

MARKETS TODAY

Geopolitical poker face



Good morning

Geopolitical tensions surrounding North Korea dominated the overnight session. However, market moves were contained following a winding back in rhetoric by US Administration officials. In this high stakes geopolitical poker round it appears both players were 'playing the board' and a ratcheting down of tensions appears to have occurred – inspiration for today's title, [Poker Face](#).

Although risk aversion was felt in Europe, the toning down of language saw a recovery in the US. This is probably best seen in equities with the EuroStox down 1.3%, but the S&P500 closing to be broadly unchanged. Risk haven currencies were bid, with the CHF +1.1% and Yen +0.2%, though the US dollar (DXY) was broadly unchanged. Gold was up 1.7%, while the VIX hit a still low 11.11.

As for the rhetoric, North Korea responded to Trump's "fire and fury like the world has never seen" statement by stating North Korea could "send a serious warning signal to the US" by considering bombing Guam. US Administration officials have since toned down the language and described Trump's language as "impromptu" while Secretary Tillerson played down any prospect of military action. This was seemingly confirmed by President Trump, who tweeted "hopefully we will never have to use this power, but there will never be a time that we are not the most powerful nation in the world".

US Treasury yields fell 1.4bps to 2.25%. They were initially down to 2.2085%, but the toning down in geopolitical rhetoric along with a weak 10-year note auction saw some retracement. There was no clear factor for the weak 10-year auction (bid-to-cover ratio 2.23% vs 2.45% previously), but it could be bonds are looking expensive given the likely start of the Fed's balance sheet unwind in September and a labour market that continues to tighten which lends support to further Fed rate hikes.

The Fed's Evans (voter, dovish) was out overnight, lending his support for the Fed to begin trimming its balance sheet in September, describing the timing "as quite reasonable...even with the potentially temporarily lower inflation data". As for the next Fed rate hike, Evans said he believes waiting until December would give the Fed time to assess whether inflation will resume moving toward the Fed's 2% target.

US data was very scant with only Productivity and Unit Labor Costs. Productivity was better than expected, up 0.9% (0.7% expected), but Unit Labour Costs were worse than expected a 0.6% (1.1% expected). There was little development on resolving the debt ceiling, though some reports suggest the US government could run out of funding on the 3rd of October. The base case remains that a temporary funding measure for 2-3 months will be implemented before then.

Tapas Strickland, Economist, Markets

As we go to print the RBNZ kept rates on hold. The interest rate track was unchanged with the first rate hike still expected in late 2019. In Governor Wheeler's last innings as Governor, the most significant changes in the post meeting statement were on the currency: a lower NZD is "needed" as opposed to "would help" more balance growth and on inflation with the "outlook for tradable inflation remains weak". The RBNZ consequently lowered its short-term inflation outlook and reinforces the likelihood of the RBNZ being on hold for some time. The Kiwi jumped on the news but is now only 0.2% higher following.

In commodities, WTI Oil rose 1.1% to \$49.70. Geopolitical tensions have traditionally supported the oil given most of these incidences have occurred in the Middle East. Oil itself is caught between Statements by OPEC cutting production and rising supplies. It's worth noting that Saudi Arabia and Iran hold a press conference on oil today.

Postscript: an apology to those who wanted a Glen Campbell song. The [Rhinstone Cowboy](#) passed away yesterday at 81. He is gone but not forgotten.

Coming Up

RBNZ Governor Wheeler gives his final news conference on the policy statement (8.00am AEST) with markets attentive to any changes in nuance.

Domestically we get consumer inflation expectations. While normally second-tier it is worth tracking given expectations rose in July on the back of higher power prices to be back to long-run average level of 4.4%. If higher inflation expectations persist, it should help move core inflation back towards the RBA's 2-3% target band.

Internationally focus will be on remarks by the Fed's Dudley who is speaking on "regional wage inequality" with Q&A following. Dudley is a key figure on the FOMC and is likely to be pressed on the likelihood of wages and inflation picking up.

Other international touch points are mostly second-tier, including UK Industrial Production and Trade Balance, while in the US there is the usual weekly Jobless Claims.

Overnight

On global stock markets, the S&P 500 was -0.04%. Bond markets saw US 10-years -1.43bp to 2.25%. In commodities, Brent crude oil +1.23% to \$52.78, gold +1.7% to \$1,277, iron ore +0.0% to \$75.46, steam coal +1.2% to \$95.20, met. coal -0.3% to \$193.50. AUD is at 0.7889 and the range since yesterday 5pm Sydney time is 0.7855 to 0.7915.

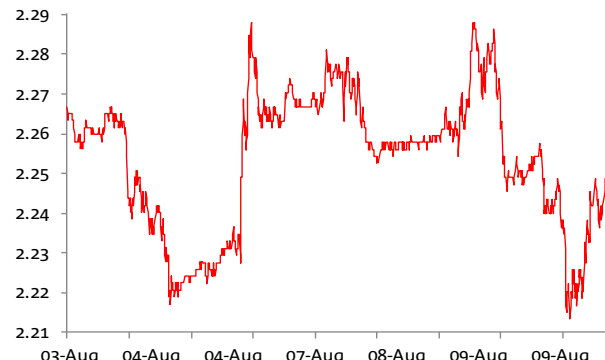
Markets

AUD/USD - past week



Source: Bloomberg.

US 10yr - past week



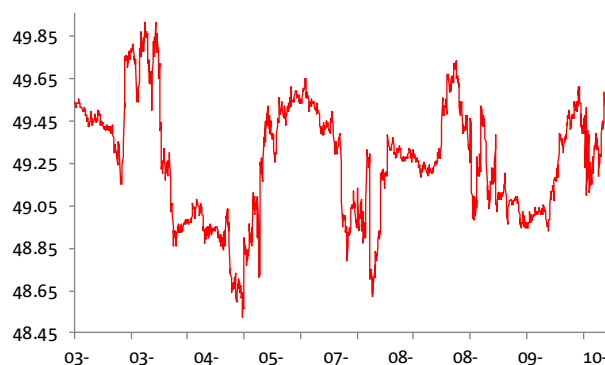
Source: Bloomberg.

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	0.7889	-0.3	0.7855	0.7915	HKD	7.8152 -0.1
NZD	0.7350	0.3	0.7309	0.7371	CNY	6.6743 -0.5
EUR	1.1759	0.1	1.1689	1.1764	SGD	1.3638 0.0
GBP	1.3006	0.1	1.2969	1.3028	IDR	13,333 0.2
JPY	109.98	-0.3	109.56	110.36	THB	33.25 -0.1
CAD	1.2700	0.3	1.2664	1.2721	KRW	1,135 0.9
AUD/EUR	0.6709	-0.4	0.6695	0.6738	TWD	30.23 0.2
AUD/JPY	86.77	-0.6	86.29	87.36	PHP	50.65 0.2
AUD/GBP	0.6066	-0.4	0.6046	0.6094	CHF	0.96 -1.1
AUD/NZD	1.0735	-0.6	1.0710	1.0800	SEK	8.18 0.0
AUD/CNH	5.2544	-0.8	5.2651	5.3123		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.31	1.60	2.21	USD 10	2.25	-1.43
AUD	1.50	1.70	1.89	2.82	AUD 10	2.64	1.50 0.39
NZD	1.75	1.95	2.18	3.18	NZD 10	2.81	-3.90 0.56
EUR	0.00	-0.33	-0.16	0.85	CAD 10	1.91	-2.80 -0.34
GBP	0.25	0.28	0.56	1.18	EUR 10	0.43	-4.60 -1.82
JPY	-0.02	-0.02	0.04	0.25	GBP 10	1.11	-4.80 -1.14
CAD	0.75	1.30	1.59	2.20	JPY 10	0.06	-1.20 -2.19

Equities

Major Indices	Last	% day	% y/y
Dow	22,049	-0.17	19.0
S&P 500	2,474	-0.04	13.4
Nasdaq	6,352	-0.28	21.6
VIX	11.11	1.37	-4.7
FTSE	7,498	-0.6	9.4
DAX	12,154	-1.1	13.7
CAC 40	5,146	-1.4	15.2
Nikkei	19,739	-1.3	17.9
Shanghai	3,276	-0.2	8.5
Hang Seng	27,757	-0.4	23.4
ASX 200	5,766	0.4	4.0

Commodities*

	Last	% day
Oil (Brent)	52.78	1.2
Oil (WTI)	49.70	1.1
Oil (Tapis)	52.28	0.0
Gold	1277.40	1.7
CRB	181.56	0.3
GS Metals	351.0	-0.2
Aluminium	2020.5	0.1
Copper	6430.5	-0.4
Nickel	10719.0	1.2
Zinc	2922.3	0.1
Ch. steel	3934.0	0.4
Iron ore	75.5	0.0
St. Coal	95.2	1.2
Met.coal	193.5	-0.3
Wheat Chic.	486.8	0.6
Sugar	13.6	-1.0
Cotton	71.8	-0.1
Coffee	146.2	-0.1

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.29	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.36	0.00
3/10 sprd	0.44	3.00
SPI	5705.0	-27.0

*Change in bps

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-0.2	-1.0%
FED	#N/A	#N/A

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		-44.5		-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
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		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
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	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
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		1.5		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
Thursday, 10 August 2017								
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
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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