

Markets Today

A daily outlook for Australia, key global economies and markets

1 October 2015

Recession, What Recession?

The US ADP employment report last night printed +200k, seemingly confirming that the US economy continues to create more than enough jobs each month to keep the unemployment rate trending down to – and through – the so-called NAIRU rate (below which further labour market strength risks accelerating inflation). ADP also confirms that in 2015 to date, the US manufacturing sector has seen net job losses, following 5 consecutive years of gains since 2009. Alongside, six of the regional Feds who produce monthly manufacturing sector surveys (New York, Philadelphia, Richmond, Kansas City, Dallas and Chicago) all report their respective manufacturing sector to be contracting – again for the first time since 2009.

Of course, the response from Fed officials and many private economists is that since manufacturing only represents about 12% of the US economy, it doesn't really matter and that policy is made for the entire economy which continues to pump out the aforementioned ~200k new jobs each month. But if US interest rates were not currently near zero, you'd seriously question why anything thinks the Fed would have its finger evenly remotely on the interest rates trigger at this juncture. At the same time, it's worth noting that manufacturing recession is more a global than US-centric phenomenon (Japan, China to name but two of the world's other big four economies) and looks to be more symptomatic of a deficiency in global demand than a strong dollar. But that doesn't make the case for higher interest rates any more compelling.

Fed speakers added nothing to the Fed policy debate overnight, Fed chair Yellen saying only that the economy had seen 'significant improvement' since the crisis. Thanks Janet. Other economic news of note last night included confirmation – after Tuesday's weaker German inflation data - that the Eurozone slipped back into deflation in September (-0.1%) albeit the core measure that now gets more prominence at the ECB, was steady at 0.9%. UK GDP was unrevised at 0.7% in Q2 through the year-on-year estimate was lowered to 2.4% from 2.6%.

For markets, month/quarter end flows look to have been the dominant influence across asset classes. This has allowed for a decent rally in global equities and where most indices are showing gains either side of 2% and additional demand for US Treasuries that sees 10-year yields closing out the month on their lows (2.03%). FX performance has been mixed. 4pm fixing-related flows look to have provided support for the JPY but net supply of EUR, GBP and AUD. On the latter, the IMF has just come out with its annual review of the Australian economy in which it flags risk of a hard landing for the housing market and argues the Australian dollar is 'still on the strong side' and 'may weaken further as the Fed removes stimulus'.

It says the RBA could ease further if growth rebound disappoints. This is all fully consistent with the IMF's current innate pessimism and broader warnings about risks to the EM world in general and commodity exporters in particular.

Coming Up

China begins its National Day holiday week today (markets are closed through next Thursday, as is Hong Kong today) but this isn't preventing the release of first the official China PMIs covering both manufacturing and services (11:00 AEST), the final Caixin manufacturing series and also the latter's sole services sole services and composite readings (all 11:45 AEST). The official manufacturing reading is expected unchanged at 49.7, and the Caixin version unchanged on the 47.0 'flash' estimate.

Weaker than expected official readings will likely add to market conviction that USD/CNY will be permitted to resume a firmer trend when Chinese markets return later next week. If so, that can in the interim put fresh downward pressure on EM and commodity currencies.

Also of interest during our time zone will be the Q3 Japanese Tankan survey, and which comes on the heels of yesterday's poor industrial production and retail sales prints. Rightly or wrongly (probably wrongly as far as October is concerned at least) a weak overall Tankan will add to thoughts of more BoJ policy easing and could therefore see the yen weaker.

The economic data action continues into Europe and the US sessions, with the UK manufacturing PMI (expected to show a small fall to 51.3 from 51.5) and the US ISM, the latter seen holding steady at 53.0.

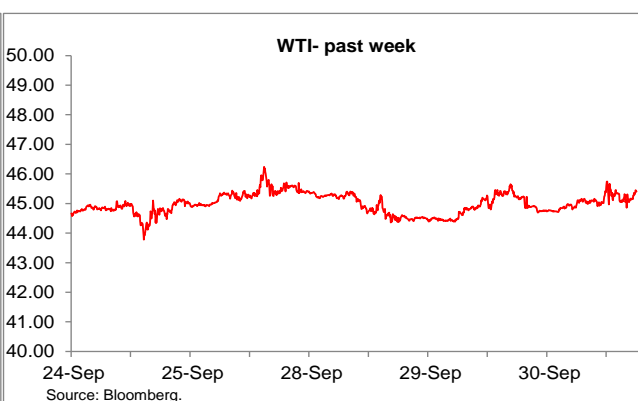
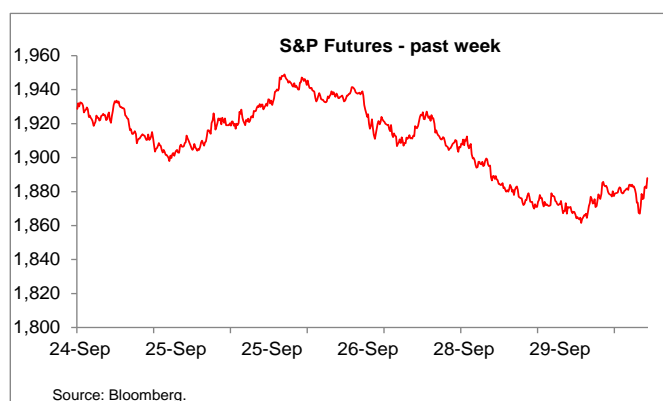
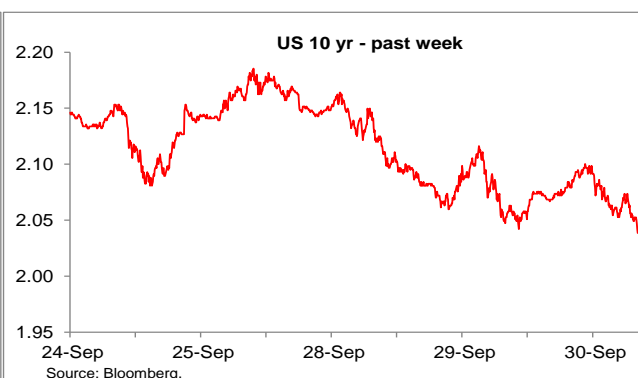
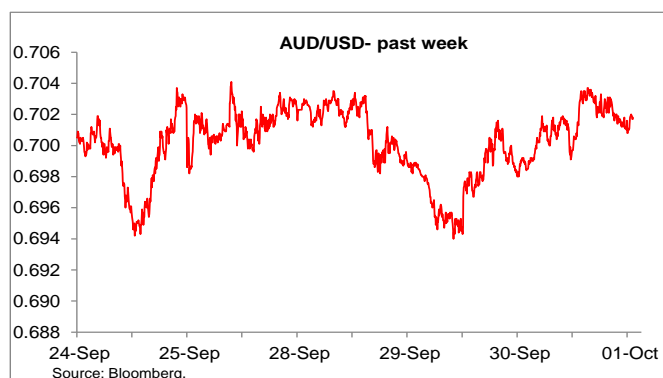
Fed speakers remain thick on the ground, with Lael Brainard scheduled for 10:15 AEST today and Williams and Lockhart tonight. If any of them talk directly about Fed policy, they are likely to be on message, i.e., that October and December are both 'live' for possible 'lift-off'.

Overnight

- On global stock markets, the S&P 500 was +1.90%. Bond markets saw US 10-years -1.23bp to 2.04%. On commodity markets, Brent crude oil +0.60% to \$48.52, gold -1.0% to \$1,116, iron ore +0.5% to \$56.32. AUD is at 0.7016 and the range was 0.6983 to 0.7038.
- US ADP employment 200k (190kE, 190kP)
- EZ CPI -0.1% (0.0%E, +0.1%P)
- UK final Q2 GDP 0.7% Q/Q (0.7%E, 0.7%P)
- UK final Q2 GDP 2.4% Y/Y (2.6%E, 2.6%P)
- Canada July GDP 0.3% M/M (0.2%E, 0.5%P)
- US Chicago PMI 48.7 (53.0E, 54.4 P)

Ray.atrill@nab.com.au

Markets



Foreign Exchange						Equities				Commodities*				
Indicative 24hr ranges (**)					Other FX		Major Indices				Last	% day		
	Last	% chge	Low	High		Last	% chge		Last	% day	% y/y			
AUD	0.7018	0.5	0.6983	0.7038	HKD	7.7501	0.0	Dow	16,285	+1.5	-4.4	Oil (Brent)	48.52	0.6
NZD	0.6397	0.8	0.6341	0.6407	CNY	6.3560	-0.1	S&P 500	1,920	+1.9	-2.7	Oil (WTI)	45.41	0.4
EUR	1.1176	-0.6	1.1157	1.1261	SGD	1.4233	-0.3	Nasdaq	4,620	+2.3	2.8	Oil (Tapis)	48.17	1.0
GBP	1.5120	-0.2	1.5108	1.5214	IDR	14,653	-0.3	FTSE	6,062	+2.6	-8.5	Gold	1115.50	-1.0
JPY	119.89	0.1	119.55	120.35	THB	36.36	-0.2	DAX	9,660	+2.2	2.0	CRB	193.76	0.1
CAD	1.3348	-0.6	1.3322	1.3431	KRW	1,185	-1.4	CAC 40	4,455	+0.4	0.9	GS Metals	269.3	2.6
AUD/EUR	0.6279	1.1			TWD	32.99	-0.4	Nikkei	17,388	+2.7	8.1	Aluminium	1577	1.0
AUD/JPY	84.13	0.6			PHP	46.73	-0.4	Shanghai	3,053	+0.5	29.1	Copper	5179	3.8
AUD/GBP	0.4641	0.7			CHF	0.97	0.2	Hang Seng	20,846	+1.4	-9.1	Nickel	10377	5.3
AUD/NZD	1.0966	-0.3			SEK	8.37	-0.2	ASX 200	5,022	+2.1	-5.9	Zinc	1681	2.0

Interest Rates								Overnight Futures			
Indicative Swap Rates					Benchmark 10 Year Bonds			Last	Chge		
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd			
USD	0.25	0.33	0.75	2.00	USD 10	2.04	-0.01		Australia		
AUD	2.00	2.18	1.95	2.88	AUD 10	2.61	0.02	0.57	3 mth bill	97.96	-0.01
NZD	2.75	2.86	2.72	3.53	NZD 10	3.30	0.02	1.26	3 Yr bond	98.21	-0.01
EUR	0.05	0.06	0.05	0.96	CAD 10	1.45	0.01	-0.59	10 Yr bonc	97.37	0.00
GBP	0.50	0.58	0.94	1.82	EUR 10	0.59	0.00	-1.45	3/10 sprd	0.84	-0.01
JPY	0.08	0.08	0.11	0.51	GBP 10	1.76	0.01	-0.28	SPI	3.0	0.1
CAD	0.50	1.17	0.80	1.87	JPY 10	0.36	0.02	-1.68			

CO ₂ Emissions - Euros		
	Last	% day
Jun-2015	8.18	2.1
Dec-2015	8.15	2.1
Dec-2016	8.23	2.2

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
Thursday, 1 October 2015								
NZ	QV House Prices YoY	Sep				11.3	23.00	9.00
AU	AiG Perf of Mfg Index	Sep				51.7	23.30	9.30
JN	Tankan Large Mfg Index	3Q		13		15	23.50	9.50
US	Fed's Brainard (v) speaks on Community Banking						0.00	10.00
AU	CoreLogic RP Data House Px MoM	Sep				0.3	0.00	10.00
NZ	ANZ Commodity prices, world prices MoM					-5.2	14.00	0.00
CH	Manufacturing PMI	Sep		49.7		49.7	1.00	11.00
CH	Non-manufacturing PMI	Sep				53.4	1.00	11.00
AU	NAB Online Retail Sales Index	Aug				-1.4/6.2	1.30	11.30
AU	Job vacancies	Aug				2.1	1.30	11.30
CH	Caixin China PMI Mfg	Sep F		47		47	1.45	11.45
CH	Caixin China PMI Services	Sep				51.5	1.45	11.45
JN	Nikkei Japan PMI Mfg	Sep F				50.9	1.35	11.35
AU	Commodity Index AUD/YoY	Sep				79.7/-20.9	6.30	16.30
GE	Markit/BME Germany Manufacturing PMI	Sep F		52.5		52.5	7.55	17.55
EC	Markit Eurozone Manufacturing PMI	Sep F		52		52	8.00	18.00
UK	Markit UK PMI Manufacturing SA	Sep		51.3		51.5	8.30	18.30
US	Challenger Job Cuts YoY	Sep				2.9	11.30	21.30
US	Initial Jobless Claims	Sep-26		271		267	12.30	22.30
CA	RBC Canadian Manufacturing PMI	Sep				49.4	13.30	23.30
US	Markit US Manufacturing PMI	Sep F		53		53	13.45	23.45
US	Construction Spending MoM	Aug		0.5		0.7	14.00	0.00
US	ISM Manufacturing	Sep		50.6		51.1	14.00	0.00
US	Wards Total Vehicle Sales	Sep		17.6		17.72	19.00	5.00
Friday, 2 October 2015								
US	Fed's Williams (nv) Speaks						18.30	4.30
JN	Jobless Rate	Aug		3.3		3.3	23.30	9.30
NZ	ANZ Commodity Price	Sep				-5.2	0.00	10.00
AU	Retail Sales MoM	Aug	0.3	0.4		-0.1	1.30	11.30
UK	Markit/CIPS UK Construction PMI	Sep		57.5		57.3	8.30	18.30
US	Change in Nonfarm Payrolls	Sep		200		173	12.30	22.30
US	Unemployment Rate	Sep		5.1		5.1	12.30	22.30
US	Average Hourly Earnings MoM/YoY	Sep		0.2		0.3/2.2	12.30	22.30
US	Factory Orders/ex transport	Aug		-1.2		0.4/-0.6	14.00	0.00
US	Fed's Fischer (v) addresses Boston Fed Conference on Monetary Policy						17.00	3.00
Monday, 5 October 2015								
AU	AiG PSI Services	Sep				55.6	22.30	9.30
AU	TD-MI CPI gauge MoM/YoY	Sep				0.1/1.7	23.30	10.30
AU	ANZ Job Advertisements MoM	Sep				1	0.30	11.30
JN	Nikkei Services/Composite PMIs	Sep				53.7/52.9	1.35	12.35
FR	Markit Services/Composite PMIs	Sep F				51.2/51.4	7.50	18.50
GE	Markit Services/Composite PMIs	Sep F				54.3/54.3	7.55	18.55
EZ	Markit Services/Composite PMIs	Sep F				54/53.9	8.00	19.00
EZ	Sentix Economic Indices Euro A	Oct				13.6	8.30	19.30
UK	Markit/CIPS Services/Composite PMIs	Sep				55.6/55.1	8.30	19.30
EZ	Retail sales MoM/YoY	Aug				0.4/2.7	9.00	20.00
US	Markit Services/Composite PMIs	Sep F				55.6/55.3	13.45	0.45
US	ISM Non-Manufacturing	Sep		58		59	14.00	1.00
US	Labour Market Conditions Index change	Sep				2.1	14.00	1.00
Tuesday, 6 October 2015								
NZ	NZIER Business Opinion Survey	3Q				5	21.00	8.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct 4				110.6	22.30	9.30
AU	Trade balance	Aug				-2460	0.30	11.30
AU	RBA cash rate target	Oct 6	2	2		2	3.30	14.30
GE	Manufacturing orders MoM/YoY	Aug				-1.4/-0.6	6.00	17.00
CA	Merchandise trade	Aug				-0.59	12.30	23.30
US	Trade balance	Aug		-41.65		-41.86	12.30	23.30
CA	Ivey Purchasing Managers Index	Sep				58	14.00	1.00
EC	ECB's Draghi Speaks in Frankfurt						0.00	4.00
US	Fed's Williams Gives Outlook Speech in San Francisco						0.00	8.30
Wednesday, 7 October 2015								
AU	AiG PCI Construction	Sep				53.8	22.30	9.30
AU	Australia Housing Industry Ass	Aug				-1.8	0.00	11.00
JN	Leading Index	Aug P				105	5.00	16.00
GE	Industrial production	Aug				0.7/0.5	6.00	17.00
GE	Germany Industrial Production	Aug				0.5	6.00	17.00
UK	Uk Industrial Production Mom S	Aug				-0.4/0.8	8.30	19.30
UK	Uk Industrial Production Yoy S	Aug				0.8	8.30	19.30
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA	6-Oct	2.00%	2.00%			2.00%		
Japan, BoJ	7-Oct	0.0%-0.1%	0.0%-0.1%			0.0%-0.1%		
UK BOE	8-Oct					0.50%		
Europe ECB	22-Oct					0.05%		
Canada, BoC	22-Oct					0.50%		
US Federal Reserve	29-Oct					0-0.25%		
New Zealand, RBNZ	29-Oct	2.50%	2.50%			2.75%		

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

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia

Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Emma Lawson
Senior Currency Strategist
+61 2 9237 8154

Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Rodrigo Catril
Interest Rate Strategist
+61 2 9293 7109

Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 2 9237 1076

Distribution

Barbara Leong
Research Production Manager
+61 2 9237 8151

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Kymberly Martin
Senior Market Strategist
+64 4 924 7654

Raiko Shareef
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

Asia

Christy Tan
Head of Markets Strategy/Research, Asia
+852 2822 5350

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+44 207 710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 1588

Derek Allassani
Research Production Manager
+44 207 710 1532

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

James Glenn
Senior Economist – Australia
+61 3 9208 8129

Vyanne Lai
Economist – Australia
+61 3 8634 0198

Phin Ziebell
Economist – Agribusiness
+61 475 940 662

Amy Li
Economist – Australia
+61 3 8634 1563

Dean Pearson
Head of Industry Analysis
+61 3 8634 2331

Robert De lure
Senior Economist – Industry Analysis
+61 3 8634 4611

Brien McDonald
Senior Economist – Industry Analysis
+61 3 8634 3837

Karla Bulauan
Economist – Industry Analysis
+61 3 8641 4028

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+61 3 9208 5049

Gerard Burg
Senior Economist – Asia
+61 3 8634 2788

John Sharma
Economist – Sovereign Risk
+61 3 8634 4514

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.