

# MARKETS TODAY

## *It Takes (more than) Two*



### Good morning

The biggest news stories overnight are the 6-2 Bank of England MPC vote for no change in rates together with downgraded growth forecasts, which has knocked the British Pound off its recent lofty perch, and a significant downside surprises from the US non-manufacturing ISM survey which suggests some downside risk to tonight's US payroll numbers (see Coming Up).

And just in the last hour or so, the Wall Street Journal has reported that US special prosecutor Robert Mueller has impanelled a grand jury to investigate the allegations of Russia's interference in the 2016 elections. No great surprise perhaps, but the US dollar and US Treasury yields both fell back a touch on these headlines just ahead of the New York close.

Ahead of the Bank of England's latest decision, there was speculation that Chief Economist Andy Haldane might, in light of recent remarks, shift his vote on the Bank Rate decision in favour of an immediate rate rise. As it transpired, the vote was 6-2 versus 5-3 last time. So two of the three June dissenters (McCafferty and Saunders) held their ground, the third (Kristen Forbes) has now left and the new kid on the MPC block, LSE economic professor Silvana Tenreyo, voted with the majority.

BoE governor Mark Carney gave a pretty downbeat assessment in his post-meeting press conference, largely due to Brexit uncertainties. The Bank also downgraded its growth forecast - now 1.7% from 1.9% for 2017 and 1.6% from 1.7% in 2018 - while retaining its forecast for inflation to hit a peak of 3% and remaining above the 2% target throughout the forecast period (2.2% at the end). Lower real incomes are a big part of the pessimistic growth story here. Against the Euro, the pound fell to its lowest levels in nine months, EUR/GBP now back above 0.90 for the first time since early November 2016.

The US data saw the non-manufacturing ISM index fall to 53.9 from 57.4 against an expected much smaller fall (56.5). This places the July index below its 2016 average. And since services represent some 88% of the U.S. economy, it suggests that underlying growth is currently no higher than about 2%. Elsewhere US weekly jobless claimed remained low at 243k while factory goods orders in July rose by 3% in line with expectations. Earlier in the night the final Eurozone composite PMI printed at 55.7, close enough to the 55.8 preliminary reading.

Lower US treasury yields, with 10s down to around 2.22% from 2.26% when we left off Thursday, has seen the Japanese Yen fare best among the major currencies, with Sterling firmly at the bottom of the pack. AUD/USD has recovered about a quarter of a cent of yesterday's local session losses, to around 0.7950. This amid mixed commodity prices (oil off around 50 cents, gold up \$2 and iron ore 63 cents higher at \$72.93).

### Coming Up

A big day ahead from both the AUD and USD sides of the AUD/USD equation with the RBA Statement of Monetary Policy and June retail sales both at 11:30 AEST and then US employment data tonight.

Retail Sales is typically one of the more sensitive of the Australian data points, this last month of the quarter providing nominal sales growth (or not!) for the month and sales volumes for the quarter. For the June month, NAB's forecast (partly based on NAB's new Cashless Retail Sales Index for June) is for flat sales, with competitive conditions still evident in the NAB Business Survey through to May (consensus +0.2%). While there is some downside risk to this estimate - together with damped sales prospects in the near term from the already-in-place rises in power prices - we are also mindful that Department Store Sales dipped in May and often sees payback the next month within still difficult conditions. For the quarterly volume read-out, NAB is 1.3% (consensus 1.2%). Knee-jerk market reaction is more likely to come from the monthly than quarterly reading and where a negative number may be needed to take much of a bite out of the Aussie.

As for the SoMP, the RBA told us on Tuesday their forecasts for the economy are 'largely unchanged'. Nevertheless markets are on guard for an upwards revision to their near term inflation forecasts (driven by utility prices rises) but possible small downgrade to medium term inflation forecasts (on soft wages growth and/or exchange rate gains since May). There is also risk that Tuesday's Statement referencing growth rising to 'around 3%' over the next two years translates into a lowering of the 2 ¾-3 ¼% forecast in May for growth in the years ended June 2018 and December 2018. More elaboration on their concerns about the recent rise in the currency will also be closely parsed.

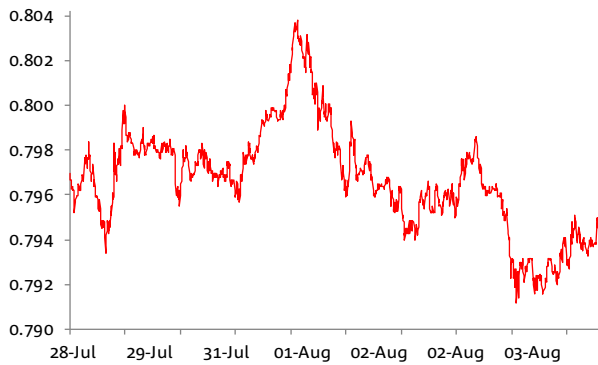
On US payrolls, the relatively weak employment sub-index in last night's non-manufacturing ISM (55.9 from 60.8) suggests some downside risk to pre-existing expectations for a 180k rise in non-farm payrolls. The unemployment rate is seen falling to 4.3% from 4.4%. As, if not more, market interest will be centred on average hourly earnings growth, seen +0.3% on the month but which would depress annual growth to 2.4% from 2.5% and meaning hopes for a pick-up in earnings growth to nearer 3% remain elusive.

### Overnight

On global stock markets, the S&P 500 was -0.22%. Bond markets saw US 10-years -4.98bp to 2.22%. In commodities, Brent crude oil -0.86% to \$51.91, gold -0.3% to \$1,268, iron ore +0.9% to \$72.93, steam coal -0.5% to \$94.55, met. coal +3.3% to \$186.00. AUD is at 0.7948 and the range since yesterday 5pm Sydney time is 0.7915 to 0.7969.

Markets

AUD/USD - past week



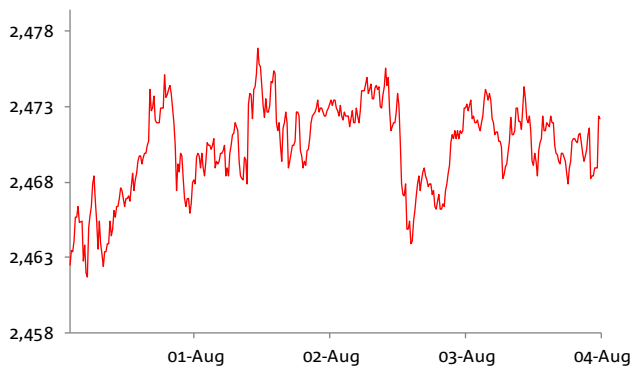
Source: Bloomberg.

US 10yr - past week



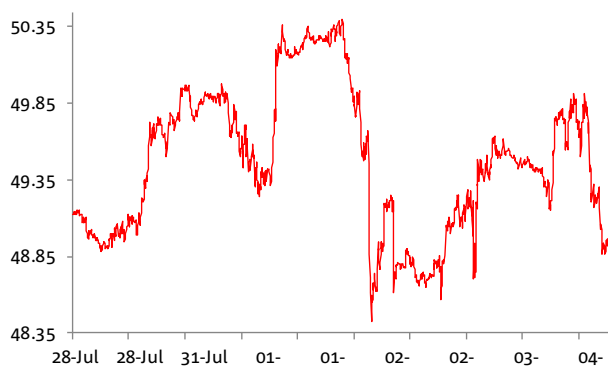
Source: Bloomberg.

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	0.7947	-0.3	0.7915	0.7969	HKD	7.8172 0.0
NZD	0.7438	0.1	0.7391	0.7451	CNY	6.7172 -0.1
EUR	1.1875	0.2	1.1831	1.1893	SGD	1.3588 0.0
GBP	1.3143	-0.6	1.3113	1.3267	IDR	13,327 0.0
JPY	110.02	-0.6	109.86	110.83	THB	33.26 0.0
CAD	1.2582	0.1	1.2553	1.2619	KRW	1,129 0.4
AUD/EUR	0.6692	-0.4	0.6685	0.6722	TWD	30.22 0.0
AUD/JPY	87.43	-0.9	87.38	88.24	PHP	50.27 -0.2
AUD/GBP	0.6046	0.3	0.5976	0.6057	CHF	0.97 -0.2
AUD/NZD	1.0684	-0.4	1.0675	1.0747	SEK	8.10 0.0
AUD/CNH	5.3373	-0.5	5.3291	5.3742		

Equities

	Last	% day	% y/y
Dow	22,026	0.04	20.0
S&P 500	2,472	-0.22	14.3
Nasdaq	6,340	-0.35	22.9
VIX	10.26	-0.19	-20.2
FTSE	7,475	0.9	12.7
DAX	12,155	-0.2	19.5
CAC 40	5,130	0.5	18.7
Nikkei	20,029	-0.3	23.2
Shanghai	3,273	-0.4	9.7
Hang Seng	27,531	-0.3	26.1
ASX 200	5,735	-0.2	4.7

Commodities\*

	Last	% day
Oil (Brent)	51.91	-0.9
Oil (WTI)	48.92	-1.4
Oil (Tapis)	52.13	1.5
Gold	1267.60	-0.3
CRB	180.65	-0.7
GS Metals	339.4	-0.1
Aluminium	1897.5	-0.5
Copper	6331.3	0.0
Nickel	10336.5	0.3
Zinc	2780.8	-0.3
Ch. steel	3791.0	1.9
Iron ore	72.9	0.9
St. Coal	94.6	-0.5
Met.coal	186.0	3.3
Wheat Chic.	485.0	-0.6
Sugar	14.3	-3.2
Cotton	71.6	-0.3
Coffee	140.2	-0.1

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.31	1.59	2.19	USD 10	2.22	-4.98
AUD	1.50	1.69	1.86	2.81	AUD 10	2.67	-3.90 0.44
NZD	1.75	1.96	2.18	3.24	NZD 10	2.95	-5.00 0.73
EUR	0.00	-0.33	-0.16	0.86	CAD 10	1.90	-3.90 -0.32
GBP	0.25	0.29	0.58	1.21	EUR 10	0.45	-3.30 -1.77
JPY	-0.05	-0.02	0.04	0.25	GBP 10	1.15	-8.70 -1.07
CAD	0.75	1.29	1.59	2.20	JPY 10	0.07	-0.90 -2.15

Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.29	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.38	6.00
3/10 sprd	0.42	-3.00
SPI	5668.0	13.0

\*Change in bps

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-1.0	-4.0%
FED	0	0.0%

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
<b>Friday, 4 August 2017</b>								
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		-44.5		-46.5	13.30	22.30
CA	Net Change in Employment/Unemployment Rate	Jul		10/6.5		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
<b>Monday, 7 August 2017</b>								
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 Cl	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		3075		3056.8	9.00	18.00
EC	Sentix Investor Confidence	Aug				28.3	9.30	18.30
CA	Bloomberg Nanos Confidence	Aug 4				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
<b>Tuesday, 8 August 2017</b>								
UK	BRC Sales Like-For-Like YoY	Jul				1.2	0.10	9.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Aug 6				118.4	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		273.65		294.3	4.20	13.20
CH	Exports/Imports YoY CNY	Jul		15.2		17.3	4.20	13.20
CH	Trade Balance	Jul		45.35		42.8	4.40	13.40
CH	Exports/Imports YoY	Jul		11		11.3	4.40	13.40
JN	Eco Watchers Survey Current SA	Jul				50.0	6.00	15.00
JN	Eco Watchers Survey Outlook SA	Jul				50.5	6.00	15.00
US	JOLTS Job Openings	Jun				5666.0	15.00	0.00
<b>Wednesday, 9 August 2017</b>								
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		1.5		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
<b>Thursday, 10 August 2017</b>								
NZ	RBNZ Official Cash Rate	Aug 10		1.75		1.8	22.00	7.00
NZ	RBNZ's Wheeler news conference on policy statement						23.00	8.00
NZ	Card Spending Total/Retail MoM	Jul				0.1	23.45	8.45
UK	RICS House Price Balance	Jul				7.0	0.10	9.10
JN	Machine Orders MoM/YoY	Jun				-3.6	0.50	9.50
JN	PPI MoM/YoY	Jul				0.0	0.50	9.50
AU	Consumer Inflation Expectation	Aug				4.4	2.00	11.00
CH	New Yuan Loans/Aggregate Financing CNY	Jul		800		1540.0	10-15 Aug release	
JN	Tertiary Industry Index MoM	Jun				-0.1	5.30	14.30
UK	Industrial Production MoM/YoY	Jun				-0.1	9.30	18.30
UK	Manufacturing Production MoM/YoY	Jun				-0.2	9.30	18.30
UK	Construction Output SA MoM/YoY	Jun				-1.2	9.30	18.30
UK	Trade Balance	Jun				-3073.0	9.30	18.30
UK	NIESR GDP Estimate	Jul				0.3	13.00	22.00
CA	New Housing Price Index MoM/YoY	Jun				0.7	13.30	22.30
US	Initial Jobless Claims	Jul 29		242		244.0	13.30	22.30
US	PPI Final Demand MoM/YoY	Jul		0.1		0.1	13.30	22.30
US	Bloomberg Consumer Comfort	Jul 30				48.6	14.45	23.45
NZ	REINZ House Sales YoY	Jul				-24.7		
US	Monthly Budget Statement	Jul				-90.2	19.00	4.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
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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