change	Jun				7.3	9.30	18.30
UK	Employment Change/LO Unemployment Rate 3M/3M	May				109.0	9.30	18.30
EC	Industrial Production SA MoM/YoY	May				0.5	10.00	19.00
CA	Teranet/National Bank HP Index	Jun				210.9	13.30	22.30
CA	Bank of Canada Rate Decision/Monetary Policy Report	Jul 12		0.75		0.5	15.00	0.00
CA	BOC's Poloz and Wilkins Hold Press Conference in Ottawa						16.15	1.15
US	U.S. Federal Reserve Releases Beige Book						19.00	4.00
Upcoming Central Bank Interest Rate Announcements								
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%		
Australia, RBA		1-Aug	1.50%	1.50%		1.50%		
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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