

MARKETS TODAY

The Price You Pay



Good morning

Weaker than expected US consumer prices with core (ex food and energy) CPI up just 0.1% versus 0.2% expected, did damage to the nascent US dollar recovery on Friday and pulled US short end yields lower (2 and 5 years both down by about 3bps). Soft CPI was seen as another 'goldilocks' economic release helped the S&P and Dow post minor gains (~0.1%) while the NASDAQ rose by a more impressive 0.64%. The VIX gave back only a little of the mid-week N.Korea related spike, finishing at 15.51 from 16.04, so still 5 points or 50% up on the week (note though this is still well below the long term average of nearer 20).

The CPI impact might have been bigger still had the year-on-year change in core CPI not held at 1.7% (as expected) thanks to rounding rather than fall to 1.6% and too the fact that the downside surprise was fully accounted for by the 'lodging away from home' component (i.e. hotel rates) and which is sharply at odds with the ongoing uptrend in hotel occupancy rates.

For those of us in FX, the more interesting feature of Friday's news flow was not CPI but the latest CFTC/IMM futures positioning data. Earlier Friday our BNZ colleague Jason Wong noted in a piece on the NZD that speculative long IMM positioning has not reached the sorts of local extremes that it has in recent weeks without historically being followed by a significant correction lower in the kiwi. Friday's IMM data shows aggregate USD short positioning versus G10 currencies rising by 60% in the week to last Tuesday, to its most extreme since 22 January 2013. Back then, between late January and mid-March 2013, the DXY rallied by over 5%. EUR/USD positioning is now at its most extreme since 3 May 2011 and before that 2 Oct 2007. During May 2011, EUR/USD dropped 10 big figures to 1.40. EUR buyers and USD sellers beware!

In FX, across-the-board gains versus the USD for G10 currencies ranged from 0.01% for the JPY to 0.53% for CAD. EUR/USD rose 0.42% to 1.1821; USD/JPY fell to Y109.19 from Y109.20; AUD/USD +0.24% to 0.7894; NZD/USD +0.49% to 0.7311; USD/CAD 1.2677 from 1.2744; GBP/USD +0.29% to 1.3014. The narrow DXY index lost 0.36% to 93.069 (92.55 has been the YTD low so far); the broader BBDXY -0.34%. The Asia-emerging markets ADXY index was little changed, N.Korea concerns seemingly preventing a rally here into the weekend.

In rates US yields fell straight after CPI, rallied then fell away during the NY afternoon. 2s ended the day -3.2bps at 1.296% (-4.5bps on the week) and 10s -0.8bps to 2.19% (-3.2bps w/w). Money market pricing for a December Fed rate hike has come in to 25% from 38% last Thursday and you have to look all the way to the end of 2018 before even one hike from here is fully discounted.

In commodities USD slippage helped gold gain \$4 to \$1287.7 (up \$20 on the week). WTI and Brent both added 20 cents to \$48.82 and \$52.10 respectively. Friday's Baker Hughes US active oil rig count dropped rose by 3 to 768. Iron ore gave back \$1.50 to \$75.19 but was still \$2.26 up on the week.

On Friday, the Fed's Kaplan said that he wanted to "see continued evidence – or more evidence – that we're making progress on reaching our inflation objective," adding that "I'm willing to be patient", while the Fed's Kashkari delivered his usual dovish missive.

CoreLogic's weekend housing market summary shows a preliminary auction clearance rate of 70.5% up from last weekend's final 68.2% and on relatively strong auction volumes. Melbourne recorded a preliminary clearance rate of 71.0% and Sydney 72%.

Coming Up

The success or otherwise of efforts to dial down the rhetoric on North Korea relative to Trump's "locked and loaded" tweeting on Friday will obviously be important for risk sentiment this week. Yet it's also a fairly busy week both internationally and, locally. Here, RBA minutes tomorrow shouldn't be a big deal post the August SoMP, but Wednesday's Q2 Wage Price Index and Thursday's labour market both will be. The WPI need to print at 0.5% or better to instil confidence that earnings growth has at least bottomed out just below 2%.

The main economic event today is the slug of China July activity numbers at midday AEST. Both industrial production and retail sales are expected to have eased back slightly in year-on-year growth terms (to 7.2% from 7.6% for IP and 10.8% from 11.0% for retail sales). Fixed Asset Investment is expected unchanged at 8.6%. Japan Q2 GDP is also this morning, expected to print at a strong 0.6% on the quarter.

The main (non-political) US events should be Tuesday's retail sales which were weak last time and Wednesday's FOMC minutes where more guidance is sought on the timing of the start of Fed balance sheet reduction.

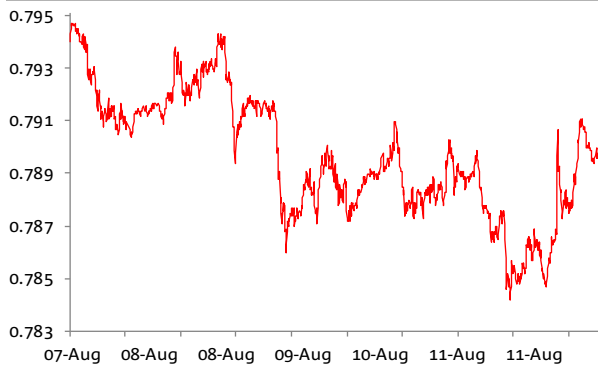
In Europe, Eurozone GDP on Wednesday (preceded by Germany tomorrow) and ECB July meeting minutes look like being the highlights.

Overnight

On global stock markets, the S&P 500 was +0.13%. Bond markets saw US 10-years -0.87bp to 2.19%. In commodities, Brent crude oil +0.39% to \$52.1, gold +0.3% to \$1,288, iron ore -1.9% to \$75.19, steam coal -0.1% to \$95.80, met. coal +0.3% to \$194.50. AUD is at 0.7893 and the range since Friday 5pm Sydney time is 0.7839 to 0.7910.

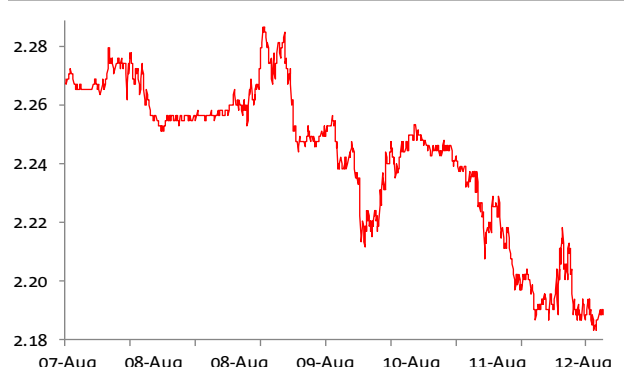
Markets

AUD/USD - past week



Source: Bloomberg.

US 10yr - past week



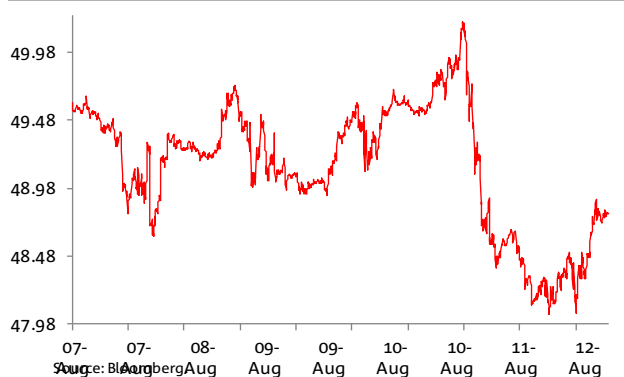
Source: Bloomberg.

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	0.7893	0.2	0.7839	0.7910	HKD	7.8191	0.0
NZD	0.7315	0.5	0.7253	0.7328	CNY	6.6636	0.2
EUR	1.1819	0.4	1.1749	1.1847	SGD	1.3602	-0.2
GBP	1.3012	0.3	1.2940	1.3031	IDR	13,361	0.2
JPY	109.10	-0.1	108.74	109.40	THB	33.23	0.0
CAD	1.2672	-0.6	1.2653	1.2753	KRW	1,144	0.2
AUD/EUR	0.6678	-0.2	0.6662	0.6694	TWD	30.35	0.1
AUD/JPY	86.12	0.1	85.45	86.25	PHP	51.01	0.5
AUD/GBP	0.6066	0.0	0.6036	0.6089	CHF	0.96	0.0
AUD/NZD	1.0790	-0.3	1.0728	1.0831	SEK	8.13	-0.1
AUD/CNH	5.2477	0.1	5.2393	5.2816			

Interest Rates

Indicative Swap Rates				Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr	Last	chge	Sprid
USD	1.25	1.32	1.55	2.15	USD 10	2.19	-0.87
AUD	1.50	1.69	1.89	2.79	AUD 10	2.59	-6.90
NZD	1.75	1.96	2.15	3.13	NZD 10	2.79	-4.60
EUR	0.00	-0.33	-0.18	0.81	CAD 10	1.85	0.00
GBP	0.25	0.28	0.54	1.14	EUR 10	0.38	-3.30
JPY	-0.04	-0.03	0.04	0.25	GBP 10	1.06	-2.00
CAD	0.75	1.30	1.56	2.15	JPY 10	0.06	0.00

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,858	0.07	17.7
S&P 500	2,441	0.13	11.8
Nasdaq	6,257	0.64	19.6
VIX	15.51	-3.30	34.3
FTSE	7,310	-1.1	5.7
DAX	12,014	0.0	12.1
CAC 40	5,061	-1.1	12.5
Nikkei	19,730	0.0	17.9
Shanghai	3,209	-1.6	5.2
Hang Seng	26,884	-2.0	18.1
ASX 200	5,693	-1.2	2.9

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.29	0.00
3 Yr bond	97.8	0.00
10 Yr bond	97.40	4.00
3/10 sprd	0.40	-4.00
SPI	5638.0	61.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	52.10	0.4
Oil (WTI)	48.82	0.5
Oil (Tapis)	51.15	-3.2
Gold	1287.70	0.3
CRB	179.61	0.4
GS Metals	350.1	-0.4
Aluminium	2038.3	0.3
Copper	6383.5	-0.2
Nickel	10614.5	-3.0
Zinc	2883.3	-1.5
Ch. steel	3836.0	-3.4
Iron ore	75.2	-1.9
St. Coal	95.8	-0.1
Met. coal	194.5	0.3
Wheat Chic.	467.0	-0.4
Sugar	13.2	-0.3
Cotton	69.2	0.0
Coffee	143.9	1.3

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-1.0	-4.0%
FED	-0	-2.0%

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
Monday, 14 August 2017								
CH	Foreign Direct Investment YoY CNY	Jul				2.3	18 Aug release	
NZ	Performance Services Index	Jul				58.6	23.30	8.30
NZ	Retail Sales Ex Inflation QoQ	2Q		0.7		1.5	23.45	8.45
AU	RBA's Kent Gives Speech in Sydney						0.35	9.35
JN	GDP SA QoQ	2Q P		0.6		0.3	0.50	9.50
JN	GDP Annualized SA QoQ	2Q P		2.5		1.0	0.50	9.50
CH	Industrial Production YoY/YTD YoY	Jul		7.1/6.9		7.6/6.9	3.00	12.00
CH	Retail Sales YoY/YTD YoY	Jul		10.8/10.5		11.0/10.4	3.00	12.00
CH	Fixed Assets Ex Rural YTD YoY	Jul		8.6		8.6	3.00	12.00
EC	Industrial Production SA MoM/YoY	Jun		-0.4/2.9		1.3/4.0	10.00	19.00
CA	Teranet/National Bank HPI MoM/YoY	Jul		/		2.6/14.2	13.30	22.30
CA	Teranet/National Bank HP Index	Jul				216.5	13.30	22.30
CA	Bloomberg Nanos Confidence	Aug 11				60.5	15.00	0.00
Tuesday, 15 August 2017								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Aug 13				113.7	0.30	9.30
AU	New Motor Vehicle Sales MoM	Jul				1.2	2.30	11.30
AU	RBA Aug. Rate Meeting Minutes						2.30	11.30
JN	Industrial Production MoM	Jun F		/		1.6/4.9	5.30	14.30
JN	Capacity Utilization MoM	Jun				-4.1	5.30	14.30
GE	GDP SA QoQ/YoY	2Q P		0.7/1.9		0.6/1.7	7.00	16.00
UK	CPIH YoY	Jul		2.7		2.6	9.30	18.30
UK	CPI MoM/YoY	Jul		0/2.7		0.0/2.6	9.30	18.30
UK	CPI Core YoY	Jul		2.5		2.4	9.30	18.30
UK	PPI Input NSA MoM/YoY	Jul		/		-0.4/9.9	9.30	18.30
UK	House Price Index YoY	Jun				4.7	9.30	18.30
US	Import Price Index MoM/YoY	Jul		0.1/0.3		-0.2/-0.2	13.30	22.30
US	Empire Manufacturing	Aug		10		9.8	13.30	22.30
US	Retail Sales Advanc/Ex Autos and Gas MoM	Jul		0.4/0.4		-0.2/-0.1	13.30	22.30
US	Retail Sales Control Group	Jul		0.4		-0.1	13.30	22.30
CA	Existing Home Sales MoM	Jul				-6.7	14.00	23.00
US	NAHB Housing Market Index	Aug		65		64.0	15.00	0.00
US	Business Inventories	Jun		0.4		0.3	15.00	0.00
US	Total Net/Net Long term TIC Flows	Jun		/		57.3/91.9	21.00	6.00
Wednesday, 16 August 2017								
AU	Westpac Leading Index MoM	Jul				-0.1	1.30	10.30
AU	Wage Price Index QoQ/YoY	2Q		0.5/1.9		0.5/1.9	2.30	11.30
NZ	Non Resident Bond Holdings	Jul				61.5	4.00	13.00
UK	Jobless Claims Change/Average Weekly earnings 3M YoY	Jul		/1.7		5.9/1.8	9.30	18.30
UK	ILO Unemployment Rate/Employment 3Mths	Jun		4.5/		4.5/175.0	9.30	18.30
EC	GDP SA QoQ/YoY	2Q P		0.6/2.1		0.6/2.1	10.00	19.00
CA	Int'l Securities Transactions	Jun				29.5	13.30	22.30
US	Housing Starts #/MoM	Jul		1225/0.8		1215.0/8.3	13.30	22.30
US	Building Permits #/MoM	Jul		1240/-2.8		1254.0/7.4	13.30	22.30
CH	FX Net Settlement - Clients CNY	Jul				-92.3		
US	FOMC Meeting Minutes	Jul 26					19.00	4.00
Thursday, 17 August 2017								
NZ	PPI Input QoQ	2Q				0.8	23.45	8.45
NZ	PPI Output QoQ	2Q				1.4	23.45	8.45
JN	Trade Balance Adjusted	Jul		196.3		81.4	0.50	9.50
NZ	ANZ Consumer Confidence Index/MoM	Aug		/		125.4/-1.9	2.00	11.00
AU	Employment Change/Unemployment rate	Jul		20/5.6		14.0/5.6	2.30	11.30
AU	RBA FX Transactions Market	Jul				1100.0	2.30	11.30
AU	RBA's Ellis Gives Speech in Canberra							
UK	Retail Sales Ex Auto Fuel MoM/YoY	Jul		0/1.1		0.9/3.0	9.30	18.30
UK	Retail Sales Inc Auto Fuel MoM/YoY	Jul		0.1/1.3		0.6/2.9	9.30	18.30
EC	Trade Balance SA	Jun				19.7	10.00	19.00
EC	CPI MoM/YoY	Jul		-0.5/1.3		0.0/1.3	10.00	19.00
EC	CPI Core YoY	Jul F		1.2		1.2	10.00	19.00
EC	ECB account of the monetary policy meeting						12.30	21.30
CA	Manufacturing Sales MoM	Jun		-1		1.1	13.30	22.30
US	Initial Jobless Claims	Aug 12				244.0	13.30	22.30
US	Continuing Claims	Aug 5				1951.0	13.30	22.30
US	Philadelphia Fed Business Outlook	Aug		19		19.5	13.30	22.30
US	Industrial Production MoM	Jul		0.25		0.4	14.15	23.15
US	Bloomberg Consumer Comfort	Aug 13				51.4	14.45	23.45
US	Bloomberg Economic Expectations	Aug				47.0	14.45	23.45
US	Leading Index	Jul		0.3		0.6	15.00	0.00
US	Fed's Kaplan (voter) speaks in Texas						18.00	3.00
Friday, 18 August 2017								
CH	Property Prices	Jul					2.30	11.30
EC	ECB Current Account SA	Jun				30.1	9.00	18.00
EC	Construction Output MoM/YoY	Jun		/		-0.7/2.6	10.00	19.00
CA	CPI NSA MoM/YoY	Jul		0.1/1.3		-0.1/1.0	13.30	22.30
CA	CPI Core- Common/Trim YoY%	Jul		/		1.4/1.2	13.30	22.30
CA	CPI Core- Median YoY%	Jul				1.6	13.30	22.30
US	U. of Mich. Sentiment/5-10 Yr Inflation expectations	Aug P		94/		93.4/2.6	15.00	0.00
US	Fed's Kaplan (voter) speaks in Dallas						15.15	0.15
US	Baker Hughes U.S. Rig Count/Oil rigs	Aug 11		/		954.0/765.0	18.00	3.00
UK	CBI Trends Total Orders/Selling Prices	Aug		/		10.0/9.0	17-26 Aug release	
Upcoming Central Bank Interest Rate Announcements								
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%		
UK BOE		14-Sep				0.25%		
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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