

# MARKETS TODAY

## Bridging the gap



### Good morning

Bridging the gap is a song by American rapper Nas and as a tribute to his father the song aims to bridge the gap from blues, to jazz, to rap. One of the big news from a relatively steady overnight session has come from the JOLTS report showing the gap between job openings and actual hirings in the US is now the widest ever. The Fed would argue that this is a signal of a tightening labour market and eventually higher wages pressures should help bridge or narrow this gap. Reaction to the data pushed the USD and UST yields higher. But then early this morning President Trump warned that threats from North Korea "will be met with fire and fury like the world has never seen". UST yields and US equities moved lower on the news, but reaction in currency markets has been fairly muted so far.

The US JOLTS report revealed job openings surged to a record 6.2m in June and showed fewer people quitting their jobs and now unfilled jobs are 28% higher than the previous peak in 2007. So the US labour market tightened again in June and in theory this suggests higher wages pressures should eventually emerge as companies are forced to increase their wages in order to attract workers. Thus the data keeps the Fed on track for another hike later this year, but with wages pressures not yet showing in higher average hourly earnings the market remains sceptical. Earlier in the overnight session, the NFIB small business survey rose to 105.2 from 103.6. The first rise so far this year.

Reaction to the JOLTS report triggered a decent jump in the USD (DXY +0.60) with the euro the biggest mover in G10 currencies. Ahead of the data release, the euro was trading around 1.1820, dropping just over one big figure on the news to then settle around 1.1750. In contrast the AUD and NZD fell about 0.50% on the news. After trading to an overnight high of 0.7943, the AUD fell to a low of 0.7887 following the JOLTS report, but later in the session it recovered a bit of ground and now trades at 0.7915. Meanwhile the downward trend on the NZD established late in July remains in place with the JOLTS report adding further downward pressure on the Kiwi. NZD currently trades at 0.7330 and it is the biggest G10 loser, down 0.46% on the day.

In terms of the recent NZD weakness our BNZ strategist notes that we are effectively seeing a reversal of what we saw in the lead-up to the May MPS. Back then, the market was convinced that the Bank would adopt a more hawkish tone and yet it didn't. The Bank held the line and maintained a neutral stance. Now the market is convinced that the Bank will adopt a more dovish tone and pricing has moved such that there now might be room for some disappointment on that score. So now, even a more dovish tone runs the risk of leading to some profit-taking on the day, seeing a modest reversal of recent trends in the NZD and rates, while the Bank holding its ground would see an even larger reaction.

Rodrigo Catril, FX strategist

JPY is the only G10 currency that has outperformed the USD. Notably, however, much of the outperformance came before the JOLTS report. JPY lost a bit of ground on the job news, but as UST yields retraced the initial move higher, JPY regained all its lost ground and now trades at ¥110.34, up 0.39% on the day.

So although JPY is stronger, its strength has not come from a typical safe haven bid. Reaction to Trump's warnings to North Korea has so far elicited very little reaction in currencies. In contrast US equities have ended the day down between -0.15% and -0.24% with most of the losses recorded after President Trump's press conference.

10y UST yields started the overnight session very steady around 2.255% with the JOLTS report triggering a move to 2.28875%. Some of the move was retraced shortly after the report and then President Trump comments exerted additional downward pressure. In the end 10y UST closed at 2.2619%, little changed on the day.

### Coming Up

We have a light calendar today, but there are a couple of items which could garner some market attention. Of note this morning RBA's Chris Kent speaks in Sydney and China gets its CPI and PPI readings for July. Also this morning Australia gets Housing Finance and its monthly Consumer Confidence reading. After yesterday's solid NAB business survey, the question today is whether we will see a narrowing in the business-consumer divide that has been in place since 2014.

Tonight the US gets Nonfarm Productivity/Unit Labour costs (Q2 P) and Wholesale Trade Sales/Inventories (Jun).

Last Friday, the RBA's Statement of Monetary Policy revealed a new set of forecasts which were largely unchanged from May. Importantly, however, the AUD assumption used in the analysis implied that had it not been for the stronger AUD (the technical forecasting assumption was AUD/USD at 0.80 vs 0.74 in May), a forecast upgrade would have been likely. Chris Kent, the RBA's Assistant Governor (Financial Markets) speaks at a Bloomberg event this morning and he might take the opportunity to elaborate a bit more on the relationship between the AUD and the outlook for the economy.

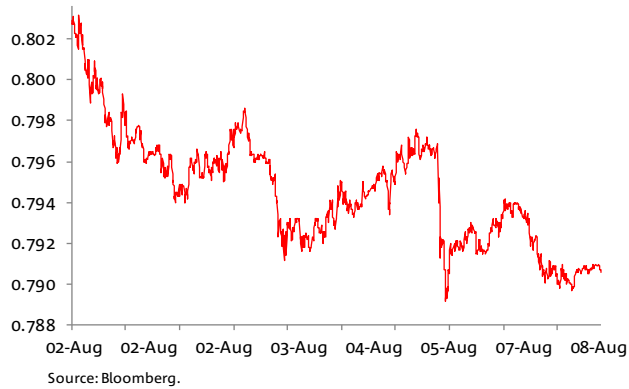
China's CPI is expected to remain unchanged at 1.5% in July while expectations for the PPI reading are for a small uptick to 5.6% from 5.5%.

### Overnight

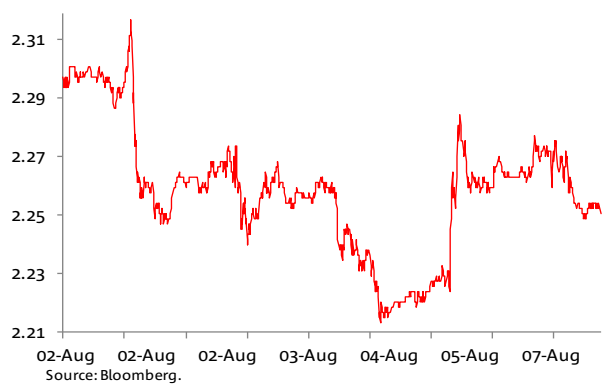
On global stock markets, the S&P 500 was +0.00%. Bond markets saw US 10-years +0.89bp to 2.26%. In commodities, Brent crude oil +0.00% to \$51.98, gold +0.0% to \$1,261, iron ore +0.0% to \$75.46, steam coal -1.0% to \$94.05, met. coal +0.0% to \$194.00. AUD is at 0.7925 and the range since yesterday 5pm Sydney time is 0.7887 to 0.7943.

# Markets

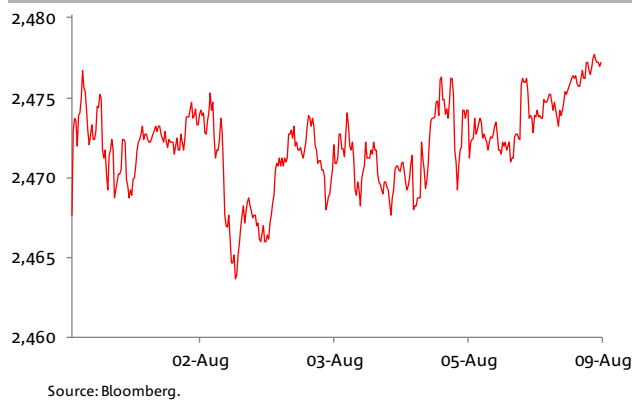
AUD/USD - past week



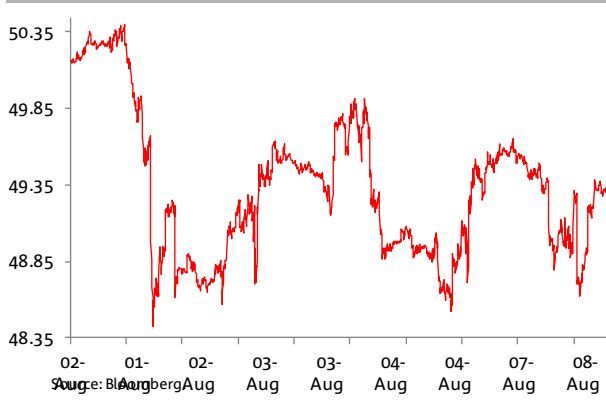
US 10yr - past week



S&P Future - past week



WTI - past week



## Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7925	0.2	0.7887	0.7943	HKD	7.8237 0.0
NZD	0.7329	-0.5	0.7318	0.7370	CNY	6.7061 -0.2
EUR	1.1750	-0.4	1.1715	1.1824	SGD	1.3632 0.0
GBP	1.2991	0.0	1.2953	1.3054	IDR	13,313 -0.1
JPY	110.35	-0.4	110.25	110.83	THB	33.27 0.0
CAD	1.2669	0.0	1.2651	1.2705	KRW	1,125 -0.2
AUD/EUR	0.6733	0.0	0.6701	0.6745	TWD	30.17 0.0
AUD/JPY	87.29	-0.4	87.26	87.85	PHP	50.53 0.2
AUD/GBP	0.6090	0.3	0.6065	0.6101	CHF	0.97 0.0
AUD/NZD	1.0794	0.0	1.0745	1.0806	SEK	8.18 0.4
AUD/CNH	5.2991	0.0	5.2953	5.3366		

## Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.31	1.61	2.22	USD 10	2.26	0.89
AUD	1.50	1.69	1.89	2.83	AUD 10	2.63	0.70 0.37
NZD	1.75	1.96	2.18	3.18	NZD 10	2.84	-0.60 0.58
EUR	0.00	-0.33	-0.16	0.87	CAD 10	1.94	0.00 -0.33
GBP	0.25	0.28	0.57	1.21	EUR 10	0.47	0.00 -1.79
JPY	-0.04	-0.02	0.04	0.26	GBP 10	1.16	1.80 -1.10
CAD	0.75	1.30	1.61	2.22	JPY 10	0.07	0.00 -2.19

## Equities

Major Indices	Last	% day	% y/y
	Dow	22,085	0.00
S&P 500	2,475	0.00	13.5
Nasdaq	6,370	0.00	22.2
VIX	10.96	0.00	-4.7
FTSE	7,543	0.0	10.8
DAX	12,292	0.0	17.8
CAC 40	5,219	0.0	18.2
Nikkei	19,996	-0.3	19.3
Shanghai	3,282	0.1	8.5
Hang Seng	27,855	0.0	24.0
ASX 200	5,744	-0.5	3.4

## Commodities\*

	Last	% day
Oil (Brent)	51.98	0.0
Oil (WTI)	48.96	-0.9
Oil (Tapis)	52.28	0.0
Gold	1260.50	0.0
CRB	181.09	0.1
GS Metals	351.6	0.0
Aluminium	2019.3	0.0
Copper	6455.3	1.0
Nickel	10592.5	2.2
Zinc	2919.0	0.0
Ch. steel	3909.0	0.1
Iron ore	75.5	0.0
St. Coal	94.1	-1.0
Met.coal	194.0	0.0
Wheat Chic.	484.0	0.0
Sugar	13.8	0.0
Cotton	71.9	0.0
Coffee	142.8	0.0

## Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.28	-1.00
3 Yr bond	97.8	2.00
10 Yr bond	97.35	-1.00
3/10 sprd	0.45	3.00
SPI	5682.0	-4.0

\*Change in bps

## Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-0.2	-1.0%
FED	-0	-1.2%

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, 3 August 2017</b>								
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
<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 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		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	Jun				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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