

MARKETS TODAY

Play it safe



Good morning

In deference to the 1980 song by three of my all-time favourite artists – Iggy Pop, David Bowie and Simple Minds – ‘play it safe’ epitomises market price action over the last 24 hours. US equity indices have all closed with losses of more than one percent. Treasury yields are about 3bps lower on average with December Fed funds tightening risk back to 30% from 40%. The Japanese Yen and Swiss Franc top the FX leader board while the AUD is close to the bottom at 0.7884 and so more than half a cent below the level prevailing in front of yesterday’s local labour market data (but which didn’t prompt much of a response).

The initial catalyst for the risk-off tone was concern and rumour that Trump’s main economic adviser Gary Cohn was set to quit in disgust at the President’s response to the Charlottesville racial violence. Were that to eventuate, it would be seen as driving an even bigger nail into the coffin of hope for tax reform. While the White House has issued a denial of any such intent (but not Cohn directly, we’d note) the tragic news of another terror attack in Europe, this time Barcelona, has compounded prevailing negative sentiment. And then in the last hour, we’ve had red headlines saying Trump is dropping plans to form an advisory council on how best to spend \$1tn. on infrastructure. This immediately evokes the Groucho Marx quip about not wanting to be a member of a club that would have him as a member.

The other significant news overnight was contained in the summary minutes of the ECB’s July 20th Council meeting, which expresses concern about the risk of the Euro exchange rate overshooting in the future and the tightening of financial conditions implied by the rise in both the Euro and bond market yields. The Minutes noted with concern the rise in real interest rates implied by the latter and says that the still-required favourable financing conditions “could not be taken for granted”. EUR/USD, already down from above 1.1775 to about 1.17 in front of the minutes, promptly fell to just above 1.1650 but has since recovered to back above the figure.

Our read of the ECB is that as things stand, a signal of intent with respect to the fate of the QE bond buying programme could still come out of the September 7th Governing Council (GC) meeting, or at latest October, in so far as it is a further significant riser in the euro and or Bund yields, rather than the levels reached in the last few months, that most concerns the ECB at this juncture.

US data overnight has been mixed, with a small downside surprise on industrial production, within which manufacturing output fell by 0.1% against the 0.2% rise expected. But the Philly Fed survey remained strong (18.9 from 19) US jobless claims fell to their second lowest level since 1973 and the index of leading indicators rose for the eleventh month in row and in line with expectations. Fed speak included resident dove Neel

Kashkari repeating his view there’s no rush to raise rates. He also says that the Fed will likely watch debt limit talks when considering when to start balance sheet shrinkage. Bob Kaplan meanwhile has repeated that he wants to see more progress on inflation before the next Fed rate hike.

Coming Up

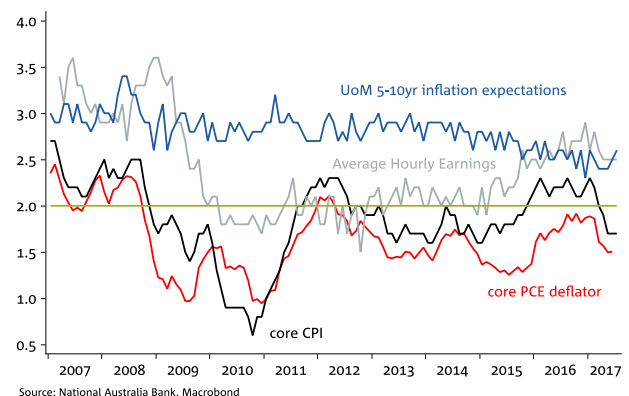
Ongoing Trump-related firestorms aside, most of the week’s major (economic) events risk are now being us.

China property prices are due this morning (11:430 AEST) but while trends here are of significant medium term importance in regards to housing construction activity and with that hard commodity demand, it won’t be a market mover on the day.

More interesting offshore tonight will be Canadian CPI – given that markets are about 80% priced for another Bank of Canada rate rise during the 4th quarter – and the preliminary University of Michigan consumer sentiment August read-out.

Canadian CPI is seen lifting to 1.2% from 1.0% while US consumer sentiment is forecast to have lifted from 93.4 to 94.0 (after the July reading showed a quite pronounced dip). This week’s retail sales data told us that the dip fell into the category of “watch what they (consumers) do, not what they say”. We’re also interested in the inflation expectations reading, last at 2.6% and which has not been trending down unlike other inflation related readings of late.

Chart of the Day: US inflation-related indicators



Overnight

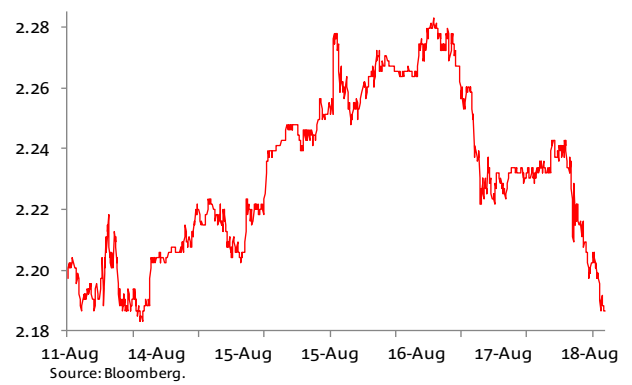
On global stock markets, the S&P 500 was -1.46%. Bond markets saw US 10-years -3.50bp to 2.19%. In commodities, Brent crude oil +1.27% to \$50.91, gold +0.7% to \$1,286, iron ore +3.3% to \$75.41, steam coal +0.6% to \$98.05, met. coal +0.3% to \$194.00. AUD is at 0.7885 and the range since yesterday 5pm Sydney time is 0.7882 to 0.7963.

Markets

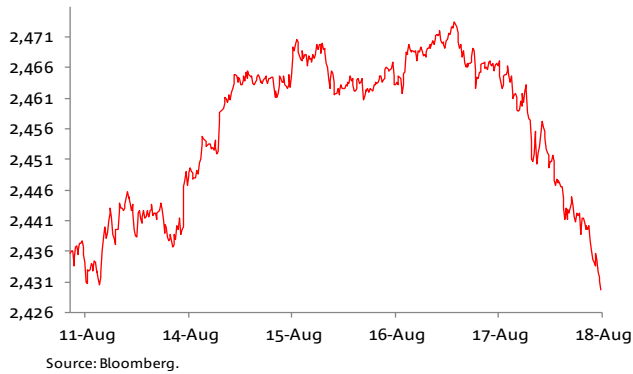
AUD/USD - past week



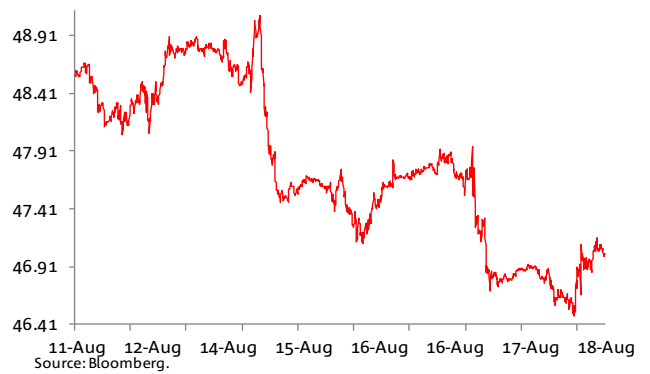
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7892	-0.4	0.7889	0.7963	HKD	7.8235 0.0
NZD	0.7288	-0.3	0.7288	0.7335	CNY	6.6755 -0.2
EUR	1.1730	-0.3	1.1662	1.1790	SGD	1.3662 0.3
GBP	1.2870	-0.2	1.2853	1.2909	IDR	13,358 -0.1
JPY	109.50	-0.6	109.45	110.37	THB	33.26 0.0
CAD	1.2671	0.4	1.2589	1.2679	KRW	1,137 -0.4
AUD/EUR	0.6727	-0.1	0.6725	0.6787	TWD	30.31 -0.1
AUD/JPY	86.41	-1.0	86.37	87.56	PHP	51.29 -0.2
AUD/GBP	0.6132	-0.3	0.6129	0.6176	CHF	0.96 -0.4
AUD/NZD	1.0828	-0.1	1.0820	1.0879	SEK	8.13 0.6
AUD/CNH	5.2879	0.2	5.2739	5.3077		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.32	1.57	2.14	USD 10	2.19	-3.50
AUD	1.50	1.70	1.91	2.79	AUD 10	2.64	-2.00 0.46
NZD	1.75	1.96	2.18	3.15	NZD 10	2.85	-3.80 0.67
EUR	0.00	-0.33	-0.17	0.81	CAD 10	1.85	-2.10 -0.34
GBP	0.25	0.28	0.55	1.16	EUR 10	0.43	-1.90 -1.76
JPY	-0.05	-0.04	0.03	0.23	GBP 10	1.09	-1.80 -1.10
CAD	0.75	1.30	1.57	2.13	JPY 10	0.05	1.20 -2.13

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,751	-1.24	17.1
S&P 500	2,432	-1.46	11.4
Nasdaq	6,222	-1.94	19.0
VIX	15.65	33.30	28.0
FTSE	7,388	-0.6	7.7
DAX	12,203	-0.5	15.8
CAC 40	5,147	-0.6	16.5
Nikkei	19,703	-0.1	19.5
Shanghai	3,268	0.7	5.3
Hang Seng	27,344	-0.2	18.8
ASX 200	5,779	-0.1	4.9

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.28	-1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.39	5.50
3/10 sprd	0.41	-2.50
SPI	5699.0	47.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	50.91	1.3
Oil (WTI)	47.02	0.5
Oil (Tapis)	50.18	-1.9
Gold	1286.40	0.7
CRB	175.89	0.3
GS Metals	357.2	-1.1
Aluminium	2065.3	-0.9
Copper	6470.8	-0.6
Nickel	10687.5	-0.3
Zinc	3062.5	-1.8
Ch. steel	3809.0	2.1
Iron ore	75.4	3.3
St. Coal	98.1	0.6
Met.coal	194.0	0.3
Wheat Chic.	440.8	-1.4
Sugar	13.3	2.7
Cotton	67.5	-0.1
Coffee	132.1	-1.8

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
Friday, 18 August 2017								
CH	Property Prices	Jul				2.30	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 20				111.7	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				0.1	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
Thursday, 24 August 2017								
NZ	Trade Balance NZD	Jul				242.0	23.45	8.45
NZ	Exports NZD	Jul				4.7	23.45	8.45
NZ	Imports NZD	Jul				4.5	23.45	8.45
NZ	Trade Balance 12 Mth YTD NZD	Jul				-3661.0	23.45	8.45
JN	Nikkei Japan PMI Mfg	Aug P				52.1	1.30	10.30
JN	Leading Index CI	Jun F				106.3	6.00	15.00
JN	Coincident Index	Jun F				117.2	6.00	15.00
UK	UK Finance Loans for Housing	Jul				40200.0	9.30	18.30
UK	GDP QoQ	2Q P				0.3	9.30	18.30
UK	GDP YoY	2Q P				1.7	9.30	18.30
UK	Private Consumption QoQ	2Q P				0.3	9.30	18.30
UK	Government Spending QoQ	2Q P				0.8	9.30	18.30
UK	Exports QoQ	2Q P				-1.6	9.30	18.30
UK	Imports QoQ	2Q P				2.7	9.30	18.30
UK	Index of Services MoM	Jun				0.2	9.30	18.30
UK	Index of Services 3M/3M	Jun				0.4	9.30	18.30
UK	Total Business Investment QoQ	2Q P				0.6	9.30	18.30
UK	Total Business Investment YoY	2Q P				0.7	9.30	18.30
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	Bloomberg Consumer Comfort	Aug 13				51.4	14.45	23.45
UK	CBI Retailing Reported Sales	Aug				22.0	11.00	20.00
UK	CBI Total Dist. Reported Sales	Aug				21.0	11.00	20.00
US/EC	Kansas City Fed hosts annual Jackson Hole Policy Symposium						24-27 Aug	
US	Existing Home Sales	Jul		5.56		5.5	15.00	0.00
US	Existing Home Sales MoM	Jul		0.63		-1.8	15.00	0.00
US	Kansas City Fed Manf. Activity	Aug				10.0	16.00	1.00
Upcoming Central Bank Interest Rate Announcements								
New Zealand, RBNZ		28-Sep	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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