

MARKETS TODAY

Jump



Good morning

Lack of US data releases has kept North Korea- US tensions as the overriding theme in markets. After the negative lead from Asia, European and US equities have ended the day with sharp losses, safe haven assets such as gold and yen have outperformed and the VIX has jumped over 40% moving above the 16 mark for the first time in just under three months. If Tapas was writing the daily undoubtedly he would have attributed today's MT tittle to Rhianna, instead my inspiration came from Van Halen's first number 1 hit and their only number one hit with David Lee Roth as lead singer (obviously showing my age too!).

Looking at the overnight chart US equities opened lower following the moves from Europe and Asia. Oil prices were rising during European hours, but news that Russian oil producer Gazprom was considering "economically feasible" to resume production in matured fields triggered a selloff in oil and weighed on energy shares. Disappointing earnings results didn't help the cause with US retailers coming under pressure after both Macy's and Kohl's noted sales continued to decline in the second quarter. Later in the session President Trump added more fuel to the fire noting that if North Korea "does anything" to the US or its allies, "things will happen to them like they never thought possible".

So geopolitical tensions, US disappointing retail results and sharp drop in oil prices weighed on risk assets, pushed volatility higher and triggered a bid for safe haven assets. Our currency trader has been telling us to watch the Russell Index (-1.7%) and high yield corporate debt (-0.6%) for a guide in risk sentiment and after three consecutive days in negative territory, both now look to be rolling over. Geopolitical tensions are not going away in a hurry and with the VIX back above 16, the lack of risk appetite deserve closer attention.

The dollar index has been relatively stable in the past few days, but it has been trading lower in the last couple of hours. Unsurprisingly, JPY has been the top G10 performer (up 0.80%) and now that USD/JPY has traded below the ¥109.50 mark a move sub ¥109 looks achievable. Other G10 currencies have been relatively stable with Trump's comment this morning weakening the USD across the board. AUD is currently trading at 0.7875, essentially unchanged relative to Sydney's closing level. GBP is -0.16% and trading at 1.2977. UK Industrial Production came in stronger than expected at 0.5% mom vs 0.1% exp, but the trade deficit unexpectedly widened and weighed on GBP sentiment.

NZD is the G10 underperformer over the past 24 hrs, but it is little changed in the overnight session with most of the losses were recorded in the Asian session following Governor Wheeler and Assistant Governor McDermott upping the rhetoric on the NZD. Wheeler indicated a lower NZD is "needed" compared to "would help" more

balanced growth and after the local close, Assistant Governor McDermott reiterated the point, suggesting that the subtle change in language was a first step towards possible intervention.

At a press briefing, US Fed Dudley said that "it's going to take some time" for inflation to rise to the central bank's 2% target even as he offered a generally positive outlook for the US economy, job market and price pressures. The July US PPI disappointed (-0.1% vs +0.1% exp. and core also fell 0.1% vs +0.2% consensus).

In addition to the risk off sentiment, Dudley's comment and US PPI supported a bid in US yields with 10y UST yields drifting from 2.2445% to 2.1975% currently.

Coming Up

RBA Governor Lowe's semiannual testimony to the House Economics Committee in Melbourne is the highlight during our session and the US CPI reading for July is today's big data release. This morning, New Zealand gets its Manufacturing PMI for July, Fed Kaplan and Kashkari are on the speaking roster tonight and early tomorrow morning Baker Hughes releases its US Oil Rigs report.

Although the RBA Governor will miss his egg benedict's Friday treat from the RBA Canteen today, he should be in a relatively happy mood when he speaks to the House Economics Committee. Whether he will get smashed avocado for breakfast we probably will never know, but our economists suggest the Governor's Opening Statement will be a potted summary of the refreshed assessment and outlook outlined in the SoMP last week.

While the SoMP offered little in terms of material changes to the Bank's forecasts for growth, inflation, and unemployment, it's the risks around those forecasts that will likely draw interest. No doubt he will be quizzed on the AUD, the state of the housing and labour markets as well as China and geopolitics. Early this week, when asked about risks to the outlook, RBA Assistant Governor, Chris Kent listed China as one (with the concern primarily about the level and quality of corporate debt as China tries to transition to slower growth) and two, Risk that inflation picks up faster than markets expect due to higher wages as labour markets further tighten.

As for the July CPI reading, the market is looking for a one tenth step up in core CPI to 0.2% m/m keeping the annual reading at 1.7%.

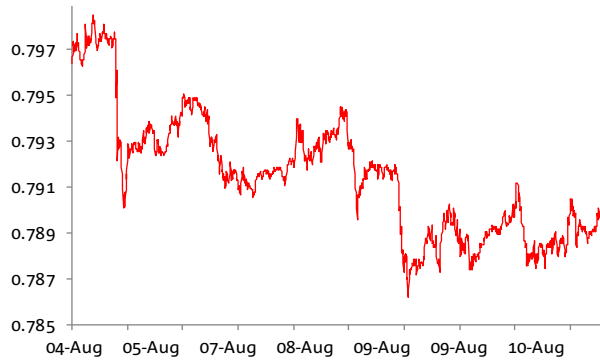
Overnight

On global stock markets, the S&P 500 was -1.45%. Bond markets saw US 10-years -4.83bp to 2.20%. In commodities, Brent crude oil -1.67% to \$51.82, gold +1.0% to \$1,286, iron ore +1.6% to \$76.68, steam coal +0.7% to \$95.85, met. coal +0.3% to \$194.00. AUD is at 0.7879 and the range since yesterday 5pm Sydney time is 0.7855 to 0.7915.

Rodrigo Catril, FX strategist

Markets

AUD/USD - past week



Source: Bloomberg.

US 10yr - past week



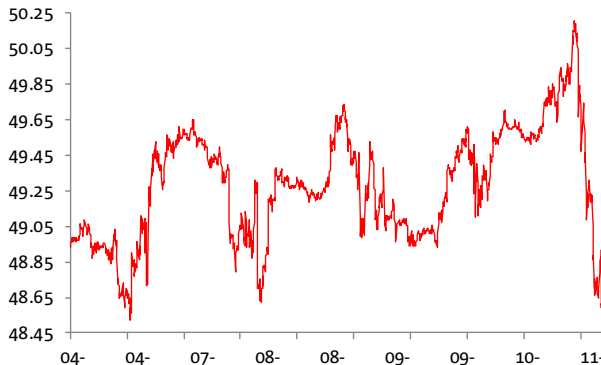
Source: Bloomberg.

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 | 0.7879 | -0.1 | 0.7855 | 0.7915 | HKD | 7.8172 0.0 |
| NZD | 0.7280 | -0.8 | 0.7252 | 0.7371 | CNY | 6.6470 -0.4 |
| EUR | 1.1777 | 0.2 | 1.1689 | 1.1785 | SGD | 1.3630 -0.1 |
| GBP | 1.2980 | -0.2 | 1.2952 | 1.3028 | IDR | 13,333 0.0 |
| JPY | 109.19 | -0.8 | 109.16 | 110.36 | THB | 33.24 -0.1 |
| CAD | 1.2739 | 0.3 | 1.2664 | 1.2742 | KRW | 1,142 0.6 |
| AUD/EUR | 0.669 | -0.3 | 0.6689 | 0.6738 | TWD | 30.32 0.3 |
| AUD/JPY | 86.03 | -0.9 | 86.02 | 87.36 | PHP | 50.77 0.2 |
| AUD/GBP | 0.6070 | 0.1 | 0.6046 | 0.6094 | CHF | 0.96 -0.2 |
| AUD/NZD | 1.0822 | 0.7 | 1.0710 | 1.0862 | SEK | 8.13 -0.6 |
| AUD/CNH | 5.2427 | -0.2 | 5.2519 | 5.3123 | | |

Interest Rates

| | Indicative Swap Rates | | | | Benchmark 10 Year Bonds | | |
|-----|-----------------------|-------|-------|------|-------------------------|------|-------------|
| | Cash | 3mth | 2Yr | 10Yr | Last | chge | Sprd |
| USD | 1.25 | 1.31 | 1.59 | 2.16 | USD 10 | 2.20 | -4.83 |
| AUD | 1.50 | 1.69 | 1.90 | 2.79 | AUD 10 | 2.66 | 1.50 0.46 |
| NZD | 1.75 | 1.97 | 2.18 | 3.19 | NZD 10 | 2.83 | 2.30 0.63 |
| EUR | 0.00 | -0.33 | -0.17 | 0.82 | CAD 10 | 1.86 | -5.10 -0.34 |
| GBP | 0.25 | 0.28 | 0.55 | 1.16 | EUR 10 | 0.42 | -1.30 -1.78 |
| JPY | -0.04 | -0.02 | 0.03 | 0.25 | GBP 10 | 1.08 | -2.70 -1.12 |
| CAD | 0.75 | 1.30 | 1.57 | 2.16 | JPY 10 | 0.06 | 0.50 -2.14 |

Equities

| Major Indices | | | |
|---------------|--------|-------|-------|
| | Last | % day | % y/y |
| Dow | 21,844 | -0.93 | 18.1 |
| S&P 500 | 2,438 | -1.45 | 12.1 |
| Nasdaq | 6,217 | -2.13 | 19.4 |
| VIX | 16.04 | 44.37 | 33.1 |
| FTSE | 7,390 | -1.4 | 7.6 |
| DAX | 12,014 | -1.1 | 12.8 |
| CAC 40 | 5,115 | -0.6 | 14.9 |
| Nikkei | 19,730 | 0.0 | 17.9 |
| Shanghai | 3,262 | -0.4 | 8.6 |
| Hang Seng | 27,444 | -1.1 | 21.5 |
| ASX 200 | 5,761 | -0.1 | 4.6 |

Overnight Futures

| | Last | Chge* |
|------------------|--------|-------|
| Australia | | |
| 3 mth bill | 98.28 | 0.00 |
| 3 Yr bond | 97.8 | 3.00 |
| 10 Yr bond | 97.39 | 4.00 |
| 3/10 sprd | 0.41 | -1.00 |
| SPI | 5633.0 | 64.0 |

*Change in bps

Commodities*

| | Last | % day |
|--|---------|-------|
| Oil (Brent) | 51.82 | -1.7 |
| Oil (WTI) | 48.48 | -2.2 |
| Oil (Tapis) | 52.82 | 1.0 |
| Gold | 1285.50 | 1.0 |
| CRB | 178.91 | -1.5 |
| GS Metals | 351.6 | 0.2 |
| Aluminium | 2032.8 | 0.6 |
| Copper | 6395.3 | -0.5 |
| Nickel | 10938.0 | 2.0 |
| Zinc | 2926.5 | 0.1 |
| Ch. steel | 3989.0 | 1.6 |
| Iron ore | 76.7 | 1.6 |
| St. Coal | 95.9 | 0.7 |
| Met.coal | 194.0 | 0.3 |
| Wheat Chic. | 468.8 | -3.7 |
| Sugar | 13.2 | -2.9 |
| Cotton | 69.3 | -3.6 |
| Coffee | 142.0 | -2.8 |
| Prob. of 25bps hike/cut at next meeting | | |
| | bps | % |
| RBA | -0.2 | -1.0% |
| 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

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 Non-Farm 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 | Jul | | | 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 Kent Gives Bloomberg Address in Sydney | Aug | | | | 23.00 | 8.00 | |
| AU | Westpac Consumer Conf Index/MoM | Jul | | | 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 | 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 | |
| Upcoming Central Bank Interest Rate Announcements | | | | | | | | |
| UK | BOE | 3-Aug | | | | 0.25% | | |
| New Zealand, RBNZ | | 10-Aug | | | | 1.75% | | |
| Australia, RBA | | 5-Sep | 1.75% | 1.75% | | 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

CONTACT DETAILS

Authors

David de Garis
Director, Economics
+61 3 8641 3045
david.degaris@nab.com.au

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848
ray.attrill@nab.com.au

Rodrigo Catril
Currency Strategist
+61 2 9293 7109
rodrigo.h.catril@nab.com.au

Tapas Strickland
Economist
+61 2 9237 1980
tapas.strickland@nab.com.au

Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406
peter.jolly@nab.com.au

Group Economics

Alan Oster
Chief Economist
+61 3 8634 2927
alan_oster@national.com.au

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.