

MARKETS TODAY

Breaking up is hard to do



Good morning

Whether Trump and his advisers are fans of Neil Sedaka we probably will never know, but with the Q2 US GDP underwhelming on Friday and seemingly unable to break up into a higher range, Sedaka's number one hit could be one of those stress songs that keeps playing in your head. The task of getting the US economy growing up towards 3% amid internal turmoil and a Republican Congress that doesn't want to play ball appears to be getting harder and harder.

On Friday disappointing US data releases provided the excuse to sell the USD and buy UST while earnings results from Amazon weighted on tech stocks. Meanwhile Brent oil rose back above the \$52 mark punching through its 200MDA and now is almost 10% up month to date. CHF was the biggest G10 loser, bucking the USD selloff trend.

Weekend news of a successful ICBM test by North Korea seemingly capable of reaching the entire US territory may support the USD and a bid for safe haven assets when Asia opens on Monday (very little reaction so far), but important data releases later on the week are going to be the real test with both DXY and BBDXY approaching key support levels (DXY 92 and BBDXY 1151).

The advance US Q2 GDP reading came at 2.6%, just under the official market estimate of 2.7%, but after last week's new trade and inventory data, market expectations were for a number closer to 3%. Revisions to the Q1 estimate also disappointed coming in at 1.2% vs 1.4% previously, core PCE was revised up in Q1 to 1.8% from 1.7% prev., but in Q2 the estimate declined to 1.5%. So Q2 growth was marginally above the 2% trend, but Q1 was well below. The pace of growth should keep downward pressure on the unemployment rate, but the prospect of higher inflation remains elusive. Meanwhile amid internal turmoil and Washington paralysis the prospect of fiscal policy boosting growth above 3% is looking like an almost impossible objective.

Against a back drop of healthy but unexciting US data releases, the DJ managed to edge a little bit higher on Friday (0.15%) while the broader S&P (-0.13%) and tech-heavy NASDAQ (-0.12%) closed marginally in negative territory. The DJ ended 1.16% up for the week while S&P (2,472.10) and NASDAQ (6,374.68) lost -0.2% and -0.2% over the same period. Disappointing earnings from Amazon, ExxonMobil and Starbucks were the main company news weighing on US shares on Friday. In Europe the Stoxx 600 and FTSE 100 fell 1% on Friday to be -0.48% and -1.13% on the week respectively. Concerns over US tobacco regulation weighed on the FTSE on Friday.

Amid broad USD weakness, DXY fell 0.64%, BBDXY was -0.46%, but ADXY was essentially unchanged at -0.05%, suggesting USD weakness did not broadly extend into

EM currencies. On the day, SEK and CAD were the biggest G10 winners, up 1.18% and 0.97% respectively both boosted by better than expected GDP prints. The Euro gained 0.63% and closed the week at 1.1751, AUD and NZD also joined the party gaining 0.36% and 0.25% respectively. NZD/USD ended the week just above the 75c mark (0.7514), AUD/USD closed just below 80c (0.7987); both currencies continue to benefit from the softer USD environment ending the week up 0.80% and 0.85% respectively. Buoyant commodity prices and benign risk environment have also been supporting factors, however both are showing tentative signs of fatigue. Excluding oil, other commodities have struggled to perform in recent days. Meanwhile US equities were mixed on Friday and the VIX rose, albeit marginally, for a second consecutive day. Our fair value models suggest both AUD and NZD are expensive and approaching extreme levels, but with the USD still under pressure, the richness in both AUD and NZD can still persist for a bit longer. US data outcomes this week are going to be important in this regard.

Meanwhile CHF was the exception down, 0.29% against the USD and 1.02% against the Euro. A move towards 1.15 in EURCHF and possibly beyond now looks to be only a matter of time.

Ahead of the US GDP data release, 10 UST yields were trending higher following the move higher in 10y Bunds which were boosted by higher German CPI (1.7% vs 1.5% exp.). 10y UST reached an overnight high of 2.335%, but with the data underwhelming a rally ensued helping them close at 2.889%, 2.1bps lower on the day. Overall there was a flattening bias on the curve with the 2y yield down 0.7 bps to 1.349%.

Barring the positive moves in oil prices noted above, commodities as a complex were softer with LMEX -0.47%. Copper had another range trading day, iron ore fell 2.10% and gold climbed 0.67% to \$1268.

In other news: President Trump signs legislation to impose new sanctions on Russia - US Fed Kashkari (dove) favours shrinking balance sheet in the background "over the next several years" and suggests to wait and see more data - ECB Lautenschlaeger said that she sees no trend toward inflation goal yet. Noting that the ECB Council should address the issue of how and when to return to "normal monetary policy."

Coming Up

We have a busy week with important data releases locally, while Tuesday's RBA Board meeting statement may not throw up too many surprises, Friday's Monetary Policy Statement will contain some new insights and refreshed forecasts, though we expect these to be little changed. We look for flat June Retail Trade (Friday), with downside risk. It's back to US growth and inflation watch with the June PCE deflators and Manuf. ISM on Tuesday and non-manuf. on Thursday, followed by payrolls on Friday. But

can earnings growth surprise on the high side? This morning we get China's manufacturing PMI and is expected to moderate slightly, in which event will dovetail with the view that growth has peaked in Q2. Eurozone GDP and inflation are also out tonight.

See our What to Watch publication for more details.

Overnight

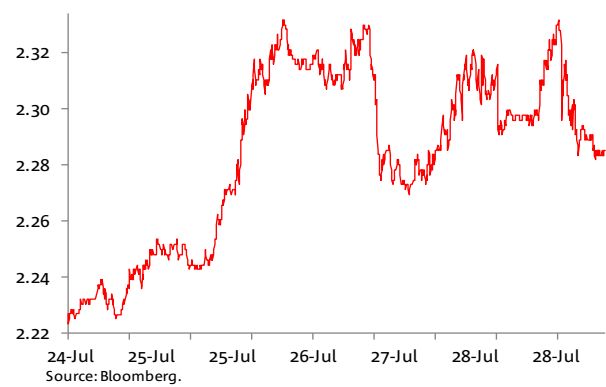
On global stock markets, the S&P 500 was -0.13%. Bond markets saw US 10-years -2.14bp to 2.29%. In commodities, Brent crude oil +2.00% to \$52.52, gold+0.7% to \$1,268, iron ore -2.1% to \$68.73, steam coal +0.8% to \$87.20, met. coal +0.0% to \$165.00. AUD is at 0.7987 and the range since Friday 5pm Sydney time is 0.7937 to 0.8007.

Markets

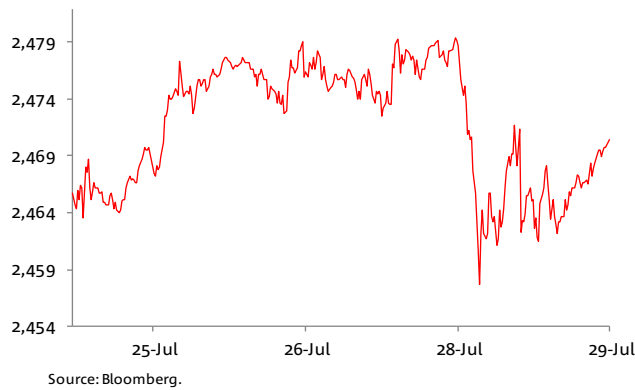
AUD/USD - past week



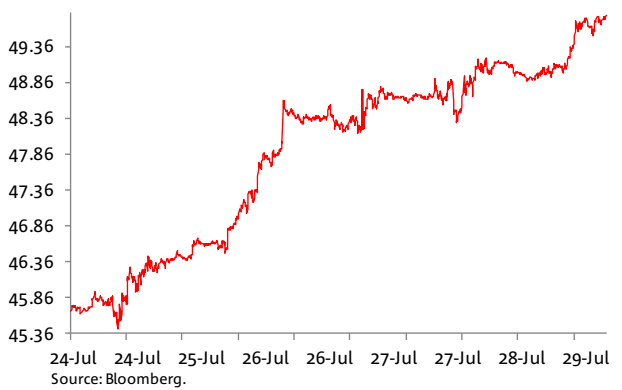
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High	Last	% chge	
AUD	0.7987	0.3	0.7937	0.8007	HKD	7.8092	0.0
NZD	0.7506	0.3	0.7461	0.7525	CNY	6.7369	-0.1
EUR	1.1754	0.7	1.1671	1.1764	SGD	1.3583	-0.1
GBP	1.3132	0.5	1.3062	1.3152	IDR	13,324	0.0
JPY	110.65	-0.5	110.55	111.33	THB	33.38	0.2
CAD	1.2439	-0.9	1.2420	1.2568	KRW	1,122	0.8
AUD/EUR	0.6795	-0.4	0.6780	0.6827	TWD	30.24	0.2
AUD/JPY	88.38	-0.3	88.28	88.83	PHP	50.54	0.0
AUD/GBP	0.6083	-0.3	0.6062	0.6108	CHF	0.97	0.4
AUD/NZD	1.0644	0.0	1.0616	1.0670	SEK	8.12	-1.2
AUD/CNH	5.3828	0.1	5.3532	5.3935			

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spnd
USD	1.25	1.31	1.59	2.25	USD 10	2.29	-2.14
AUD	1.50	1.69	1.92	2.87	AUD 10	2.68	-0.50 0.40
NZD	1.75	1.93	2.22	3.29	NZD 10	2.98	4.00 0.70
EUR	0.00	-0.33	-0.15	0.94	CAD 10	2.03	3.20 -0.26
GBP	0.25	0.29	0.59	1.28	EUR 10	0.54	0.60 -1.75
JPY	-0.05	-0.01	0.04	0.26	GBP 10	1.22	1.50 -1.07
CAD	0.75	1.28	1.64	2.29	JPY 10	0.08	0.30 -2.21

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,830	0.15	18.4
S&P 500	2,472	-0.13	13.7
Nasdaq	6,375	-0.12	23.5
VIX	10.29	1.78	-13.3
FTSE	7,368	-1.0	9.6
DAX	12,163	-0.4	17.7
CAC 40	5,131	-1.1	15.6
Nikkei	19,960	-0.6	20.5
Shanghai	3,253	0.1	9.2
Hang Seng	26,979	-0.6	23.2
ASX 200	5,703	-1.4	2.5

Commodities*

	Last	% day
Oil (Brent)	52.52	2.0
Oil (WTI)	49.71	1.4
Oil (Tapis)	51.03	1.2
Gold	1268.40	0.7
CRB	182.12	0.5
GS Metals	337.3	-0.6
Aluminium	1888.8	-1.7
Copper	6302.5	-0.1
Nickel	10165.5	0.7
Zinc	2768.0	-0.9
Ch. steel	3606.0	1.5
Iron ore	68.7	-2.1
St. Coal	87.2	0.8
Met.coal	165.0	0.0
Wheat Chic.	506.0	0.2
Sugar	14.4	-0.4
Cotton	70.2	-0.4
Coffee	137.9	1.4

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.28	-1.00
3 Yr bond	97.8	0.00
10 Yr bond	97.31	0.00
3/10 sprd	0.49	0.00
SPI	5658.0	62.0

* Change in bps

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	0.0	0.0%
FED	-116	-464.0%

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, 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		1.5/4.8		-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	0.5/5.3	0.4/5.2		0.4/5.0	2.30	11.30
NZ	Credit Aggregates, Household YoY	Jun				8.1	4.00	13.00
UK	Mortgage Approvals	Jun				65.2	9.30	18.30
EC	Unemployment Rate	Jun		9.2		9.3	10.00	19.00
EC	CPI Estimate/Core YoY	Jul		1.2/1.1		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 30				115.1	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		50.4		50.4	2.45	11.45
AU	RBA Cash Rate Target	Aug 1	1.50	1.50		1.50	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		58.3	8.55	17.55
GE	Unemployment Change (000's)/Claims Rate	Jul		-5/5.7		7.0/5.7	8.55	17.55
EC	Markit Eurozone Manufacturing PMI	Jul F		56.8		56.8	9.00	18.00
UK	Markit UK PMI Manufacturing SA	Jul		54.7		54.3	9.30	18.30
EC	GDP SA QoQ/YoY	2Q A		0.55/2.1		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		0.4/0.1		0.4/0.1	13.30	22.30
US	PCE Deflator MoM/YoY	Jun		0/1.3		-0.1/1.4	13.30	22.30
US	PCE Core MoM/YoY	Jun		0.1/1.4		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		16.78		16.4		
US	ISM Manufacturing	Jul		56.2		57.8	15.00	0.00
NZ	Global Dairy Auction, early AM NZT		moderate increase			0.2		
Wednesday, 2 August 2017								
NZ	QVNZ Housing Report, prices 3m YoY	Jul				8.1	18.00	3.00
NZ	Employment Change QoQ/YoY	2Q	0.7/4.1	0.7/4.1		1.2/5.7	23.45	8.45
NZ	Unemployment/Participation Rate	2Q	4.8	4.8/70.6		4.9/70.6	23.45	8.45
NZ	Pvt Wages Ex/Incl Overtime QoQ	2Q	0.4	0.5/0.4		0.4/0.4	23.45	8.45
NZ	Average Hourly Earnings QoQ	2Q		0.9		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	2/-10.5	1/-11		-5.6/-19.7	2.30	11.30
JN	BOJ Funo speaks in Sapporo						2.30	11.30
JN	Consumer Confidence Index	Jul		43.5		43.3	6.00	15.00
UK	Markit/CIPS UK Construction PMI	Jul				54.8	9.30	18.30
EC	PPI MoM/YoY	Jun		-0.1/2.3		-0.4/3.3	10.00	19.00
US	MBA Mortgage Applications	Jul 28				0.4	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
Thursday, 3 August 2017								
NZ	ANZ Job Advertisements MoM	Jul				1.3	23.00	8.00
AU	AiG Perf of Services Index	Jul				54.8	0.30	9.30
JN	Nikkei Japan PMI Services/Composite	Jul		/		53.3/52.9	1.30	10.30
NZ	ANZ Commodity Price	Jul				2.1	2.00	11.00
AU	Trade Balance	Jun	1500	1800		2471	2.30	11.30
CH	Caixin China PMI Services/Composite	Jul				51.6	2.45	11.45
GE	Markit Germany Services/Composite PMI	Jul F		53.5/55.1		53.5/55.1	8.55	17.55
EC	ECB Publishes Economic Bulletin						9.00	18.00
EC	Markit Eurozone Services/Composite PMI	Jul F		55.4/55.8		55.4/55.8	9.00	18.00
UK	Markit/CIPS UK Services/Composite PMI	Jul		53.7/		53.4/53.8	9.30	18.30
EC	Retail Sales MoM/YoY	Jun		0.1/2.5		0.4/2.6	10.00	19.00
UK	Bank of England Bank Rate/Asset Purchase Target	Aug 3		0.25		0.3	12.00	21.00
UK	BOE Asset Purchase Target	Aug		435		435	12.00	21.00
UK	Bank of England Inflation Report						12.00	21.00
US	Challenger Job Cuts YoY	Jul				-19.3	12.30	21.30
US	Initial Jobless Claims	Jul 29				244.0	13.30	22.30
US	Bloomberg Consumer Comfort	Jul 30				48.6	14.45	23.45
US	Markit US Services/Composite PMI	Jul F		/		54.2/54.2	14.45	23.45
US	ISM Non-Manf. Composite	Jul		56.8		57.4	15.00	0.00
US	Factory Orders/Core Orders	Jun		1.9		-0.8	15.00	0.00
Friday, 4 August 2017								
JN	Labor Cash/Real Cash Earnings YoY	Jun		0.6/0.1		0.7/0.1	1.00	10.00
AU	Retail Sales MoM/Real Sales QoQ	Jun	0.0/1.3	0.2/1.2		0.6/0.1	2.30	11.30
AU	RBA Statement on Monetary Policy						2.30	11.30
GE	Factory Orders MoM/YoY	Jun		0.6/4.4		1.0/3.7	7.00	16.00
GE	Markit Germany Retail PMI	Jul				54.5	9.10	18.10
EC	Markit Eurozone Retail PMI	Jul				53.2	9.10	18.10
US	Change in Nonfarm Payrolls/Unemployment Rate	Jul		183/4.3		222/4.4	13.30	22.30
US	Average Hourly Earnings MoM/YoY	Jul		0.3/2.4		0.2/2.5	13.30	22.30
US	Trade Balance	Jun		-45.5		-46.5	13.30	22.30
CA	Net Change in Employment/Unemployment Rate	Jul		19/6.5		45.3/6.5	13.30	22.30
CA	Int'l Merchandise Trade	Jun		-0.9		-1.1	13.30	22.30
CA	Ivey Purchasing Managers Index SA	Jul				61.6	15.00	0.00
US	Baker Hughes U.S. Rig Count	Jul 28				950	18.00	3.00
Upcoming Central Bank Interest Rate Announcements								
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%		
US Federal Reserve		21-Sep	1.00-1.25%	1.00-1.25%		1.00-1.25%		
Japan, BoJ		21-Sep	-0.1%	-0.1%		-0.1%		

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

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