

MARKETS TODAY

Animal



Good morning

Looking through Spotify this morning I was surprised to see that “Animal” is quite a popular song title. I was going with Pearl Jam 1994 hit, but then I noticed I could have gone with Deft Leppard or more recently Ellie Goulding or Kesha would have also done the trick. Well, the US animal spirit is back with a trifecta of better than expected data releases and with concerns over US-North Korean tensions abating and yesterday’s upbeat message from Fed Dudley still resonating, the USD and UST yields are higher, safe haven assets have been sold and US equities look to be taking a breather after a decent jump in the previous day. The VIX has edged lower again and it has closed at 12.04, down 33bps on the day.

July US retail sales beat expectations (0.6% m/m vs 0.3% exp., ex Autos 0.5% vs 0.3% exp.) and recorded the biggest monthly gain since December. The July gains were broad based and the May and June figures were also revised upwards. Meanwhile the Empire State Index jumped to 25.2 in August well above the 10 pencilled in by economists and now the index sits at its highest reading since September 2014. Finally, August NAHB index of homebuilder activity and sentiment rebounded to 68, from 64 in July, well above the 64 expected by consensus.

So with concerns over US-North Korean tensions abating and yesterday’s message from Fed Dudley still resonating in markets, the message from US data releases overnight is that the US economy is having a great start to the second half of 2017. Thus, the data releases have helped reinforce the positive economic outlook delivered by Fed Dudley yesterday helping UST yields and the USD track higher.

DXY (USD Index) has been on an upward trend since the start of the week and although some of the gains recorded post the release of US retail sales overnight have been retraced, the upward trend is still intact. DXY is up 0.47% on the day and after trading to an overnight high of 94.139 it now trades at 93.854.

Looking at G10 currencies, JPY is the big underperformer against the USD, down almost 1%. USD/JPY has followed the move higher in UST yields and after punching through the ¥110 mark yesterday, it now trades comfortably above the figure at ¥110.69. NZD and GBP are the other two main underperformers, down 0.73% and 0.71% respectively. The Pound’s underperformance has come from softer than expected July CPI figures (2.6%/y vs 2.7% exp., core 2.4% vs 2.5% exp.) serving to further reduce expectations of any BoE hiking action this year. After spending most of yesterday’s day session range trading around 1.2960, GBP now trades at 1.2868. As for the Kiwi, most of its underperformance came during Europe’s trading hours. The move lower was unrelated to any news and reflects NZD’s current vulnerability to the downside amid extreme long

speculative positioning. This morning GDT dairy auction defied some of the more positive indicators leading up to the auction and showed a slight fall in pricing. NZD down trades at 0.7236 and it has essentially closed near the lows of the NY session.

Meanwhile AUD has had a fairly steady night, after gapping about 25 pips at the London open (again unrelated to any news and like NZD reflecting downside susceptibility amid extreme long speculative positioning), it has essentially range trade and now trades at 0.7821.

Looking at bond yields, 10y UST traded to an overnight high of 2.28% and have ended the day close to the highs at 2.2728%. The 2y year tenor shows a similar pattern reaching an overnight high of 1.35%, ending the day at 1.3465%, 3bps relative to its previous close. Stronger US data releases have pushed pricing expectations for a December hike to 42%, up from yesterday’s pricing of 37%.

A brief look at commodities paints a mixed picture. Oil prices are little changed (Brent dipped to an overnight low of \$50.11, but now trades at \$51), Copper is also flat, unsurprisingly gold is down 1% and iron ore is down 1.4%. Two reports overnight painted a grim outlook for iron ore, with Citi raising over supply concerns while Axiom capital warning the potential for an acute correction over the next four months.

Meanwhile in other news the IMF increased its estimate for China’s average annual growth rate through 2020, but warned that it would come at the cost of rising debt that increases medium-term risks to growth.

Coming Up

We have a pretty light calendar during our session with Australia’s Q2 wage price index the main highlight. UK employment data and the EU 2Q GDP second reading are the two main events in Europe. Then tonight the US gets building permits and housing starts (both for July) ahead of the July FOMC Minutes early tomorrow morning.

Our economists expect Australia’s wage Price Index to print at 0.5% in Q2 taking the y/y reading to 1.9%. If correct, this means that in real terms wages growth were unchanged over the 12 months ending June 17 (see chart of the day below). Looking ahead, however, our economists note that wages growth should pick up in Q3 helped along by the 3.3% increase in the minimum wage, (effective July 1) in addition to a gradual tightening in the labour market.

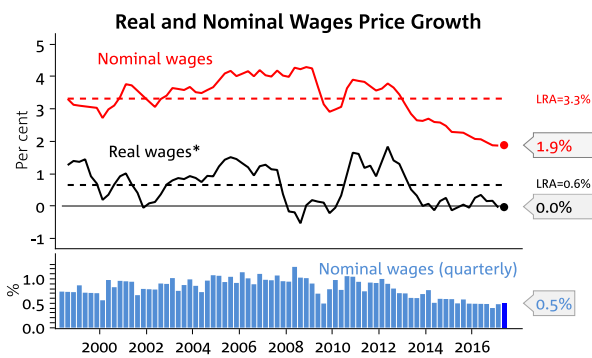
The market expects an unchanged UK unemployment rate at 4.5% over the three months to June and weekly earnings ex-bonus are also expected to have remained steady at 2%. Not ideal given current inflation is running at 2.6% and is expected to head towards 3% by year end.

The July FOMC meeting early tomorrow morning will be assessed to see the degree of conviction the Committee has on the outlook for inflation. The Minutes will be also studied for any hints on the likelihood of the Fed announcing it balance sheet unwind strategy at their next meeting in September. Yesterday Fed Dudley noted that market expectations for a September announcement were not unreasonable.

Overnight

On global stock markets, the S&P 500 was -0.05%. Bond markets saw US 10-years +4.38bp to 2.26%. In commodities, Brent crude oil +0.22% to \$50.84, gold-1.0% to \$1,271, iron ore -1.4% to \$73.68, steam coal -0.5% to \$94.95, met. coal +0.0% to \$193.50. AUD is at 0.7822 and the range since yesterday 5pm Sydney time is 0.7808 to 0.7877.

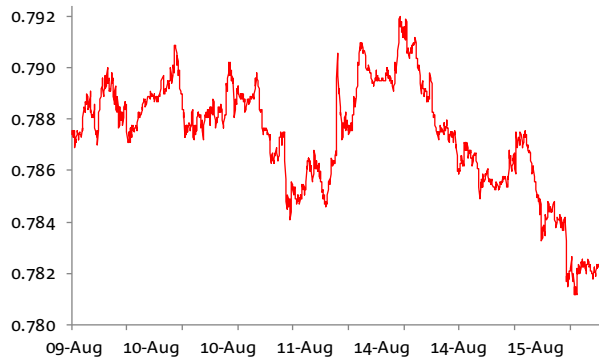
Chart of the day: Going nowhere really



* Deflated using trimmed mean inflation
Source: National Australia Bank, ABS

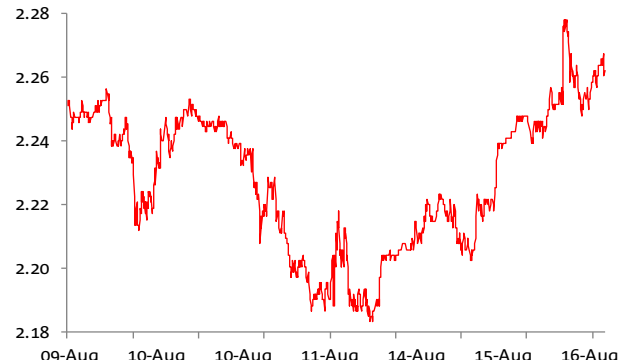
Markets

AUD/USD - past week



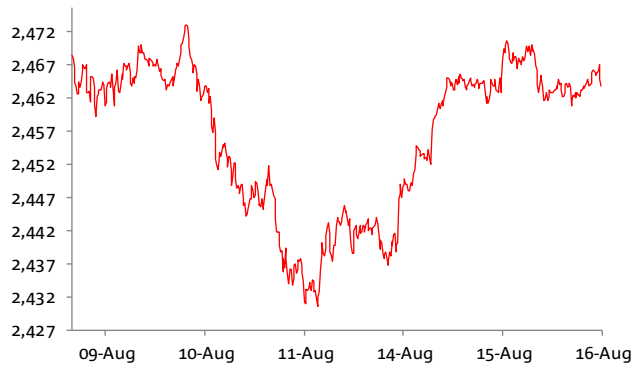
Source: Bloomberg.

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	0.7822	-0.4	0.7808	0.7877	HKD	7.8238 0.0
NZD	0.7237	-0.7	0.7230	0.7312	CNY	6.6855 0.2
EUR	1.1739	-0.3	1.1687	1.1793	SGD	1.3669 0.3
GBP	1.2866	-0.8	1.2846	1.2970	IDR	13,361 0.1
JPY	110.53	0.8	109.61	110.85	THB	33.29 0.1
CAD	1.2752	0.2	1.2719	1.2778	KRW	1,135 -0.4
AUD/EUR	0.6663	0.0	0.6660	0.6684	TWD	30.30 0.0
AUD/JPY	86.45	0.4	86.05	86.79	PHP	51.41 0.3
AUD/GBP	0.6079	0.4	0.6042	0.6091	CHF	0.97 0.0
AUD/NZD	1.0808	0.3	1.0748	1.0814	SEK	8.07 -0.5
AUD/CNH	5.2283	-0.4	5.2301	5.2879		

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	2.26	4.38
AUD	1.50	1.69	1.91	2.83	AUD 10	2.65	3.00 0.39
NZD	1.75	1.95	2.18	3.17	NZD 10	2.89	5.80 0.63
EUR	0.00	-0.33	-0.17	0.85	CAD 10	1.90	2.40 -0.36
GBP	0.25	0.28	0.55	1.16	EUR 10	0.43	2.70 -1.83
JPY	-0.03	-0.04	0.03	0.24	GBP 10	1.08	1.30 -1.18
CAD	0.75	1.30	1.58	2.18	JPY 10	0.05	-0.80 -2.21

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,999	0.02	18.0
S&P 500	2,465	-0.05	12.5
Nasdaq	6,333	-0.11	20.4
VIX	11.99	-2.76	1.5
FTSE	7,384	0.4	6.4
DAX	12,177	0.1	13.4
CAC 40	5,140	0.4	14.3
Nikkei	19,753	1.1	19.0
Shanghai	3,251	0.4	4.5
Hang Seng	27,175	-0.3	18.6
ASX 200	5,757	0.5	4.1

Commodities*

	Last	% day
Oil (Brent)	50.84	0.2
Oil (WTI)	47.60	0.0
Oil (Tapis)	50.53	-2.1
Gold	1271.40	-1.0
CRB	176.31	-0.7
GS Metals	350.5	0.6
Aluminium	2038.3	0.5
Copper	6359.0	-0.1
Nickel	10312.5	-0.9
Zinc	2955.5	1.9
Ch. steel	3724.0	-2.9
Iron ore	73.7	-1.4
St. Coal	95.0	-0.5
Met.coal	193.5	0.0
Wheat Chic.	456.0	-2.5
Sugar	13.1	-2.7
Cotton	67.7	-1.2
Coffee	135.6	-3.5

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.29	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.34	-6.00
3/10 sprd	0.46	9.00
SPI	5701.0	-28.0

*Change in bps

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-0.2	-1.0%
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
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		/1.8		5.9/1.8	9.30	18.30
UK	ILO Unemployment Rate/Employment 3Mths	Jun		4.5/97		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		1220/0.4		1215.0/8.3	13.30	22.30
US	Building Permits #/MoM	Jul		1250/-2		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		195.3		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		0.1/1.2		0.9/3.0	9.30	18.30
UK	Retail Sales Inc Auto Fuel MoM/YoY	Jul		0.2/1.4		0.6/2.9	9.30	18.30
EC	Trade Balance SA	Jun		20.25		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		240		244.0	13.30	22.30
US	Continuing Claims	Aug 5		1955		1951.0	13.30	22.30
US	Philadelphia Fed Business Outlook	Aug		18		19.5	13.30	22.30
US	Industrial Production MoM	Jul		0.3		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		0/1.2		-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 18		/		949.0/768.0	18.00	3.00
UK	CBI Trends Total Orders/Selling Prices	Aug		/		10.0/9.0	17-26 Aug release	
Monday, 21 August 2017								
NZ	Net Migration SA	Jul				6350.0	23.45	8.45
UK	Rightmove House Prices MoM	Aug				0.1	0.10	9.10
UK	Rightmove House Prices YoY	Aug				2.8	0.10	9.10
NZ	Credit Card Spending MoM	Jul				0.2	4.00	13.00
NZ	Credit Card Spending YoY	Jul				8.3	4.00	13.00
JN	All Industry Activity Index MoM	Jun				-0.9	5.30	14.30
JN	Convenience Store Sales YoY	Jul				-0.1	8.00	17.00
UK	Public Finances (PSNCR)	Jul				18.3	9.30	18.30
UK	Central Government NCR	Jul				18.0	9.30	18.30
UK	Public Sector Net Borrowing	Jul				6.3	9.30	18.30
UK	PSNB ex Banking Groups	Jul				6.9	9.30	18.30
CA	Wholesale Trade Sales MoM	Jun				0.9	13.30	22.30
US	Chicago Fed Nat Activity Index	Jul				0.1	13.30	22.30
CA	Bloomberg Nanos Confidence	Aug 18				61.2	15.00	0.00
Tuesday, 22 August 2017								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Aug 13				113.7	0.30	9.30
GE	ZEW Survey Current Situation	Aug				86.4	10.00	19.00
EC	ZEW Survey Expectations	Aug				35.6	10.00	19.00
GE	ZEW Survey Expectations	Aug				17.5	10.00	19.00
EC	ECB's Constancio Speaks at Economists' Congress in Lisbon						13.00	22.00
CA	Retail Sales MoM	Jun				0.6	13.30	22.30
CA	Retail Sales Ex Auto MoM	Jun				-0.1	13.30	22.30
US	FHFA House Price Index MoM	Jun				0.4	14.00	23.00
US	House Price Purchase Index QoQ	2Q				1.4	14.00	23.00
CH	Conference Board Leading Economic Index	Jul					14.00	23.00
US	Richmond Fed Manufact. Index	Aug		10		14.0	15.00	0.00
Wednesday, 23 August 2017								
AU	Skilled Vacancies MoM	Jul				0.9	2.00	11.00
JN	Machine Tool Orders YoY	Jul F				26.3	7.00	16.00
EU	ECB's Draghi Speaks in Lindau, Germany							
GE	Markit/BME Germany Manufacturing PMI	Aug P				58.1	8.30	17.30
GE	Markit Germany Services PMI	Aug P				53.1	8.30	17.30
GE	Markit/BME Germany Composite PMI	Aug P				54.7	8.30	17.30
EC	Markit Eurozone Manufacturing PMI	Aug P				56.6	9.00	18.00
EC	Markit Eurozone Services PMI	Aug P				55.4	9.00	18.00
EC	Markit Eurozone Composite PMI	Aug P				55.7	9.00	18.00
US	MBA Mortgage Applications	Aug 11				3.0	12.00	21.00
US	Markit US Manufacturing PMI	Aug P				53.3	14.45	23.45
US	Markit US Services PMI	Aug P				54.7	14.45	23.45
US	Markit US Composite PMI	Aug P				54.6	14.45	23.45
US	New Home Sales	Jul		612.5		610.0	15.00	0.00
US	New Home Sales MoM	Jul		0.4		0.8	15.00	0.00
EC	Consumer Confidence	Aug A				-1.7	15.00	0.00
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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