

# MARKETS TODAY

Stay



## Good morning

“Oh won’t you stay, just a little bit longer. Please please please, say you will”. Jackson’s Browne’s 1977 hit from the Running on Empty album was a college favourite of mine (romance was probably in the air) and popped into my head as I listened to President Trump this morning imploring Republican Senators to forgo their Autumn recess (already pushed back two weeks) in order to repeal and replace Obamacare.

There’s a fat chance of that happening, and markets should already be moving on to fretting over whether there will be any movement on the debt ceiling before the scheduled mid-August recess or whether we are going to the wire in September. It’s hard to bet against the latter, in which case a fresh source of USD weakness could be presenting itself before too long.

Markets have largely paused for breath overnight, with US Treasury yields flat-lining and the US dollar ever so slightly firmer. The latter is purely on the back of a small pull-back in EUR/USD in front of today’s ECB meeting and which is the main offshore event tonight (see Coming Up). This hasn’t prevented the mighty Aussie dollar inching ever closer to the 80 cents level, up half a percent on this time yesterday and pushing above 0.7950. Either this morning’s local employment data or a stronger Euro out of the ECB could provide the catalyst for a test of this big psychological level. We can’t now bet against it.

US stocks have continued to power ahead with both the S&P 500 and the NASDAQ just posting new record closing highs. In the S&P, homebuilders and energy stocks have led the gains, the former after June housing starts comfortably exceeded expectations (+8.5% m/m with upward revisions to back data) and energy stocks after oil rallied on news from the US Department of Energy of a fall in crude and crude products of 10.183m bbl. including a 4.727mn draw on crude oil. IBM was a drag, down over 4% after disappointing earnings.

Of some note is that the ongoing US equity market rally has not seen a fresh fall in the VIX after Friday’s fall to 9.5 and its lowest close since 1993. This does suggest there might be an absolute floor around this level, but while it stays here it will self-evidently remain a supportive factor for the AUD.

In commodities, while the whole oil and gas complex is up strongly after those DoE stats (including crude oil up 70-80 cents) other commodities haven’t fared so well, precious and industrial metals all down smalls. In contrast, iron ore continue to push higher, up another \$1.40 overnight and to above \$70 for the first time since April 11. While the direct correlation between the iron ore price and the AUD is surprisingly weak, you’ll be able to read as much as you can stomach elsewhere today about how the \$70 iron ore price is now driving AUD onwards and upwards.

Ray Attrill, Head of FX Strategy

## Coming Up

It’s a very busy day ahead with top tier event risk in the form of latest Australian labour market data this morning and the ECB Governing Council (GC) meeting this evening. The former should have some bearing on RBA rate expectations and which has been one driver of AUD gains this week, and the latter since the ECB will move the Euro one way or another and this will have tangential impact on the AUD given the influence of the Euro on broader US dollar trends of late.

Other domestic events to note include the quarterly NAB survey, which as well as having a bigger survey sample has information not tracked in the monthly survey, covering things such as capex and employment intentions and the difficulty of finding suitable labour.

Internationally, we’ll get the BoJ at some point Thursday (including new forecasts), UK retail sales, US weekly jobless claims and the Philly Fed manufacturing survey. We are not expecting the BoJ to offer any indications that it is wavering on its current commitment to the 0% Yield Curve Control (YCC) policy. The BoJ might again push its forecast for when it expects to achieve the 2% inflation target. If we’re right on both counts, the Yen should weaken somewhat out of the BoJ.

As for the Labour Force report for June, following three stronger-than-expected reports, this report might be more in line with trend if not a tad on the shy side. Alternative indicators of labour demand remain positive, pointing to likely continued trend growth in employment sufficient to act over time to lower the unemployment rate. NAB looks for 15k growth in employment and an unchanged unemployment rate. Consensus is similar in forecasting +15k employment, but expects the unemployment rate to tick up by a tenth to 5.6% despite an unchanged participation rate. A strong report would play with the grain of this week’s accelerated uptrend in the AUD.

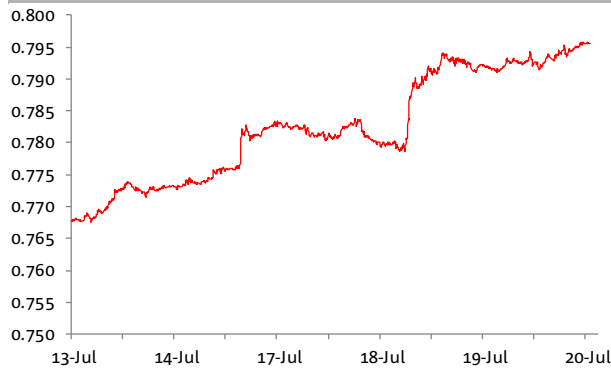
On the ECB, there will be no formal change in policy, but the market is split on whether the GC will signal that it no longer has a bias to extend the quantum or duration of its current €60bn per month QE buying programme (a prelude to signalling in September than it intends to start tapering its QE buying from early 2018). If it does (we think it will), expect some further strengthening in the euro, however innocuous this change might seem. If it doesn’t, the EUR should drop back a bit.

## Overnight

On global stock markets, the S&P 500 was +0.47%. Bond markets saw US 10-years +0.88bp to 2.27%. In commodities, Brent crude oil +1.70% to \$49.67, gold-0.1% to \$1,241, iron ore +2.0% to \$70.24, steam coal +0.4% to \$85.85, met. coal -1.2% to \$163.00. AUD is at 0.7953 and the range since yesterday 5pm Sydney time is 0.7909 to 0.7959.

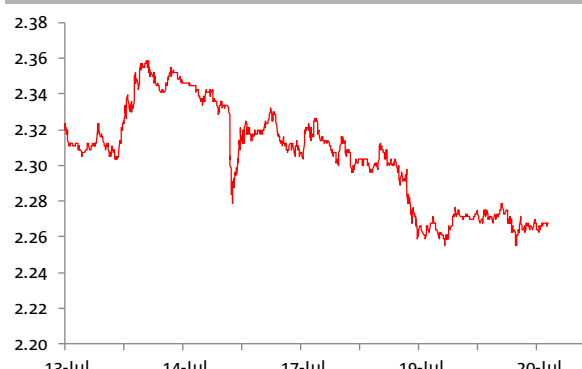
# Markets

AUD/USD - past week



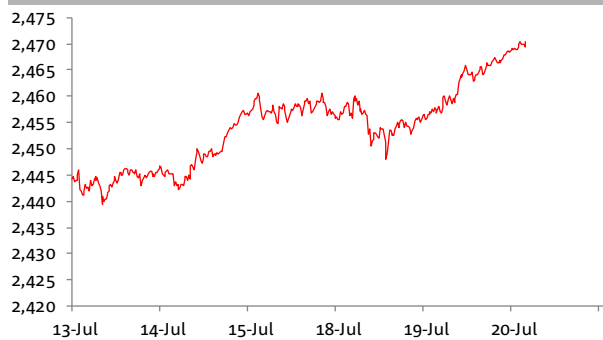
Source: Bloomberg.

US 10yr - past week



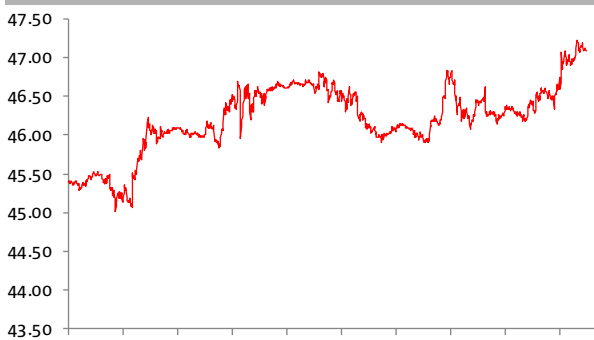
Source: Bloomberg.

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     | 0.7955                      | 0.5    | 0.7909 | 0.7959 | HKD      | 7.8083 0.0 |
| NZD     | 0.7359                      | 0.1    | 0.7341 | 0.7388 | CNY      | 6.7519 0.1 |
| EUR     | 1.1516                      | -0.3   | 1.1510 | 1.1557 | SGD      | 1.3687 0.2 |
| GBP     | 1.3020                      | -0.2   | 1.3011 | 1.3053 | IDR      | 13,321 0.1 |
| JPY     | 111.82                      | -0.2   | 111.56 | 112.23 | THB      | 33.61 0.1  |
| CAD     | 1.2594                      | -0.3   | 1.2578 | 1.2653 | KRW      | 1,121 -0.2 |
| AUD/EUR | 0.6908                      | 0.8    | 0.6847 | 0.6909 | TWD      | 30.42 0.2  |
| AUD/JPY | 88.95                       | 0.3    | 88.63  | 89.02  | PHP      | 50.85 0.3  |
| AUD/GBP | 0.6110                      | 0.6    | 0.6067 | 0.6111 | CHF      | 0.96 0.1   |
| AUD/NZD | 1.0809                      | 0.4    | 1.0746 | 1.0817 | SEK      | 8.29 -0.1  |
| AUD/CNH | 5.3640                      | 0.4    | 5.3347 | 5.3609 |          |            |

## Interest Rates

|     | Indicative Swap Rates |       |       |      | Benchmark 10 Year Bonds |      |             |
|-----|-----------------------|-------|-------|------|-------------------------|------|-------------|
|     | Cash                  | 3mth  | 2Yr   | 10Yr | Last                    | chge | Sprd        |
| USD | 1.25                  | 1.31  | 1.59  | 2.22 | USD 10                  | 2.27 | 0.88        |
| AUD | 1.50                  | 1.70  | 2.01  | 2.92 | AUD 10                  | 2.72 | -2.10 0.46  |
| NZD | 1.75                  | 1.94  | 2.23  | 3.31 | NZD 10                  | 2.93 | -2.60 0.66  |
| EUR | 0.00                  | -0.33 | -0.15 | 0.91 | CAD 10                  | 1.90 | 4.10 -0.36  |
| GBP | 0.25                  | 0.29  | 0.60  | 1.25 | EUR 10                  | 0.54 | -1.20 -1.73 |
| JPY | -0.05                 | -0.01 | 0.04  | 0.26 | GBP 10                  | 1.19 | -1.50 -1.08 |
| CAD | 0.75                  | 1.23  | 1.55  | 2.20 | JPY 10                  | 0.08 | 0.30 -2.19  |

## Equities

| Major Indices | Last   | % day  | % y/y |
|---------------|--------|--------|-------|
|               | Dow    | 21,641 | 0.31  |
| S&P 500       | 2,472  | 0.47   | 14.2  |
| Nasdaq        | 6,385  | 0.64   | 26.8  |
| VIX           | 9.79   | -1.01  | -18.2 |
| FTSE          | 7,431  | 0.6    | 11.0  |
| DAX           | 12,452 | 0.2    | 24.8  |
| CAC 40        | 5,216  | 0.8    | 20.5  |
| Nikkei        | 20,021 | 0.1    | 20.0  |
| Shanghai      | 3,231  | 1.4    | 6.7   |
| Hang Seng     | 26,672 | 0.6    | 21.9  |
| ASX 200       | 5,732  | 0.8    | 4.4   |

## Commodities\*

|  | Last    | % day |
|--|---------|-------|
| Oil (Brent)                                    | 49.67   | 1.7   |
| Oil (WTI)                                      | 47.09   | 1.5   |
| Oil (Tapis)                                    | 48.45   | 0.7   |
| Gold   | 1241.10 | -0.1  |
| CRB  | 178.66  | 1.0   |
| GS Metals                                      | 327.5   | -1.0  |
| Aluminium                                      | 1905.0  | -0.6  |
| Copper   | 5944.0  | -0.7  |
| Nickel   | 9615.5  | -1.4  |
| Zinc   | 2739.8  | -1.7  |
| Ch. steel                                      | 3622.0  | 0.2   |
| Iron ore                                       | 70.2    | 2.0   |
| St. Coal                                       | 85.9    | 0.4   |
| Met.coal                                       | 163.0   | -1.2  |
| Wheat Chic.                                    | 526.8   | 0.0   |
| Sugar  | 14.5    | 2.8   |
| Cotton   | 68.8    | -0.1  |
| Coffee   | 135.8   | 0.7   |
| <b>Prob. of 25bps hike/cut at next meeting</b> |         |       |
|  | bps     | %     |
| RBA  | -0.2    | -1.0% |
| FED  | 0       | 0.0%  |

## Overnight Futures

|                  | Last   | Chge* |
|------------------|--------|-------|
| <b>Australia</b> |        |       |
| 3 mth bill       | 98.26  | -1.00 |
| 3 Yr bond        | 97.8   | 3.00  |
| 10 Yr bond       | 97.26  | -1.50 |
| 3/10 sprd        | 0.54   | 4.50  |
| SPI              | 5685.0 | -54.0 |

\*Change in bps

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  |
|--|---|--------|------------|------------|--------|------------|-------|-------|
| <b>Thursday, 20 July 2017</b>                            |   |        |            |            |        |            |       |       |
| AU   | HIA House Affordability Index   | 2Q     |            |            |        | 81         | 15.00 |       |
| JN   | Trade Balance Adjusted  | Jun    |            | 127.5      |        | 134        | 0.50  | 9.50  |
| JN   | Exports/Imports YoY   | Jun    |            | 9.5/14.4   |        | 15/18      | 0.50  | 9.50  |
| AU   | NAB Business Confidence (quarterly NAB Business Survey)   | 2Q     |            |            |        | 6          | 2.30  | 11.30 |
| AU   | Employment Change/Unemployment rate   | Jun    | 15/5.5     | 15/5.6     |        | 42/5.5     | 2.30  | 11.30 |
| AU   | Participation Rate  | Jun    | 64.9       | 64.9       |        | 65         | 2.30  | 11.30 |
| AU   | RBA FX Transactions Market  | Jun    |            |            |        | 735        | 2.30  | 11.30 |
| JN   | All Industry Activity Index MoM   | May    |            | -0.8       |        | 2          | 5.30  | 14.30 |
| JN   | BOJ Policy Balance Rate/10-year Yield target  | Jul 20 |            | -0.1/0     |        | 0/0        | 3.45  | 12.45 |
| JN   | BOJ Outlook Report  |        |            |            |        |            | 3.45  | 12.45 |
| GE   | PPI MoM/YoY   | Jun    |            | -0.1/2.3   |        | -0.2/2.8   | 7.00  | 16.00 |
| JN   | BOJ Kuroda speaks at press conference after MPM   |        |            |            |        |            | 7.30  | 16.30 |
| CH   | FX Net Settlement - Clients CNY   | Jun    |            |            |        | -85        | 8.00  | 17.00 |
| EC   | ECB Current Account SA  | May    |            |            |        | 22         | 9.00  | 18.00 |
| UK   | Retail Sales Ex Auto Fuel MoM/YoY   | Jun    |            | 0.5/2.5    |        | -2/1       | 9.30  | 18.30 |
| UK   | Retail Sales Inc Auto Fuel MoM/YoY  | Jun    |            | 0.4/2.5    |        | -1/1       | 9.30  | 18.30 |
| EC   | Euro Area First Quarter Government Deficit/Debt   |        |            |            |        |            | 10.00 | 19.00 |
| UK   | CBI Business Optimism   | Jul    |            |            |        | 1          | 11.00 | 20.00 |
| UK   | CBI Trends Total Orders/Prices  | Jul    |            | /          |        | 16/23      | 11.00 | 20.00 |
| EC   | ECB Deposit Facility Rate/Main refinancing rate   | Jul 20 |            | -0.4/0     |        | -0.40/0.00 | 12.45 | 21.45 |
| EC   | ECB Marginal Lending Facility/Asset Purchase target   | Jul 20 |            | 0.25/60    |        | 0.25/60    | 12.45 | 21.45 |
| US   | Initial Jobless Claims  | Jul 15 |            | 245        |        | 247        | 13.30 | 22.30 |
| US   | Philadelphia Fed Business Outlook   | Jul    |            | 23.7       |        | 28         | 13.30 | 22.30 |
| EC   | Consumer Confidence   | Jul A  |            | -1.2       |        | -1         | 15.00 | 0.00  |
| US   | Leading Index   | Jun    |            | 0.4        |        | 0          | 15.00 | 0.00  |
| <b>Friday, 21 July 2017</b>                              |   |        |            |            |        |            |       |       |
| NZ   | Net Migration SA  | Jun    |            |            |        | 5900       | 23.45 | 8.45  |
| AU   | RBA's Debelle (Deputy Governor) speaks: Global Influences on Domestic Monetary Policy – at the CEDA/University of Adelaide luncheon, Adelaide |        |            |            |        |            | 3.40  | 12.40 |
| NZ   | Credit Card Spending MoM/YoY  | Jun    |            | /          |        | 0.9/7.6    | 4.00  | 13.00 |
| AU   | RBA's Michele Bullock, Assistant Governor (Financial System), at Melbourne Institute/The Australian Economic & Social Policy Conference, Melb |        |            |            |        |            | 4.30  | 13.30 |
| UK   | Public Finances (PSNCR)/PSNB ex-Banking Groups  | Jun    |            | 4.9        |        | 13/7       | 9.30  | 18.30 |
| CA   | CPI NSA MoM/YoY   | Jun    |            | -0.1/1.1   |        | 0.1/1.3    | 13.30 | 22.30 |
| CA   | CPI Core- Common/Trim YoY%  | Jun    |            | 1.3/       |        | 1.3/1.2    | 13.30 | 22.30 |
| CA   | CPI Core- Median YoY%   | Jun    |            |            |        | 1.5        | 13.30 | 22.30 |
| CA   | Retail Sales/Ex Autos MoM   | May    |            | 0.3/0      |        | 0.8/1.5    | 13.30 | 22.30 |
| US   | Baker Hughes U.S. Rig Count/Oil Rigs  | Jul 21 |            | /          |        | 952/765    | 18.00 | 3.00  |
| <b>Monday, 24 July 2017</b>                              |   |        |            |            |        |            |       |       |
| JN   | Nikkei Japan PMI Mfg  | Jul P  |            |            |        | 52         | 1.30  | 10.30 |
| IMF  | IMF releases World Economic Outlook forecasts for IMF Spring meetings held in Kuala Lumpur, Malaysia  |        |            |            |        |            | 4.00  | 13.00 |
| JN   | Leading Index CI  | May F  |            |            |        | 105        | 6.00  | 15.00 |
| JN   | Coincident Index  | May F  |            |            |        | 116        | 6.00  | 15.00 |
| GE   | Markit/BME Germany Manufacturing PMI  | Jul P  |            |            |        | 60         | 8.30  | 17.30 |
| GE   | Markit Germany Services/Composite PMI   | Jul P  |            | /          |        | 54/56      | 8.30  | 17.30 |
| EC   | Markit Eurozone Manufacturing PMI   | Jul P  |            |            |        | 57         | 9.00  | 18.00 |
| EC   | Markit Eurozone Services/Composite PMI  | Jul P  |            | /          |        | 55/56      | 9.00  | 18.00 |
| CA   | Wholesale Trade Sales MoM   | May    |            |            |        | 1          | 13.30 | 22.30 |
| CH   | Conference Board Leading Economic Index   | Jun    |            |            |        |            | 14.00 | 23.00 |
| US   | Markit US Manufacturing PMI   | Jul P  |            |            |        | 52         | 14.45 | 23.45 |
| US   | Markit US Services/Composite PMI  | Jul P  |            | /          |        | 54/53      | 14.45 | 23.45 |
| AU   | HIA House Affordability Index   | 2Q     |            |            |        | 81         |       |       |
| CA   | Bloomberg Nanos Confidence  | Jul 21 |            |            |        | 58         | 15.00 | 0.00  |
| US   | Existing Home Sales, #/MoM  | Jun    |            | 5.54/-1.38 |        | 6/1        | 15.00 | 0.00  |
| <b>Tuesday, 25 July 2017</b>                             |   |        |            |            |        |            |       |       |
| AU   | ANZ Roy Morgan Weekly Consumer Confidence Index   | Jul 23 |            |            |        | 113        | 0.30  | 9.30  |
| JN   | BOJ Minutes of June 15-16 Meeting   |        |            |            |        |            | 0.50  | 9.50  |
| GE   | IFO Business Climate  | Jul    |            |            |        | 115        | 9.00  | 18.00 |
| GE   | IFO Current Assessment/Expectations   | Jul    |            | /          |        | 124/107    | 9.00  | 18.00 |
| UK   | CBI Business Optimism   | Jul    |            |            |        | 1          | 11.00 | 20.00 |
| UK   | CBI Trends Total Orders/Selling Prices  | Jul    |            | /          |        | 16/23      | 11.00 | 20.00 |
| US   | FHFA House Price Index MoM  | May    |            |            |        | 1          | 14.00 | 23.00 |
| US   | S&P CoreLogic CS 20-City MoM SA/YoY   | May    |            | /          |        | 0/6        | 14.00 | 23.00 |
| US   | Conf. Board Consumer Confidence   | Jul    |            | 116        |        | 119        | 15.00 | 0.00  |
| US   | Richmond Fed Manufact. Index  | Jul    |            | 7          |        | 7          | 15.00 | 0.00  |
| <b>Wednesday, 26 July 2017</b>                           |   |        |            |            |        |            |       |       |
| NZ   | Trade Balance NZD   | Jun    |            |            |        | 103        | 23.45 | 8.45  |
| JN   | PPI Services YoY  | Jun    |            |            |        | 1          | 0.50  | 9.50  |
| AU   | Skilled Vacancies MoM   | Jun    |            |            |        | 1          | 2.00  | 11.00 |
| AU   | CPI QoQ/YoY   | 2Q     |            | /          |        | 1/2        | 2.30  | 11.30 |
| AU   | CPI Trimmed Mean QoQ/YoY  | 2Q     |            | /          |        | 1/2        | 2.30  | 11.30 |
| AU   | CPI Weighted Median QoQ/YoY   | 2Q     |            | /          |        | 0/2        | 2.30  | 11.30 |
| JN   | BOJ Nakaso speaks in Hiroshima  |        |            |            |        |            | 2.30  | 11.30 |
| AU   | RBA's Lowe Speech in Sydney   |        |            |            |        |            | 4.05  | 13.05 |
| JN   | Small Business Confidence   | Jul    |            |            |        | 49         | 6.00  | 15.00 |
| UK   | BBA Loans for House Purchase  | Jun    |            |            |        | 40347      | 9.30  | 18.30 |
| UK   | GDP QoQ/YoY   | 2Q A   |            | 0.3/       |        | 0/2        | 9.30  | 18.30 |
| UK   | Index of Services MoM/ 3M/3M  | May    |            | /          |        | 0/0        | 9.30  | 18.30 |
| US   | New Home Sales, #/Mom   | Jun    |            | 615.5/0.9  |        | 610/3      | 15.00 | 0.00  |
| US   | FOMC Rate Decision (Lower/Upper Bound)  | Jul 26 |            | 1/1.25     |        | 1/1        | 19.00 | 4.00  |
| <b>Upcoming Central Bank Interest Rate Announcements</b> |   |        |            |            |        |            |       |       |
| 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% | 1.00-1.25% |        | 1.00-1.25% |       |       |
| Australia, RBA   |   | 1-Aug  | 1.50%      | 1.50%      |        | 1.50%      |       |       |
| UK BOE   |   | 3-Aug  |            |            |        | 0.25%      |       |       |
| Canada, BoC  |   | 6-Sep  |            |            |        | 0.75%      |       |       |
| New Zealand, RBNZ  |   | 10-Aug | 1.75%      | 1.75%      |        | 1.75%      |       |       |

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

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