

MARKETS TODAY

Never make a move too soon



Good morning

Nothing like a funky BB King tune to start the day...The FOMC meeting was the big event from the overnight session and as widely expected the Fed left the funds rate unchanged and made a small tweak to its balance sheet unwind guidance noting that a start should occur "relatively soon" rather than "this year", as previously stated. Ahead of the meeting markets were essentially marking time, but reaction to the Statement has seen UST yields rally and a broad USD sell off while US equities are essentially unchanged after a small initial dip. The Fed left the market with the scent that a rate hike should still be expected this year, but the lack of specific timing on the it's balance sheets plans and may be a small word change on inflation appear to have been the excuse for the move lower in UST yields and the dollar.

Fed officials voted unanimously to leave the funds rate unchanged and noted that the balance sheet normalisation is expected to begin "relatively soon" (which replaced "this year"). To us this change in wording confirms our view that a balance sheet announcement should be expected in September, data dependent of course. The characterisation on inflation was mildly dovish, noting inflation is "running below 2%" where as previously it said "running somewhat below 2%". But with wording on the inflation outlook unchanged along with upgrades on the assessments of the labour market and the economy, our read of the Statement is that the Fed remains intent on hiking one more time this year (likely December), contingent on the economy evolving as expected with upcoming inflation and labour market data releases the key variables to watch.

Ahead of the FOMC the USD traded in fairly tight range, but reaction to the Statement triggered a broad selloff with DXY (USD index) dropping 0.8% in a short space of time. Over the past two weeks the USD has been under pressure and the lack of clear guidance by the Fed appears to have provided an additional excuse to sell the greenback. Against this backdrop, commodities have enjoyed a bit of a resurgence and as such it is not surprising that commodity linked currency sit at the top of the leader today.

The mighty AUD has finally cracked the 80c mark and after initially trading to 0.8014, it has now settled just above the figure at 0.8005. Yesterday the AUD traded with a soft tone after a lower than expected headline CPI (although the core readings now are not that far away from the lower end of the RBA's 2-3% inflation band) and a speech from Governor Lowe confirming the RBA is going nowhere for a while yet. As it has been the case for recently, AUD strength is largely a function of USD weakness.

NZD is up 1.39% and is back trading above the 75c mark. Positive risk sentiment, higher commodity prices (including further gains in wholemilk powder futures), and a lack of jawboning for the RBNZ in yesterday's speech from Assistant Governor McDermott already had the NZD in the ascendancy. USD weakness was the cherry on the top and at 0.7517, the kiwi now trades at a new 23 month high.

10y UST yields traded to an overnight high of 2.336%, but reaction to the Statement triggered a 4bps rally and now they trade at 2.29% while pricing for a 25bp hike at the December meeting is now at 42%, down from around 50%.

Commodities have continued to perform, oil prices are up over 1%, copper is +1.6% and iron ore is 1.4%. Meanwhile the VIX index has closed below the 10 mark (9.60) for a 10th consecutive day.

Coming Up

After what has been a busy 24 hours for markets with major data releases and events, today's calendar has a lot of items but none of them are likely to be market moving.

This morning we get NAB's Quarterly Australian Commercial Property survey along with import and export prices for Q2. For economists and FX strategists the Q2 prices will be of some interest as they are a good proxy for the Australia's terms of and using the RBA commodity price index as a guide, we suspect the terms of trade declined in Q2. Today's numbers should provide a good test to our theory. In addition, the RBA model on the AUD real TWI uses the goods terms of trade as an independent variable, so today's numbers should also help assess to what extent the currency was overvalued in Q2.

Also this morning China publishes industrial profit figures for June and later in the day Germany gets its GfK Consumer Confidence reading for August. The ECB publishes money supply figures for June and if the Q2 bank lending survey is any guide the data should confirm credit conditions have continued to improve.

The US gets a lot of second tier data releases with durable goods orders, initial jobless claims and advance goods trade balance the highlights. As for Fed news, Fed nominee Quarles testifies to the Senate Banking Committee.

Overnight

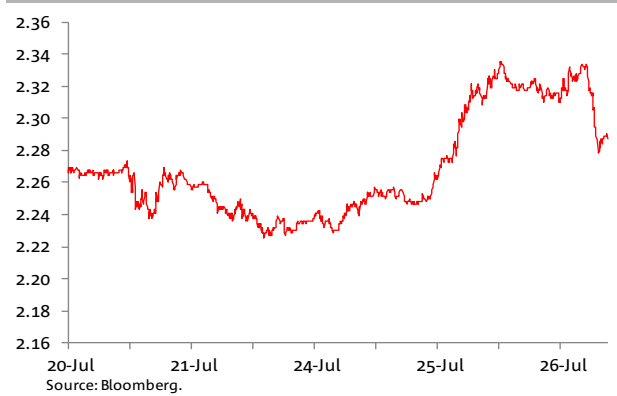
On global stock markets, the S&P 500 was +0.03%. Bond markets saw US 10-years -1.61bp to 2.29%. In commodities, Brent crude oil +1.49% to \$50.95, gold+0.7% to \$1,260, iron ore +1.4% to \$70.43, steam coal +0.5% to \$87.25, met. coal -0.6% to \$165.00. AUD is at 0.8007 and the range since yesterday 5pm Sydney time is 0.7893 to 0.797.

Markets

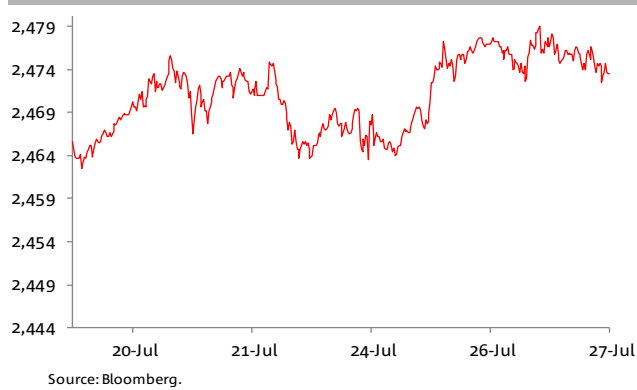
AUD/USD - past week



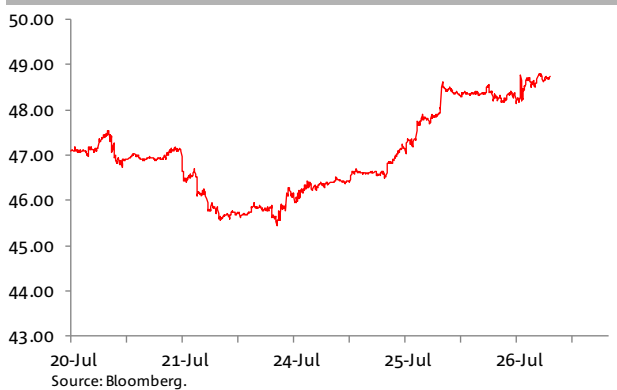
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.8007	0.9	0.7893	0.7970	HKD	7.8092 0.0
NZD	0.7517	1.3	0.7402	0.7451	CNY	6.7540 0.0
EUR	1.1742	0.8	1.1631	1.1712	SGD	1.3567 -0.4
GBP	1.3118	0.7	1.3008	1.3084	IDR	13,338 0.1
JPY	111.06	-0.7	110.83	112.09	THB	33.40 -0.2
CAD	1.2444	-0.5	1.2481	1.2533	KRW	1,122 0.6
AUD/EUR	0.6819	0.1	0.6783	0.6822	TWD	30.35 0.0
AUD/JPY	88.93	0.1	87.92	88.92	PHP	50.65 0.2
AUD/GBP	0.6104	0.2	0.6059	0.6101	CHF	0.95 -0.2
AUD/NZD	1.0652	-0.5	1.0629	1.0714	SEK	8.16 -0.5
AUD/CNH	5.3483	-0.3	5.3332	5.3781		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spred
USD	1.25	1.32	1.59	2.25	USD 10	2.29	-4.82
AUD	1.50	1.69	1.91	2.88	AUD 10	2.73	4.00 0.44
NZD	1.75	1.93	2.21	3.30	NZD 10	2.96	2.70 0.68
EUR	0.00	-0.33	-0.17	0.92	CAD 10	1.97	-4.90 -0.32
GBP	0.25	0.29	0.60	1.30	EUR 10	0.56	-0.50 -1.73
JPY	-0.06	-0.01	0.04	0.26	GBP 10	1.23	-2.50 -1.05
CAD	0.75	1.26	1.59	2.24	JPY 10	0.08	0.30 -2.21

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,711	0.45	17.0
S&P 500	2,478	0.03	14.2
Nasdaq	6,423	0.16	25.5
VIX	9.60	1.80	-27.7
FTSE	7,452	0.2	10.6
DAX	12,305	0.3	19.7
CAC 40	5,190	0.6	17.4
Nikkei	20,050	0.5	22.5
Shanghai	3,248	0.1	6.3
Hang Seng	26,941	0.3	21.6
ASX 200	5,777	0.9	4.4

Commodities*

	Last	% day
Oil (Brent)	50.95	1.5
Oil (WTI)	48.72	1.7
Oil (Tapis)	50.06	2.9
Gold	1260.30	0.7
CRB	179.45	1.0
GS Metals	339.7	0.8
Aluminium	1926.3	0.6
Copper	6307.8	1.6
Nickel	10008.5	0.4
Zinc	2801.8	-1.0
Ch. steel	3591.0	1.4
Iron ore	70.4	1.4
St. Coal	87.3	0.5
Met. coal	165.0	-0.6
Wheat Chic.	502.8	0.8
Sugar	14.2	2.4
Cotton	69.0	-0.8
Coffee	134.8	3.2

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.29	2.00
3 Yr bond	97.8	3.00
10 Yr bond	97.31	1.00
3/10 sprd	0.49	2.00
SPI	5717.0	-54.0

*Change in bps

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, 27 July 2017								
NZ	Household Living Cost Index	2Q						
CH	Swift Global Payments CNY	Jun				1.6	2.00	11.00
AU	Export/Import Price Index QoQ	2Q		-5.5/0.7		9.4/1.2	2.30	11.30
AU	NAB Quarterly Australian Commercial Property Survey	2Q					2.30	11.30
CH	Industrial Profits YoY	Jun				16.7	2.30	11.30
GE	GfK Consumer Confidence	Aug		10.6		10.6	7.00	16.00
UK	CBI Retailing/Total Dist. Reported Sales	Jul		10/15		12/17	11.00	20.00
US	Durable Goods Orders	Jun P		3.5/0.3		-0.8/0.2	13.30	22.30
US	Initial Jobless Claims	Jul 22		240		233.0	13.30	22.30
US	Advance Goods Trade Balance	Jun		-65.5		-65.9	13.30	22.30
US	Wholesale/Retail Inventories MoM	Jun P		0.3/		0.4/0.6	13.30	22.30
US	Chicago Fed Nat Activity Index	Jun		0.35		-0.3	13.30	22.30
US	Bloomberg Consumer Comfort	Jul 23				47.6	14.45	23.45
US	Fed nominee Quarles confirmation hearing at Senate Banking	Jul					15.00	0.00
CA	CFIB Business Barometer	Jul				60.9		
US	Kansas City Fed Manf. Activity	Jul		11		11.0	16.00	1.00
Friday, 28 July 2017								
UK	GfK Consumer Confidence	Jul		-11		-10.0	0.10	9.10
JN	Jobless Rate/Jobless-To-Applicants Ratio	Jun		3/1.5		3.1/1.5	0.30	9.30
JN	Overall Household Spending YoY	Jun		0.5		-0.1	0.30	9.30
JN	Natl CPI YoY	Jun		0.4		0.4	0.30	9.30
JN	Natl CPI Ex Fresh Food/Ex Fresh Food, Energy YoY	Jun		0.4/-0.1		0.4/0.0	0.30	9.30
JN	Tokyo CPI YoY	Jul		0.1		0.0	0.30	9.30
JN	Tokyo CPI Ex-Fresh Food/Ex Fresh Food YoY	Jul		0.1/-0.1		0.0/-0.2	0.30	9.30
JN	BOJ Summary of Opinions at July 19-20 Meeting						0.50	9.50
JN	Retail Sales MoM/YoY	Jun		0.4/2.4		-1.6/2.0	0.50	9.50
AU	PPI QoQ/YoY	2Q		/		0.5/1.3	2.30	11.30
EC	Business Climate Indicator	Jul		1.13		1.2	10.00	19.00
GE	CPI EU Harmonized MoM/YoY	Jul P		0.3/1.4		0.2/1.5	13.00	22.00
US	Employment Cost Index	2Q		0.6		0.8	13.30	22.30
US	GDP revised from 2014-16; reference yr remains 2009						13.30	22.30
US	GDP Annualized QoQ	2Q A		2.5		1.4	13.30	22.30
CA	GDP MoM/YoY	May		0.2/4.2		0.2/3.3	13.30	22.30
US	U. of Mich. Sentiment/5-10 Yr Inflation Expectations	Jul F		93.1/		93.1/2.6	15.00	0.00
US	Fed's Kashkari Speaks at Townhall Event						18.20	3.20
Monday, 31 July 2017								
NZ	Building Permits MoM	Jun				7.0	23.45	8.45
UK	Lloyds Business Barometer	Jul				30.0	0.10	9.10
JN	Industrial Production MoM/YoY	Jun P		/		-3.6/6.5	0.50	9.50
AU	Melbourne Institute Inflation MoM/YoY	Jul		/		0.1/2.3	2.00	11.00
NZ	ANZ Activity Outlook/Business Confidence	Jul		/		42.8/24.8	2.00	11.00
AU	HIA New Home Sales MoM	Jun				1.1	2.00	11.00
CH	Manufacturing/Non-manufacturing PMIs	Jul		51.5/		51.7/54.9	2.00	11.00
AU	Private Sector Credit MoM/YoY	Jun		/		0.4/5.0	2.30	11.30
UK	Mortgage Approvals	Jun				65.2	9.30	18.30
EC	Unemployment Rate	Jun				9.3	10.00	19.00
EC	CPI Estimate/Core YoY	Jul		/		1.3/1.1	10.00	19.00
CA	Industrial Product/Raw Material Price MoM	Jun		/		-0.2/-1.8	13.30	22.30
US	Chicago Purchasing Manager	Jul		59		65.7	14.45	23.45
CA	Bloomberg Nanos Confidence	Jul 28				58.8	15.00	0.00
US	Pending Home Sales MoM/YoY	Jun		1/		-0.8/0.5	15.00	0.00
US	Dallas Fed Manf. Activity	Jul		14		15.0	15.30	0.30
Tuesday, 1 August 2017								
AU	AiG Perf of Mfg Index	Jul				55.0	0.30	9.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 23				112.5	0.30	9.30
AU	CoreLogic House Px MoM	Jul				-1.1	1.00	10.00
JN	Nikkei Japan PMI Mfg	Jul F				52.2	1.30	10.30
CH	Caixin China PMI Mfg	Jul		50.3		50.4	2.45	11.45
AU	RBA Cash Rate Target	Aug 1		1.5		1.5	5.30	14.30
JN	Vehicle Sales YoY	Jul				9.7	6.00	15.00
AU	Commodity Index AUD/SDR YoY	Jul		/		119.5/25.0	7.30	16.30
GE	Markit/BME Germany Manufacturing PMI	Jul F				58.3	8.55	17.55
GE	Unemployment Change (000's)/Claims Rate	Jul		/		7.0/5.7	8.55	17.55
EC	Markit Eurozone Manufacturing PMI	Jul F				56.8	9.00	18.00
UK	Markit UK PMI Manufacturing SA	Jul				54.3	9.30	18.30
EC	GDP SA QoQ/YoY	2Q A		/		0.6/1.9	10.00	19.00
CA	MLI Leading Indicator MoM	Jun				0.1	12.00	21.00
US	Personal Income/Spending	Jun		0.4/0.2		0.4/0.1	13.30	22.30
US	PCE Deflator MoM/YoY	Jun		0/		-0.1/1.4	13.30	22.30
US	PCE Core MoM/YoY	Jun		0.1/		0.1/1.4	13.30	22.30
CA	Markit Canada Manufacturing PMI	Jul				54.7	14.30	23.30
US	Markit US Manufacturing PMI	Jul F				53.2	14.45	23.45
US	Wards Total Vehicle Sales	Jul		16.95		16.4		
US	ISM Manufacturing	Jul		55.8		57.8	15.00	0.00
Wednesday, 2 August 2017								
NZ	Employment Change QoQ/YoY	2Q		/		1.2/5.7	23.45	8.45
NZ	Unemployment/Participation Rate	2Q		/		4.9/70.6	23.45	8.45
NZ	Pvt Wages Ex/Incl Overtime QoQ	2Q		/		0.4/0.4	23.45	8.45
NZ	Average Hourly Earnings QoQ	2Q				0.3	23.45	8.45
UK	BRC Shop Price Index YoY	Jul				-0.3	0.10	9.10
AU	Building Approvals MoM/YoY	Jun		/		-5.6/-19.7	2.30	11.30
JN	BOJ Funo speaks in Sapporo						2.30	11.30
JN	Consumer Confidence Index	Jul				43.3	6.00	15.00
UK	Markit/CIPS UK Construction PMI	Jul				54.8	9.30	18.30
EC	PPI MoM/YoY	Jun		/		-0.4/3.3	10.00	19.00
US	MBA Mortgage Applications	Jul 21				6.3	12.00	21.00
US	Fed's Mester Speaks to Community Banking Conference						17.00	2.00
US	Fed's Williams Speaks in Las Vegas on Monetary Policy						20.30	5.30
Upcoming Central Bank Interest Rate Announcements								
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%		
New Zealand	RBNZ	10-Aug	1.75%	1.75%		1.75%		
Canada	BoC	6-Sep				0.75%		
Europe	ECB	7-Sep	-0.4%	-0.4%		-0.4%		
Japan	BoJ	21-Sep	-0.1%	-0.1%		-0.1%		

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

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