

MARKETS TODAY

A Hard Rain's A-Gonna Fall



Good morning

A Hard Rain's A-Gonna Fall is that famous song from Dylan, one of many thousand from the Nobel Laureate. It was also the message from former Fed Chairman Alan Greenspan in a Bloomberg TV interview, speaking of a bubble in the bond market. "By any measure, real long term interest rates are much too low and therefore unsustainable. When they move higher they are likely to move reasonably fast. We are experiencing a bubble not in stock prices but in bond price". He went on to talk of how the economy was about to enter a period of rising inflation, essentially then bursting the bubble. Rising inflation would be a challenge for bond investors and for yield-sensitive stocks, but a challenge the Fed would relish, a more familiar historical challenge than current circumstances.

Overnight price action has seen that Greenspan-described "bubble" get bigger, US 10s down 4.3bps to 2.25% on the back of still subdued US inflation revealed by the latest PCE deflators, a pull-back in oil prices, and for once a steadier big dollar. The Bloomberg spot BBDXY index has risen 0.22%, the AUD on the down side, pulling back through 0.80 in the London session after choppy trading initially after the RBA statement.

Relative under-performance of the AUD has come most likely in part from the headwinds created by the 59 words the RBA devoted to the growth and inflation consequences of a higher dollar, meaning later rate rises than would otherwise be the case. It was helped earlier yesterday in the run up to the RBA announcement of a stronger than expected Caixin China Manufacturing PMI for July adding more flavour to the commodity/China support theme. Iron ore was little changed overnight; met and steaming coal were higher, but oil weighed a little on commodity sentiment, as did base metals, mostly. Added into the mix, Former RBA Board member John Edwards has told Sky News that the Bank may no longer target inflation but focus on growth.

The US PCE deflators for June reflected the still low inflation mould. While the monthly change in both the headline and core PCE deflators were right in line with expectations (flat and 0.1%), an upward revision by a tenth saw a headline rate of 1.4% and core at 1.5% beating estimates by a tenth. The weaker dollar should help support inflation in coming months. Against the in-line inflation content in that report, incomes and real consumer spending were slight misses.

Also released in the US, the ISM Manufacturing index for July came in above expectations, at 56.3 (L: 57.8; E: 54.4), with a kick up in prices paid but employment down two index points to a still solid 55.2. Adding to the mixed nature of the US data set, Construction Spending in June missed expectations, not market sensitive but part of the growth story. Auto sales missed expectations.

Eurostat released their initial cut of June quarter GDP and it was right in line with expectations. Growth was 0.6%/2.1%, actually matching the annual growth in the US. As is usually the case, there was only miniscule revision to the Eurozone July PMIs. Across the channel, the UK Manufacturing PMI for July was a little higher than expected at 55.1 (E: 54.5), up from 54.2, supporting sterling and seeing EUR/GBP drift off a touch during the overnight session.

The overnight NZ dairy auction saw the Global Dairy Auction price down by 1.6%, not a large fall, but nevertheless the softest since March. This seems to have been sufficient to keep the NZD on the back foot with the AUD and its pull-back and ahead of NZ labour market and wages data this morning. The announcement yesterday of the NZ labour party changing its leadership, two months out from the election, and following recent poor poll results saw no NZD reaction.

Coming up

There's some more local regional focus today, initially across the Tasman with the June quarter labour market (employment, unemployment) as well as wages and average earnings growth. Private wages growth are expected to remain contained. That's all at 8.45am AEDT. Then Building Approvals for June are published at 11.30. As well as focusing on the slowing trend in dwelling approvals, we've also been seeing a pick-up in non-residential approvals with the more buoyant state of the commercial property market. BoJ Policy Board member Funo is speaking today too.

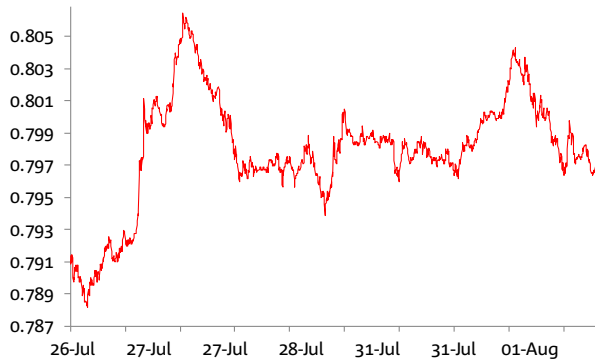
It's a rather less busy night as far as the calendar is concerned, though there are two Fed speakers, hopefully offering their updated views on the economy, inflation and monetary policy. First up is Cleveland Fed President Loretta Mester (a non-voter on the FOMC this year). In late June (after the June hike) she said that she sees no reason to increase interest rates as recent inflation data raise doubts that prices are returning to the Fed's 2 percent goal. Then follows San Francisco President John Williams (also a non-voter this year) who on his recent Australian sojourn was delivering a message that he was tending to look through recent low readings. He was singling out the likely one-off nature of the major fall in cell/telecoms prices and deals. There's been more soft US inflation readings since.

Overnight

On global stock markets, the S&P 500 was +0.24%. Bond markets saw US 10-years -4.10bp to 2.25%. In commodities, Brent crude oil -2.33% to \$51.49, gold+0.2% to \$1,269, iron ore -0.2% to \$73.56, steam coal +1.6% to \$94.70, met. coal +2.0% to \$179.50. AUD is at 0.7968 and the range since yesterday 5pm Sydney time is 0.7961 to 0.8043.

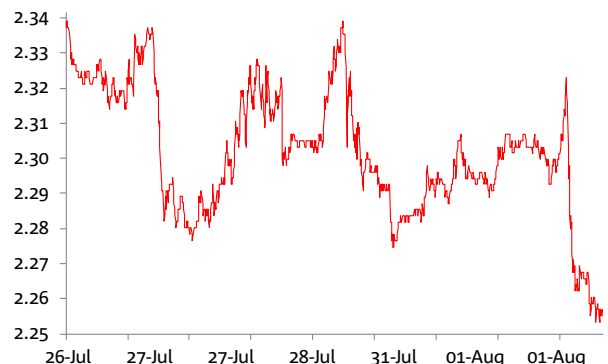
Markets

AUD/USD - past week



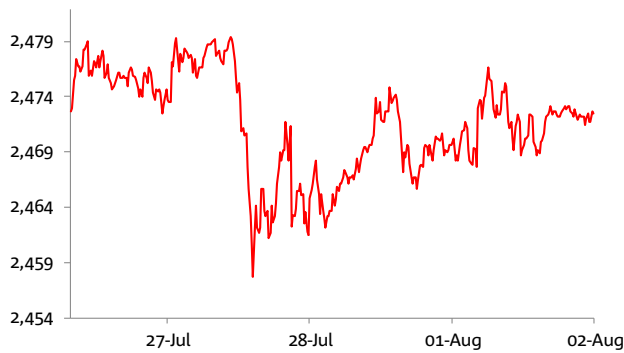
Source: Bloomberg.

US 10yr - past week



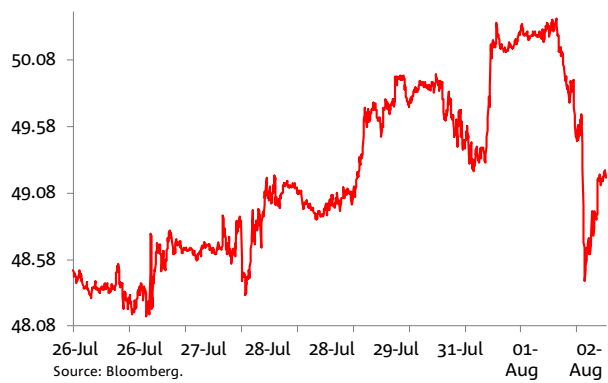
Source: Bloomberg.

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	0.7968	-0.4	0.7961	0.8043	HKD	7.8133	0.0
NZD	0.7469	-0.2	0.7462	0.7527	CNY	6.7189	-0.1
EUR	1.1802	0.6	1.1723	1.1847	SGD	1.3579	0.0
GBP	1.3206	0.6	1.3112	1.3247	IDR	13,320	0.0
JPY	110.33	-0.2	109.92	110.65	THB	33.28	0.0
CAD	1.2543	0.5	1.2445	1.2558	KRW	1,121	0.1
AUD/EUR	0.6751	-0.6	0.6739	0.6806	TWD	30.25	0.1
AUD/JPY	87.91	-0.3	87.83	88.72	PHP	50.41	-0.2
AUD/GBP	0.6028	-0.7	0.6020	0.6088	CHF	0.97	-0.5
AUD/NZD	1.0670	0.2	1.0644	1.0699	SEK	8.11	-0.3
AUD/CNH	5.3539	-0.2	5.3546	5.4041			

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.31	1.59	2.21	USD 10	2.25	-4.10
AUD	1.50	1.69	1.87	2.86	AUD 10	2.71	3.60 0.46
NZD	1.75	1.95	2.21	3.29	NZD 10	3.01	2.30 0.75
EUR	0.00	-0.33	-0.16	0.89	CAD 10	1.96	-10.00 -0.30
GBP	0.25	0.29	0.61	1.27	EUR 10	0.49	-5.20 -1.76
JPY	-0.06	-0.02	0.04	0.26	GBP 10	1.21	-1.70 -1.04
CAD	0.75	1.29	1.59	2.22	JPY 10	0.08	-0.50 -2.18

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,964	0.33	19.3
S&P 500	2,476	0.24	14.1
Nasdaq	6,363	0.23	22.7
VIX	10.09	-1.66	-18.9
FTSE	7,424	0.7	10.9
DAX	12,251	1.1	18.6
CAC 40	5,127	0.7	16.3
Nikkei	19,986	0.3	21.9
Shanghai	3,293	0.6	10.8
Hang Seng	27,540	0.8	24.5
ASX 200	5,772	0.9	4.2

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.29	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.32	1.00
3/10 sprd	0.48	2.00
SPI	5711.0	-50.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	51.49	-2.3
Oil (WTI)	48.79	-2.8
Oil (Tapis)	52.42	0.9
Gold	1268.70	0.2
CRB	180.76	-1.0
GS Metals	338.1	-0.4
Aluminium	1888.3	-0.6
Copper	6320.8	-0.4
Nickel	10248.0	0.7
Zinc	2769.8	-0.6
Ch. steel	3732.0	1.9
Iron ore	73.6	-0.2
St. Coal	94.7	1.6
Met.coal	179.5	2.0
Wheat Chic.	487.8	-2.4
Sugar	14.9	-0.2
Cotton	71.2	1.0
Coffee	137.9	-1.0

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
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		53.6/53.8		53.4/53.8	9.30	18.30
EC	Retail Sales MoM/YoY	Jun		0/2.5		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		242		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/		54.2/54.2	14.45	23.45
US	ISM Non-Manf. Composite	Jul		56.9		57.4	15.00	0.00
US	Factory Orders/Core Orders	Jun		3		-0.8	15.00	0.00
Friday, 4 August 2017								
JN	Labor Cash/Real Cash Earnings YoY	Jun		0.5/0.1		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		0.5/4.4		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		180/4.3		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		-44.45		-46.5	13.30	22.30
CA	Net Change in Employment/Unemployment Rate	Jul		12.5/6.5		45.3/6.5	13.30	22.30
CA	Int'l Merchandise Trade	Jun		-1.25		-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	Aug 4				958	18.00	3.00
Monday, 7 August 2017								
AU	AiG Perf of Construction Index	Jul				56.0	0.30	9.30
AU	ANZ Job Advertisements MoM	Jul				2.7	2.30	11.30
NZ	2Yr Inflation Expectation	3Q				2.2	4.00	13.00
JN	Leading Index CI	Jun P				104.6	6.00	15.00
GE	Industrial Production SA MoM/YoY	Jun				1.2	7.00	16.00
CH	BoP Current Account Balance	2Q P				18.4	8.00	17.00
UK	Halifax House Prices MoM	Jul				-1.0	8.30	17.30
UK	Halifax House Price 3Mths/Year	Jul				2.6	8.30	17.30
CH	Foreign Reserves	Jul		3069		3056.8	9.00	18.00
EC	Sentix Investor Confidence	Aug				28.3	9.30	18.30
CA	Bloomberg Nanos Confidence	Jul 28				59.5	15.00	0.00
US	Labor Market Conditions Index Change	Jul				1.5	15.00	0.00
US	Fed's Bullard Speaks on U.S. Economy in Nashville, TN						16.45	1.45
US	Fed's Kashkari Speaks in Bloomington, MN						18.25	3.25
US	Consumer Credit	Jun		16		18.4	20.00	5.00
Tuesday, 8 August 2017								
UK	BRC Sales Like-For-Like YoY	Jul				1.2	0.10	9.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul 30				115.1	0.30	9.30
JN	BoP Current Account Adjusted	Jun				1400.9	0.50	9.50
AU	NAB Business Conditions/Confidence	Jul				15/9	2.30	11.30
CH	Foreign Direct Investment YoY CNY	Jul				2.3	3.00	12.00
GE	Current Account Balance	Jun				17.3	7.00	16.00
GE	Exports SA MoM	Jun				1.4	7.00	16.00
GE	Imports SA MoM	Jun				1.2	7.00	16.00
US	NFIB Small Business Optimism	Jul				103.6	11.00	20.00
CA	Housing Starts	Jul				212.7	13.15	22.15
CH	Trade Balance CNY	Jul				294.3	4.20	13.20
CH	Exports/Imports YoY CNY	Jul		/		17.3/23.1	4.20	13.20
CH	Trade Balance	Jul		44.85		42.8	4.40	13.40
CH	Exports/Imports YoY	Jul		10.5/18		11.3/17.2	4.40	13.40
JN	Eco Watchers Survey Current/Outlook SA	Jul		/		50.0/50.5	6.00	15.00
US	JOLTS Job Openings	Jun				5666.0	15.00	0.00
Wednesday, 9 August 2017								
NZ	ANZ Truckometer Heavy MoM	Jul				0.0	23.00	8.00
AU	RBA's Kent Gives Bloomberg Address in Sydney						23.00	8.00
AU	Westpac Consumer Conf Index/MoM	Aug				96.6	1.30	10.30
CH	CPI/PPI YoY	Jul		1.4		1.5	2.30	11.30
AU	Home Loans MoM	Jun				1.0	2.30	11.30
AU	Investment Lending	Jun				-1.4	2.30	11.30
JN	Machine Tool Orders YoY	Jul P				31.1	7.00	16.00
CA	Building Permits MoM	Jun				8.9	13.30	22.30
US	Nonfarm Productivity/Unit Labour costs	2Q P		0.6		0.0	13.30	22.30
US	Wholesale Trade Sales/Inventories MoM	Jun				-0.5	15.00	0.00
Upcoming Central Bank Interest Rate Announcements								
UK BOE		3-Aug				0.25%		
New Zealand, RBNZ		10-Aug	1.75%	1.75%		1.75%		
Australia, RBA		5-Sep	1.50%	1.50%		1.50%		
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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