

Markets Today

A daily outlook for Australia, key global economies and markets

26 August 2015

Can we have some more? Please

China did what the market was looking for (on Monday) by easing policy, but it appears that the markets want more. Thanks, but we are not quite happy yet.

After a very weak equity session in China yesterday, China's PBoC announced in the London session, that they were cutting the reserve requirement for banks by 50bp (expected) to 18% and that they would ease interest rates 25bp for one year lending (to 4.6%) and deposit rates (to 1.75%). This was not expected, but it wasn't a bazooka either.

It did, however, lead to a surge in European and US equities, oil prices were higher, yields higher and the USD recovered. EM currencies enjoyed it too. We will know more today, but it seems that in the last hour of US trading, markets have assessed it and decided that the policy isn't enough. The Dow ended the day -1.3%, the USD is selling off, as is the AUD. In the AUD, we are back where we were at the start of yesterday. This is despite the Shanghai equity market dropping -7.6% yesterday, and the Dow being up over 3% earlier today. Measures of risk aversion, such as the VIX are still elevated, which makes it difficult for the AUD.

It is a positive step that Chinese policy makers have chosen to address the economy rather than prop up the equity market directly. The Chinese equity market does not make up a huge proportion of local wealth, the importance here is on household and consumer sentiment (released today). But far more important, and potentially worrying, has been the rise in interest rates.

A lot of debt has been generated on the back of low interest rates. And, not all is long dated debt. Current interest rates are rising, as a result of the currency intervention to prevent CNY weakening even further post the recent relaxation of the currency management regime. As rates rise, it becomes more expensive to roll that short dated debt. Then, add the pressures of debt that is denominated in USD as the currency weakens.

Thus the current pressures are not about just the equities but broader than that. So the policy to cut the reserve requirement and interest rates is a step in the right direction. But, as Christy Tan, our Asia Strategist notes, "similar moves will be repeated if necessary." The reaction in the US appears to be that more might be necessary.

It was also positive to see that in the announcement was a mention of the fact that over one year deposit rates would no longer be capped. This adds to the liberalisation of deposits. It also makes sense of the news yesterday that there would be a clamping down of non-official banks.

So, today we will be watching closely to see how Chinese markets take the news: how much does CNH rise? Where are market interest rates? If they are lower, there may be

some weakness in the Chinese currency. And, not that it mattered much to Australia yesterday, but where does the equity market go. The policy announcement is not yet the likely end of the story.

The ECB also make this clear, with Constancio, while noting that they would do what was necessary, also noting that it was too early to fully understand the impact (of China). The German IFO, at least, was encouraging, by rising more than expected.

The US markets have been busy removing the probability priced of the Fed hiking this year: sorry, you may have missed your chance they are suggesting (a small amount is still priced). But the local economic data was pretty good last night, with consumer confidence rising, house prices rising and home sales ok.

Coming Up

It will be difficult for markets to tear themselves away from the regional market moves long enough to respond to the data today. We get the inputs to GDP: construction work done and capital expenditure. Capex has had a big impact on AUD on past occasion, but it would have to be a very big outcome, validating the current mood of the market, to have an influence today. The RBA's Stevens also speaks, so unless he talks about the current market moves, it will likely fade into the background. He is talking at a "reform summit." In NZ we get the trade data, which is forecast to deteriorate.

The ECB's Praet, the chief economist, has been known to signal a change in idea or theme in the ECB's thinking and as such, his speech should be watched.

US durable goods orders are typically volatile, so the Fed's Dudley who is a voting dove, might get a lot of attention.

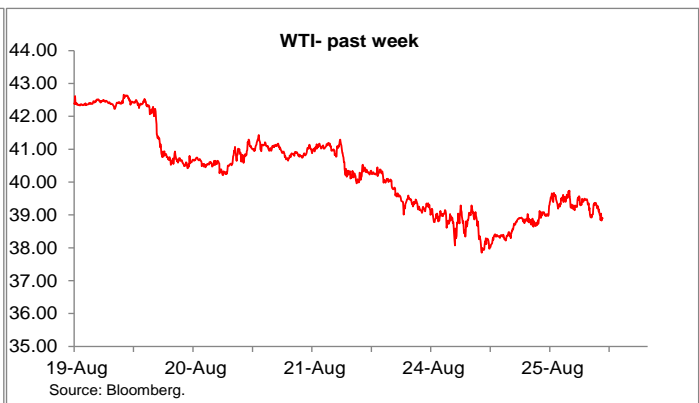
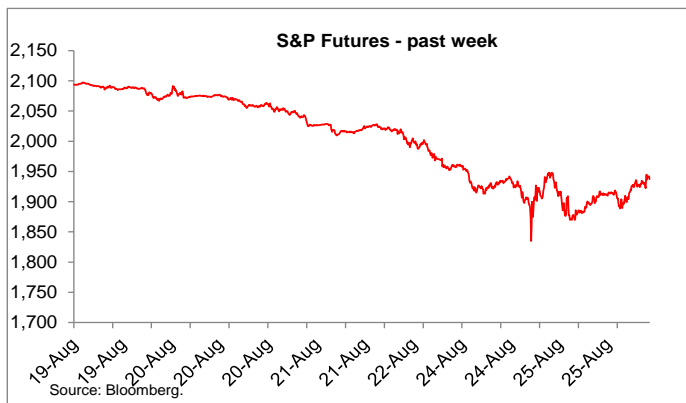
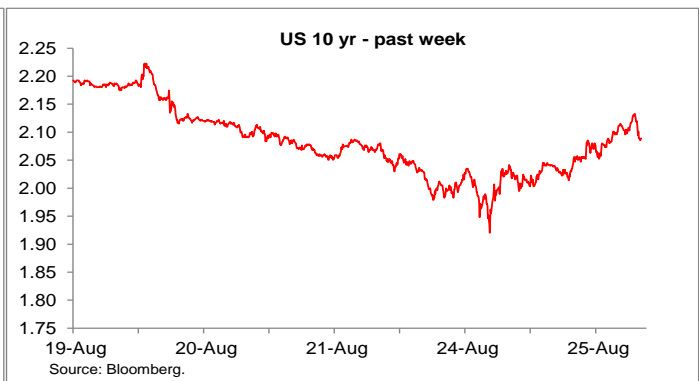
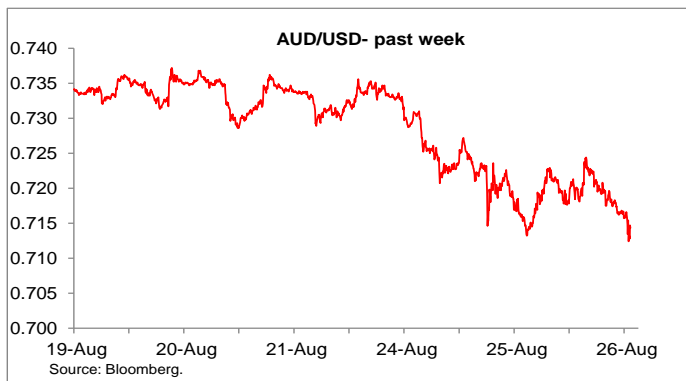
Overnight

On global stock markets, the S&P 500 was -1.40%. Bond markets saw US 10-years +8.55bp to 2.09%. On commodity markets, Brent crude oil +0.73% to \$43, gold -1.2% to \$1,140, iron ore +0.3% to \$53.45. AUD is at 0.7127 and the range was 0.7123 to 0.725.

- China cuts RRR 50bp, cut 1 year lending rate to 4.6% and deposit rate 25bp to 1.75%. They remove the ceiling on deposits >1 year. The RRR for financial leasing cut an additional 3ppts.
- German IFO 108.3E, 108E, 107.6P
- US July consumer confidence 101.5A, 93.4E, 91P
- US New home sales +5.4%A, 5.8E, -7.7P
- US Markit PMI 55A, 55.7P
- US house price index 3x 1.2%A, 1.2E, 1.5P

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Markets



Foreign Exchange							
Indicative 24hr ranges (**)				Other FX			
	Last	% chge	Low	High		Last	% chge
AUD	0.7126	-0.4	0.7123	0.7250	HKD	7.7516	0.0
NZD	0.6482	0.0	0.6433	0.6561	CNY	6.4128	0.1
EUR	1.1534	-0.7	1.1397	1.1623	SGD	1.4056	-0.4
GBP	1.5702	-0.5	1.5682	1.5819	IDR	14,054	0.0
JPY	118.68	0.2	118.26	120.40	THB	35.53	-0.3
CAD	1.3339	0.4	1.3144	1.3347	KRW	1,196	-0.3
AUD/EUR	0.6213	0.3			TWD	32.54	-0.9
AUD/JPY	85.02	-0.2			PHP	46.58	-0.5
AUD/GBP	0.4551	0.1			CHF	0.94	1.0
AUD/NZD	1.1015	-0.4			SEK	8.38	1.4

Equities			
Major Indices			
	Last	% day	% y/y
Dow	15,666	-1.3	-8.3
S&P 500	1,868	-1.4	-6.5
Nasdaq	4,506	-0.4	-1.1
FTSE	6,081	+3.1	-10.2
DAX	10,128	+5	6.5
CAC 40	4,565	+2.8	5.1
Nikkei	17,807	-4.0	14.7
Shanghai	2,965	-7.6	34.3
Hang Seng	21,405	+0.7	-14.6
ASX 200	5,137	+2.7	-8.9

Commodities*		
	Last	% day
Oil (Brent)	43.00	0.7
Oil (WTI)	38.90	1.7
Oil (Tapis)	44.69	1.2
Gold	1140.00	-1.2
CRB	187.66	0.8
GS Metals	266.8	2.3
Aluminium	1547	2.6
Copper	5092	2.5
Nickel	9584	1.0
Zinc	1735	2.0
Ch. steel	1967	1.3
Iron ore	53.5	0.3
Coal	58.6	0.1
Wheat Chic.	499.5	-1.7
Sugar	10.60	2.0
Cotton	63.76	-1.4
Coffee	120.6	-0.9

CO ₂ Emissions - Euros		
	Last	% day
Jun-2015	8.29	1.0
Dec-2015	8.26	1.0
Dec-2016	8.34	1.0

Interest Rates								
Indicative Swap Rates				Benchmark 10 Year Bonds				
	Cash	3mth	2Yr	10Yr		Last	chge	Spnd
USD	0.25	0.33	0.81	2.15	USD 10	2.09	0.09	
AUD	2.00	2.12	1.97	2.98	AUD 10	2.59	0.10	0.50
NZD	3.00	2.92	2.83	3.53	NZD 10	3.18	0.03	1.09
EUR	0.05	0.06	0.09	1.05	CAD 10	1.34	0.08	-0.75
GBP	0.50	0.59	1.03	1.99	EUR 10	0.73	0.14	-1.36
JPY	0.10	0.09	0.13	0.56	GBP 10	1.91	0.09	-0.18
CAD	0.50	1.17	0.67	1.86	JPY 10	0.39	0.04	-1.70

Overnight Futures		
	Last	Chge
Australia		
3 mth bill	97.93	0.00
3 Yr bond	98.22	-0.02
10 Yr bonc	97.34	-0.10
3/10 sprd	0.88	0.08
SPI	-49.0	-1.0

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	Time Period	NAB Forecast	Consensus	Actual	Previous	GMT	AEST
Wednesday, 26 August 2015								
NZ	Imports	Jul				4.29B	22.45	8.45
NZ	Exports	Jul				4.23B	22.45	8.45
NZ	Trade Balance	Jul	-785m	-600m		-60M	22.45	8.45
NZ	Trade Balance 12 Mth YTD	Jul				-2848M	22.45	8.45
JN	PPI Services YoY	Jul		0.4%		0.4%	23.50	9.50
AU	Construction Work Done	2Q	-1.7%			-2.4%	1.30	11.30
AU	Remarks by RBA Governor Glenn Stevens at a National Reform Summit							
CH	Westpac-MNI Consumer Sentiment	Aug				114.5	1.45	11.45
UK	BBA Loans for House Purchase	Jul				44488	8.30	18.30
US	MBA Mortgage Applications	Aug-21					11.00	21.00
US	Durable Goods Orders	Jul		-0.40%		3.4%	12.30	22.30
US	Durables Ex Transportation	Jul		0.20%		0.8%	12.30	22.30
US	Cap Goods Orders Nondef Ex Air	Jul		0.50%		0.9%	12.30	22.30
US	Cap Goods Ship Nondef Ex Air	Jul				-0.1%	12.30	22.30
US	Fed's Dudley speaks at Press Briefing on Local Economy						14.00	0.00
Thursday, 27 August 2015								
JN	Japan Buying Foreign Bonds and Stocks	Aug-21					23.50	9.50
AU	Private Capital Expenditure	2Q	-4.0%			-4.4%	1.30	11.30
EC	M3 Money Supply YoY	Jul				5.0%	8.00	18.00
EC	M3 3-month average	Jul				5.1%	8.00	18.00
US	GDP Annualized QoQ	2Q S		3.2%		2.3%	12.30	22.30
US	Personal Consumption	2Q S		3.1%		2.9%	12.30	22.30
US	GDP Price Index	2Q S		2.0%		2.0%	12.30	22.30
US	Core PCE QoQ	2Q S		1.8%		1.8%	12.30	22.30
US	Initial Jobless Claims	Aug-22					12.30	22.30
US	Continuing Claims	Aug-15					12.30	22.30
US	Bloomberg Consumer Comfort	Aug-23					13.45	23.45
US	Kansas City Fed Hosts Symposium in Jackson Hole, Wyoming							
GE	Retail Sales MoM	Jul		1.5%		-2.3%	42062.00	09/03
GE	Retail Sales YoY	Jul		1.5%		5.1%	42062.00	09/03
US	Pending Home Sales MoM	Jul		1.5%		-1.8%	14.00	0.00
US	Pending Home Sales NSA YoY	Jul		9.0%		11.1%	14.00	0.00
US	Kansas City Fed Manf. Activity	Aug				-7	15.00	1.00
Friday, 28 August 2015								
UK	GfK Consumer Confidence	Aug		4		4	23.05	9.05
JN	Jobless Rate	Jul		3.4%		3.4%	23.30	9.30
JN	Job-To-Applicant Ratio	Jul		1.19		1.19	23.30	9.30
JN	Overall Household Spending YoY	Jul		0.5%		-2.0%	23.30	9.30
JN	Natl CPI YoY	Jul		0.2%		0.4%	23.30	9.30
JN	Natl CPI Ex Fresh Food YoY	Jul		-0.2%		0.10%	23.30	9.30
JN	Natl CPI Ex Food, Energy YoY	Jul		0.6%		0.6%	23.30	9.30
JN	Retail Trade MoM/YoY	Jul		1.10%		0.9%	23.50	9.50
CH	Industrial Profits YoY	Jul				-0.3%	1.30	11.30
UK	Nationwide House Px NSA YoY	Aug		3.10%		3.50%	6.00	16.00
UK	GDP QoQ/YoY	2Q P		0.7%/2.6%		0.7%/2.6%	8.30	18.30
EC	Economic Confidence	Aug					9.00	19.00
GE	CPI MoM/YoY	Aug P		0.0%/0.2%		0.2%/0.2%	12.00	22.00
US	Personal Income	Jul					12.30	22.30
US	Personal Spending	Jul		0.4%		0.2%	12.30	22.30
US	PCE Deflator MoM/YoY	Jul		0.1%/0.3%		0.2%/0.3%	12.30	22.30
US	PCE Core MoM/YoY	Jul		0.1%/1.3%		0.1%/1.3%	12.30	22.30
CH	Leading Index	Jul						08/31
US	U. of Mich. Sentiment	Aug F		93.2		92.9	14.00	0.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		1-Sep	2.00%	2.00%		2.00%		
UK BOE		10-Sep				0.50%		
Japan, BoJ		15-Sep	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
Europe ECB		3-Sep				0.05%		
New Zealand, RBNZ		10-Sep	2.75%	2.75%		3.00%		
Canada, BoC		10-Sep				0.50%		
US Federal Reserve		18-Sep				0-0.25%		

GMT: Greenwich Mean Time; AEST: Australian Eastern Standard Time

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