

Markets Today

A daily outlook for Australia, key global economies and markets

26 October 2015

Risk On, but AUD Off

Watching the tears streaming down the face of Pumas head coach Daniel Hourcade a couple of hours ago, 'Don't Cry For Me Argentine' was the obvious title for today's missive, but it's already looking a little overused in the Twitter-sphere. So, while next Tuesday sees the 'race that stops the nation' that is the Melbourne Cup, less than 72 hours beforehand, we'll have a sporting event that threatens to stop the whole of the southern hemisphere spinning on its axis.

As for Friday's markets, does China's latest monetary policy easing, right on top of the ECB's public commitment to intensified easing, reduce EM growth and asset market concerns to the point where the Fed will now find it easier to lift rates this year? Or are these actions a case of The ECB and China getting its retaliation in first upon resigning themselves to the limited likelihood of the Fed moving anytime soon? Or, does the sixth PBOC easing in twelve months, with another cocktail of rate cuts plus RRR cuts, underscore the depth of, and concern for, the China slowdown? Do China's actions increase or reduce the likelihood that its currency policy will soon have to resume supporting monetary policy with fresh depreciation?

It would be disingenuous to suggest we got a clear answer to any of these questions on Friday. Nowhere was this more evident than in the AUD FX market. The China news (25 points off the key lending and deposit rates, a 50 point RRR cut and full abolition of the deposit rates ceiling) initially added fuel to the uptrend in the AUD that had commenced late in the Australian session on Friday. It pushed AUD/USD up to 0.7295 from around 0.7260, only for the pair to collapse to a low of 0.7202 in the following 90 minutes. We closed at 0.7216, +0.11% over the whole of Friday. In explaining the move, some were quick to suggest that one of the next shoes to drop would be from the RBA, though the move looks to have been more a result of general USD strength post PBOC.

US dollar strength (DXY +0.69%, BBDXY +0.60%) was largely a function of EUR/USD weakness (-0.82% to 1.1018 and USD/JPY strength (+0.64% to ¥121.47). Clearly the ECB's and now China's actions are seen to have elevated prospects of the BoJ doing something next Friday. EM currencies didn't fare as badly as majors (e.g. the ADXY index for Asia EM only -0.19%) and which make the AUD's rapid fall from grace late Friday that much harder to comprehend. We'd also note that Friday's FX futures positioning data shows the speculative market saw net speculative short positions in AUD re-extend last week.

It was after another big up day for Eurozone equities (Eurostoxx 50 +2.17%) following Thursday's post-ECB press conference surge. The US S&P500 added 1.1% and the Dow 0.9%. NASDAQ outperformed, + 2.27% aided by some good tech. sector earnings reports.

Treasury yields were higher, on average by 5bps.

Markit PMIs for the US and Eurozone exceeded expectations. The US one unexpectedly rose to 54.0 from 53.1 and 52.7 expected). The Eurozone 'flash' composite reading of 54.0 (53.4E, 53.6P) was led by services (54.2 vs. 53.7P and 53.5E) with manufacturing flat at 52.0 (51.7E).

Saturday's local auction clearance data confirms the slowdown in activity in the Sydney market, with a preliminary clearance rate of 64.6%, up marginally on the prior week's final 63.7% and which was the lowest of the year. Melbourne cleared 69.8%, down from 72.7%, with the preliminary nationwide clearance rate at 66.6% (from 67.4%).

Coming Up

The week ahead should be dominated by the decisions and statements of the FOMC (Wednesday, so 5:00 AEDT Thursday for the statement), the RBNZ at 7:00 AEDT Thursday and (sometime Friday afternoon) the BoJ. It is really hard to predict with any confidence what the Fed will say or what the RBNZ and BoJ will do.

We have a marginal preference for an RBNZ cut and for the BoJ to sit on its hands for now, but will not be terribly surprised if the RBNZ stands pat and the BoJ announced a further step up in its easing programme. Locally, Q3 CPI comes on Wednesday's and is the week's data highlight. China official PMI data is due at midday on Sunday morning (with the Caixin version, for which there is no longer a 'flash' estimate, not due until next Monday).

Other than the FOMC, Q3 GDP is the other main US event, released Thursday night so a day after the Fed. Fed speakers will be hitting the wires then, as they come out of the pre FOMC cone of silence. Current consensus on GDP is 1.6%, though the Atlanta Fed's 'GDP Now' estimate is sitting at 0.9%, highlighting downside risks to the market consensus. New Home Sales are due tonight.

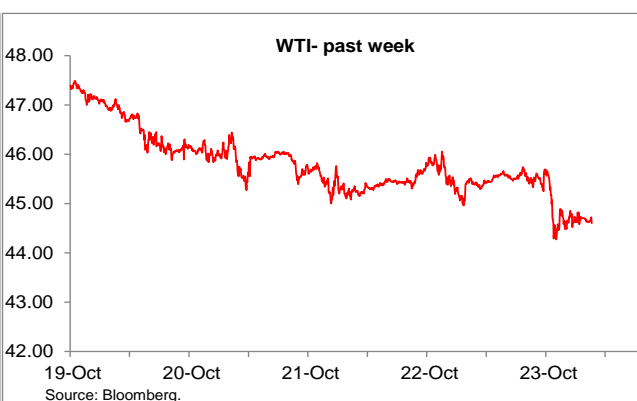
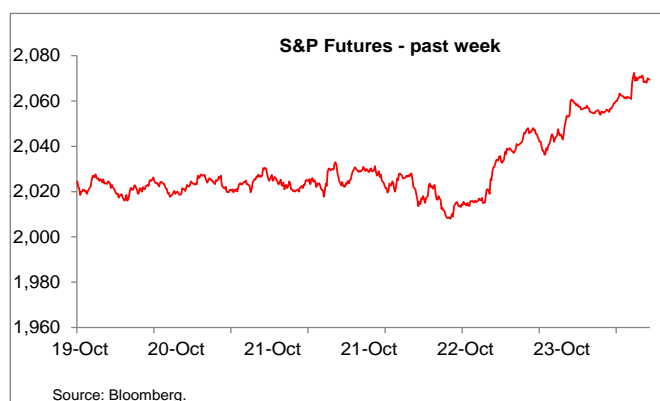
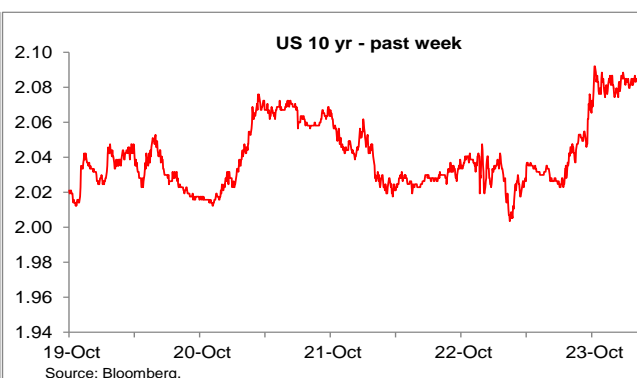
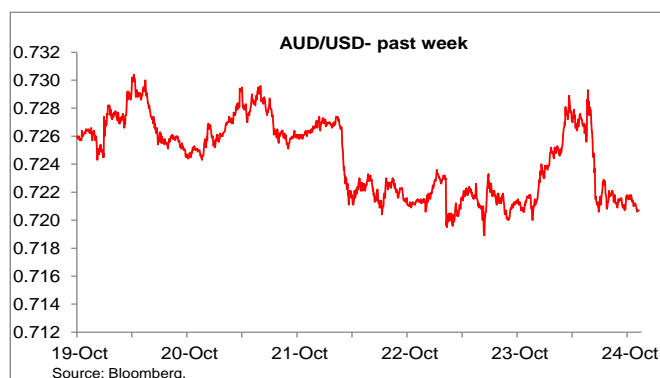
Japan has its slug of end-of month data which will all be available to the BoJ before it makes its policy decision. The Eurozone has the German Ifo business survey (tonight) and CPI, several ECB speakers, the EC's confidence surveys, EZ CPI and unemployment. UK GDP on Tuesday is the main interest there and where the consensus is +0.6%.

Overnight

- On global stock markets, the S&P 500 was +1.10%. Bond markets saw US 10-years +6.03bp to 2.09%. On commodity markets, Brent crude oil -0.19% to \$47.99, gold -0.3% to \$1,163, iron ore -1.1% to \$51.62. AUD is at 0.7208 and the range since Friday's local close has been was 0.7202 to 0.7297.

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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	0.7207	-0.1	0.7202	0.7225	HKD	7.7501	0.0	Dow	17,647	+0.9	5.0	Oil (Brent)	47.99	-0.2
NZD	0.6752	0.0	0.6728	0.6784	CNY	6.3506	-0.1	S&P 500	2,075	+1.1	5.6	Oil (WTI)	44.60	-1.7
EUR	1.0998	-0.2	1.0989	1.1015	SGD	1.3971	-0.1	Nasdaq	5,032	+2.3	12.2	Oil (Tapis)	47.03	-0.3
GBP	1.5310	0.0	1.5309	1.5317	IDR	13,621	-0.1	FTSE	6,444	+1.1	0.9	Gold	1163.30	-0.3
JPY	121.41	0.0	121.39	121.56	THB	35.56	-0.1	DAX	10,795	+2.9	20.1	CRB	193.71	-1.0
CAD	1.3164	0.0	1.3149	1.3201	KRW	1,125	-1.2	CAC 40	4,924	+0.3	19.2	GS Metals	267.0	-0.3
AUD/EUR	0.6554	0.0			TWD	32.38	-0.4	Nikkei	18,825	+2.1	23.1	Aluminium	1468	0.5
AUD/JPY	87.50	-0.2			PHP	46.48	-0.1	Shanghai	3,412	+1.3	48.2	Copper	5188	-1.1
AUD/GBP	0.4708	-0.1			CHF	0.98	0.0	Hang Seng	23,152	+1.3	-0.6	Nickel	10496	0.8
AUD/NZD	1.0676	-0.1			SEK	8.51	0.1	ASX 200	5,352	+1.7	-1.1	Zinc	1741	0.3
Interest Rates							Overnight Futures				Last % day			
											CO ₂ Emissions - Euros			
											Last % day			
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Indicative Swap Rates							Benchmark 10 Year Bonds							
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd		Last	Chge			
USD	0.25	0.32	0.76	2.04	USD 10	2.09	0.06		Australia					
AUD	2.00	2.16	1.96	2.94	AUD 10	2.61	-0.02	0.52	3 mth bill	97.97	-0.01	Jun-2015	8.66	1.8
NZD	2.75	2.88	2.74	3.51	NZD 10	3.31	-0.01	1.22	3 Yr bond	98.16	-0.05	Dec-2015	8.63	1.8
EUR	0.05	0.06	-0.02	0.90	CAD 10	1.51	0.05	-0.58	10 Yr bonc	97.31	-0.06	Dec-2016	8.70	1.8
GBP	0.50	0.58	0.94	1.88	EUR 10	0.51	0.02	-1.57	3/10 sprd	0.85	0.02			
JPY	0.10	0.08	0.10	0.49	GBP 10	1.86	0.06	-0.23	SPI	55.0	1.0			
CAD	0.50	1.17	0.81	1.92	JPY 10	0.30	-0.01	-1.78						

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	AEDT
Monday, 26 October 2015								
GE	IFO Business Climate	Oct		108		108.5	9.00	20.00
EC	ECB's Mersch speaks						10.45	21.45
UK	CBI Trends Total Orders	Oct		-8		-7	11.00	22.00
US	New Home Sales	Sep		545/-1.3		552/5.7	14.00	1.00
US	Dallas Fed Manf. Activity	Oct		-6		-9.5	14.30	1.30
Tuesday, 27 October 2015								
NZ	Trade Balance	Sep	-1214	-825		-1035	21.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct-25				113.3	22.30	9.30
CH	Industrial Profits YoY	Sep				-8.8	1.30	12.30
NZ	New residential building YoY	Sep				47.6	2.00	13.00
UK	GDP QoQ	3Q A		0.6/2.4		0.7/2.4	9.30	20.30
US	Durable Goods Orders	Sep		-1.2		-2	12.30	23.30
US	S&P/CS 20 City MoM/YoY SA	Aug		0.1/5.1		-0.2/4.96	13.00	0.00
US	Markit US Services PMI	Oct P		55.2		55.1	13.45	0.45
US	Consumer Confidence Index	Oct		102.4		103	14.00	1.00
US	Richmond Fed Manufact. Index	Oct		-3		-5	14.00	1.00
Wednesday, 28 October 2015								
EC	ECB's Coeure speaks						22.00	9.00
JN	Retail Sales MoM/YoY	Sep		1.1/0.5		0/0.8	23.50	10.50
JN	Large Retailers' Sales	Sep		1.35		1.8	23.50	10.50
AU	CPI QoQ/YoY	3Q	0.8/1.8	0.7/1.7		0.7/1.5	0.30	11.30
AU	CPI Trimmed Mean QoQ/YoY	3Q	0.5/2.4	0.5/2.4		0.6/2.2	0.30	11.30
AU	CPI Weighted Median QoQ/YoY	3Q	0.5/2.5	0.5/2.5		0.5/2.4	0.30	11.30
CH	Westpac-MNI Consumer Sentiment	Oct				118.2	1.45	12.45
JN	Small Business Confidence	Oct		49.2		49	5.00	16.00
GE	GfK Consumer Confidence	Nov		9.4		9.6	7.00	18.00
EC	ECB's Praet speaks						10.45	21.45
US	Advance trade balance, \$bn	Sep		-64.8		-67.187	12.30	23.30
EC	ECB's Constancio speaks						14.45	1.45
US	FOMC Rate Decision (Lower/Upper Bound)	Oct-28		0/0.25		0/0.25	18.00	5.00
Thursday, 29 October 2015								
NZ	RBNZ Official Cash Rate	Oct-29	2.5	2.75		2.75	20.00	7.00
JN	Industrial Production MoM/YoY	Sep P		-0.5/-2.7		-1.2/-0.4	23.50	10.50
AU	NAB Residential Property Survey	Q3					0.30	11.30
AU	NAB SME Business Survey	Q3					0.30	11.30
AU	Import/Export price index QoQ	3Q	1.1/0.0	1.5/0.6		1.4/-4.4	0.30	11.30
GE	Unemployment Change (000's)/ Rate	Oct		-5		2/6.4	8.55	19.55
EC	Business Climate Indicator	Oct				0.34	10.00	21.00
UK	CBI reported sales	Oct		35		49	11.00	22.00
US	GDP Annualized QoQ	3Q A		1.7		3.9	12.30	23.30
CA	Raw Materials Price Index MoM	Sep				-6.6	12.30	23.30
CA	Industrial Product Price MoM	Sep				-0.3	12.30	23.30
US	Initial Jobless Claims	Oct-24				259	12.30	23.30
GE	CPI MoM/YoY	Oct P		-0.1/0.2		-0.2/0	13.00	0.00
US	Fed's Lockhart delivers opening remarks at conference						13.10	0.10
US	Pending Home Sales MoM/YoY	Sep		1/7.2		-1.4/6.7	14.00	1.00
Friday, 30 October 2015								
NZ	Building Permits MoM	Sep				-4.9	21.45	8.45
JN	Jobless rate	Sep		3.4		3.4	23.30	10.30
JN	Overall Household Spending YoY	Sep		1.1		2.9	23.30	10.30
JN	Natl CPI YoY	Sep		0		0.2	23.30	10.30
NZ	ANZ Activity Outlook	Oct				16.7	0.00	11.00
UK	GfK Consumer Confidence	Oct		4		3	0.50	11.50
AU	Private Sector Credit MoM	Sep	0.5/6.3	0.5/6.3		0.6/6.3	0.30	11.30
AU	Annual National Accounts	2014-15					0.30	11.30
AU	PPI QoQ	Q3		/		0.3/1.1	0.30	11.30
NZ	Credit aggregates, Household YoY	Sep				6.3	2.00	13.00
JN	BOJ Annual Rise in Monetary Base, ¥tn			87.5		80	3.00	14.00
EC	Unemployment Rate	Sep		11		11	10.00	21.00
EC	CPI Estimate YoY	Oct		0.1		-0.1	10.00	21.00
EC	Ahead of August month GDP late in the week.	Oct A		1		0.9	10.00	21.00
US	Employment Cost Index	3Q		0.6		0.2	12.30	23.30
US	Personal Income/Spending	Sep		0.2/0.2		0.3/0.4	12.30	23.30
US	PCE Deflator MoM/YoY	Sep		-0.1/0.2		0/0.3	12.30	23.30
US	PCE Core MoM/YoY	Sep		0.2/1.4		0.1/1.300004	12.30	23.30
CA	GDP MoM/YoY	Aug		0.1/		0.3/0.8	12.30	23.30
US	Chicago Purchasing Manager	Oct		49.5		48.7	13.45	0.45
US	Fed's Williams speaks in Washington						14.00	1.00
US	U. of Mich. Sentiment	Oct F		92.5		92.1	14.00	1.00
US	Fed's George speaks on Federal Reserve Structure						15.25	2.25
Sunday, 1 November 2015								
CH	Manufacturing PMI	Oct				49.8	1.00	12.00
CH	Non-manufacturing PMI	Oct				53.4	1.00	12.00
Upcoming Central Bank Interest Rate Announcements								
US Federal Reserve	29-Oct					0-0.25%		
New Zealand, RBNZ	29-Oct	2.50%	2.50%			2.75%		
Japan, BoJ	30-Oct	0.0%-0.1%	0.0%-0.1%			0.0%-0.1%		
Australia, RBA	3-Nov	2.00%	2.00%			2.00%		
UK BOE	5-Nov					0.50%		
Europe ECB	3-Dec					0.05%		
Canada, BoC	3-Dec					0.50%		

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Saving Time

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