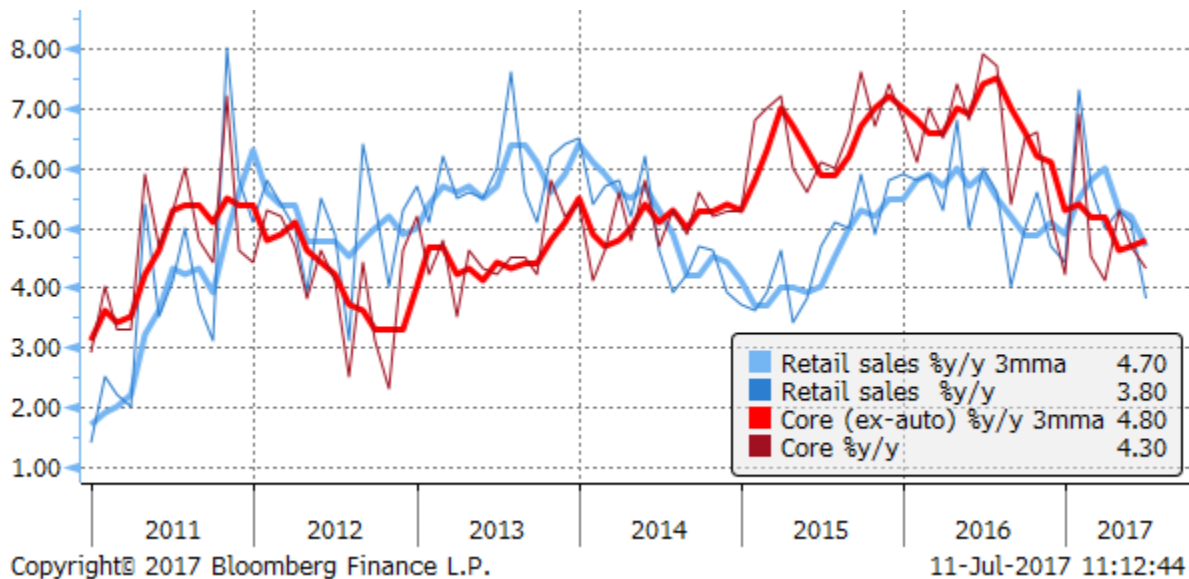


Weak NZ data, Upbeat Aust Biz survey, Strong Euro data, Dovish BoE and Fed, Trump drama

Weak NZ data

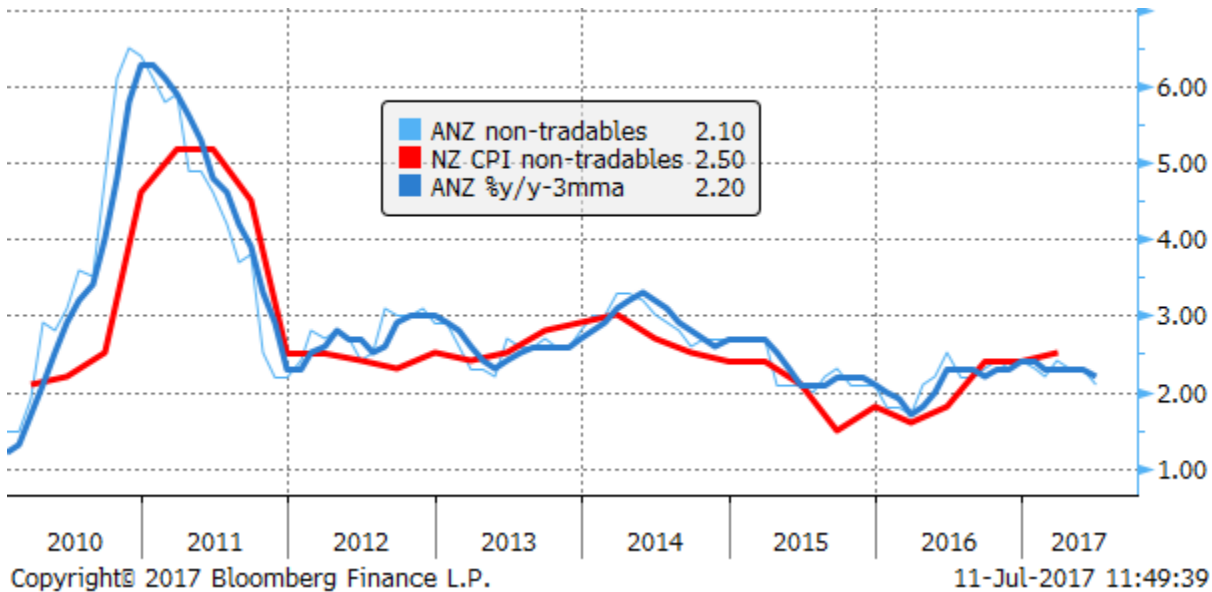
NZ retail sales were weaker than expected. This is made more potent by the fact that it appears to have received a significant boost from hospitality spending related to the Lions Rugby tour.

Retail sales growth slowed to 3.8%/y/y in June, a low since May-2015. Core sales growth, excluding autos and fuel, was 4.3%/y/y in June, a low since March. Core sales growth has been trending lower from a peak of around 7.5%/y/y in mid-2016.



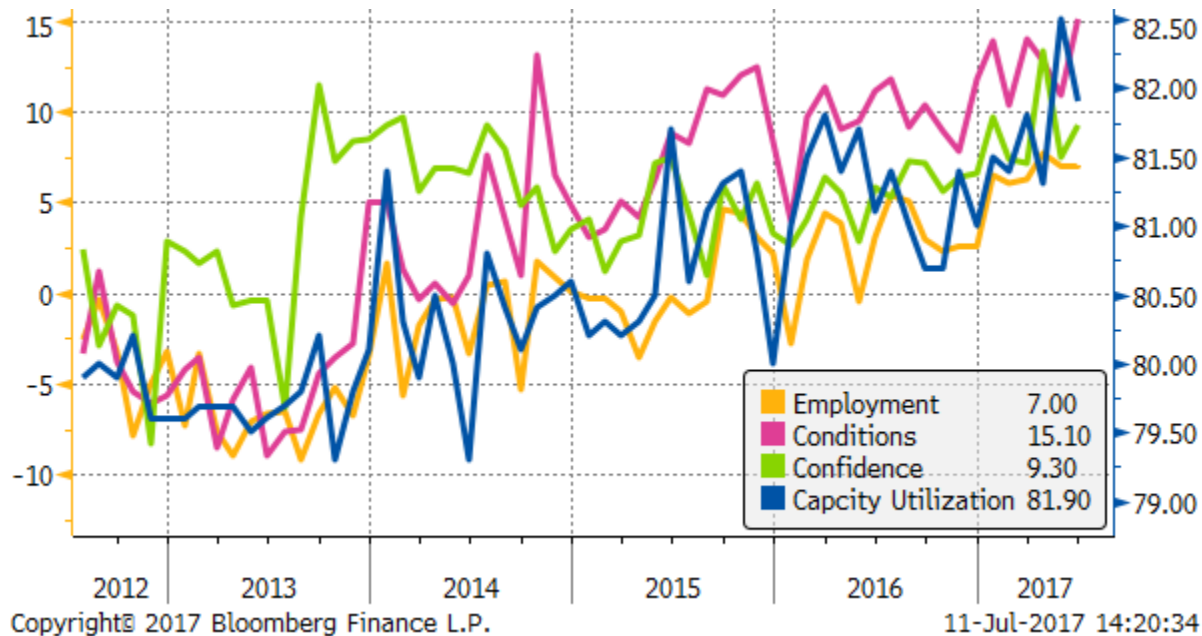
The NZ ANZ monthly inflation reading appears to point to more subdued inflation, pointing to a softer inflation result next week.

The ANZ non-tradables inflation gauge rose 0.1% m/m in June and 2.2% 3mth/yoy. This compares with 2.5%/y/y in Q1 for the government non-tradables data.

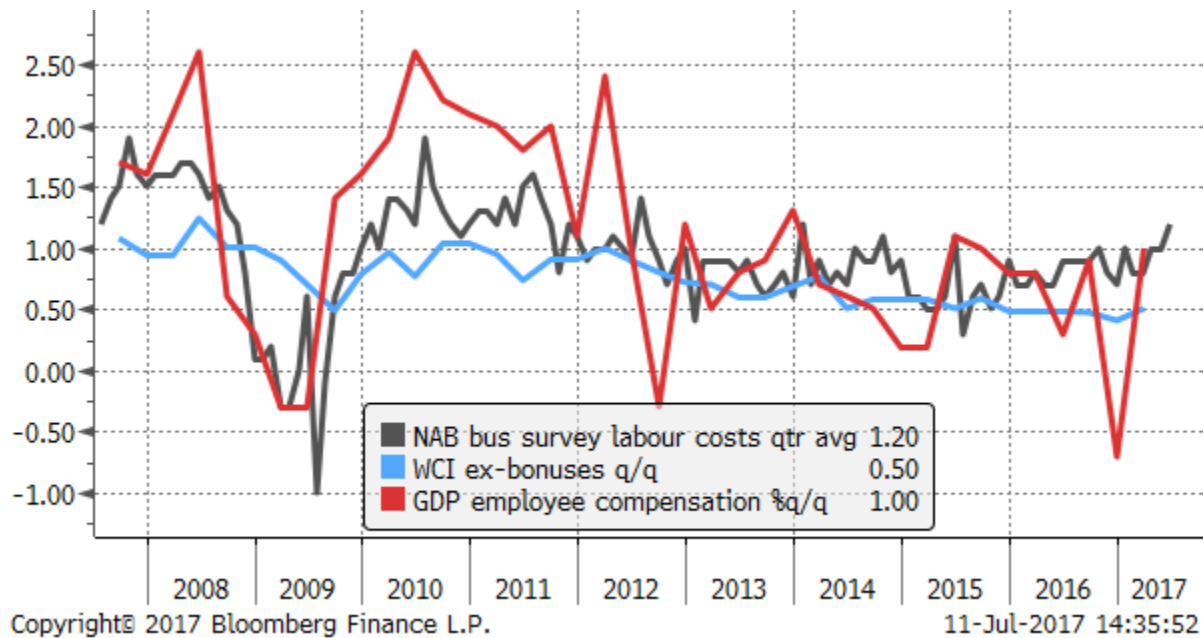


Upbeat Australian business indicators

The Australian business survey was upbeat, continues to point to solid employment data next week



The NAB business survey showed the biggest increase in labour costs since Feb-2014. This may be a blip, but it is worth keeping an eye on. It may be a sign of rising wage growth.



Australian housing finance approvals show investor approvals continues steady slide since January, but owner-occupier approvals firmed. Consistent with the tightening imposed by banks on interest-only lending. A small note of caution that the housing market is facing some headwinds.

PIMCO Australia got some press expressing a negative view on the ability of the Australian economy to cope with rate rises, predicting no rate rises well into 2018. This is a consensus view, and while I agree Australia will not cope with rate rises as well as other countries, the current flow of data suggests the RBA and market may have to contemplate rate rises sooner.

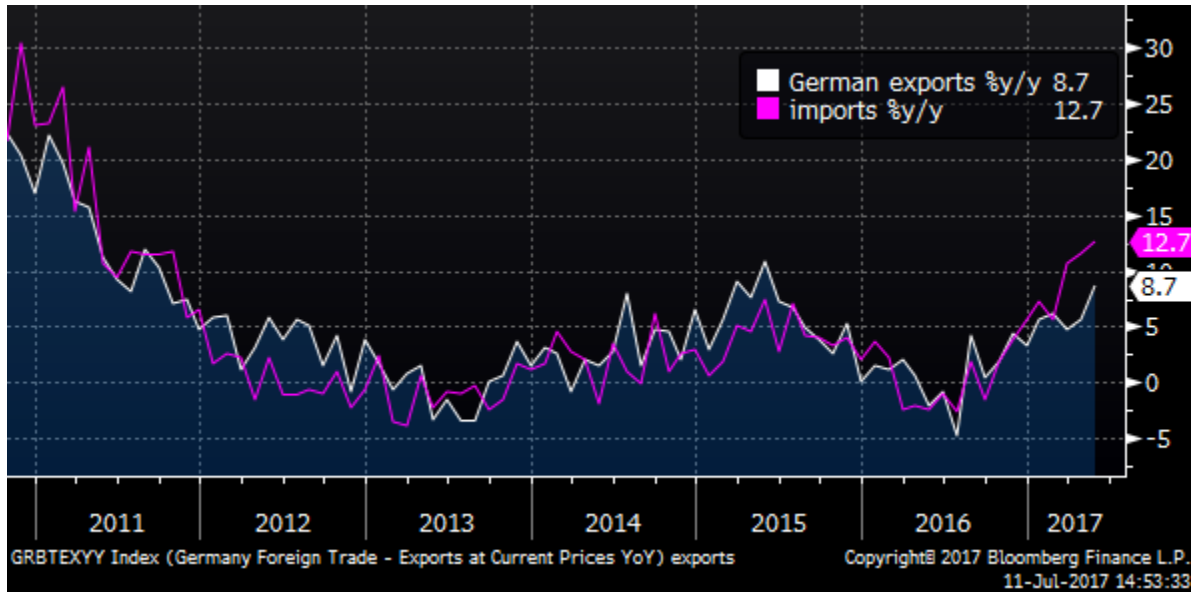
The market is yet to really accept the improved tone in recent economic reports. The broad narrative is that the economy is weak, political leadership is poor, housing market and household debt is a major headwind, China is a major risk factor. The risk is that the market is caught out by stronger employment and higher than expected inflation.

Australian commodity prices firm further on Monday.

Eurozone data strong again

Italian IP added to the recent above expected increases in the Eurozone, up 2.8%/y in May

German exports rose 1.4%m/m in May, up 8.7%/y, a high growth rate since May-2015. Its imports rose 1.2%m/m, up 12.7%/y, a high since 2011.



GBP weaker after Broadbent

UK BoE Deputy Governor Broadbent failed to mention rates and spoke about the risks to the UK from losing its trading partnership with the EU. GBP fell on the speech.

Dovish Fed speakers

There were three dovish speakers from the Fed today, Brainard, Harker and Kashkari. However, Brainard and Harker both endorsed beginning the asset wind-down soon. They are thinking that once this begins, rate hikes should be done more cautiously.

Brainard was the more interesting as she is saying balance sheet wind-down and rate hikes are essentially alternative forms of policy tightening. Her message is that the Fed might hold off from hiking for much longer once the balance sheet unwind begins. Or at least the Fed needs to be surer that inflation is rising before raising rates.

This is different to the view that some other FOMC members are trying to peddle, that QE unwind can occur in the background with little effect and rate rises are the main instrument of policy.

In essence, the Fed will be much more watchful for the impact of balance sheet unwind on the term premium, broader assets prices, and financial conditions. Indeed it appears that a rate rise looks less likely until balance sheet unwind gets moving. If it starts to push up long-term yields, rate hikes will fall away from the agenda.

It appears that rate rises by the Fed for the rest of the year are less likely. However, we may be moving into a period where we see more volatility on long-term yields. Currency markets are already paying more attention to long-term yield developments.

It is hard at this juncture to say what the implications may be for currencies. At some level, the USD should tend to be less strong as the Fed switches to focusing on balance sheet unwind. But it is hard to say that this will cause the USD to weaken. The market has been paying less attention to short-term rates recently, and more to long-term yields.

However, the CAD has appreciated on a short-term rate rise speculation, and if the Fed does hold its rates down while conducting balance sheet unwind, any conventional rate moves in other countries could boost their currencies. It is certainly possible that Australia will have to hike in the next six months or so.

Trump drama

News around Trump Don Jr and Russia has weakened the USD somewhat on Tuesday. The thinking is that the Russia election meddling investigation and links to the Administration will distract Congress from achieving its several urgent matters: health bill, confirmations, tax bill, funding bill, the debt ceiling.

However, the market appears to be increasingly trying to block out the Trump drama. The Trump bump to USD and yields appears to have been unwound now anyway. So there may be limited capacity for this latest twist to knock down USD, US yields or equities. Nevertheless, it is hard to get too optimistic that the USD will strengthen and risks of failure in Congress to make progress may yet cause a weaker USD into year end.

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