

September Song

Janet Yellen's appearance Friday morning appearance at Jackson Hole proved not to be the damp squib that many were expecting, though in truth much of the (sustained) reaction in FX and interest rate markets came not from her comments directly but follow up remarks by Fed vice-chair Stanley Fischer.

The Yellen remarks that initially caught the market's imagination were that "I believe the case for an increase in the federal funds rate has strengthened in recent months". The dollar jumped across the board and yields rose across the curve on this, but within 20 minutes yields were back below pre-speech levels, as was the dollar. It was only when Stanley Fischer spoke to CNBC an hour or so later that we got back to — then above — the levels seen on the initial knee-jerk reaction to Yellen, moves that then held into the New York close.

Asked whether Fed watchers should be looking for a move in September, and possibly for two hikes this year, Fischer replied "What the Fed chair (Yellen) said today was consistent with answering 'yes' to both of your questions". Atlanta Fed president Dennis Lockhart also weighed in, saying he saw two rate hikes as possible this year.

Why the retracement of knee-jerk moves on Yellen speech? One reason was her admission well down in the speech that "by some calculations, the real neutral rate is currently close to zero and it could remain at this low level if we were to continue to see slow productivity growth and high global savings. If so, then the average level of the nominal federal funds rate down the road might turn out to be only 2%". Later on though, she addressed the question of whether the Fed might consider adopting either a higher inflation target, a target for the price level or nominal GDP targeting, saying that the Fed 'is not actively considering' this, while adding it is an important subject for research.

In rates, the biggest move was seen in the 5yr part of the treasury curve, +7.6bps to 1.237%. 2s added 5.3bps to 0.844% and 10s +5.6bps to 1.63%. The implied probability of a September move from the Fed increased to 42% from 33% and for one 25 point move by December to 76% from 68%.

US stocks lost about a percent in the few hours after Yellen started speaking (having opened higher) before recovering somewhat into the NY close. The S&P500 ended 0.16% lower on the day at 2,169. Tellingly though, the VIX hardly changed, finishing +0.02 at 13.65, implying no marked deterioration in risk sentiment on the heightened prospect of higher US rates this year.

In FX, both the DXY and broader BBDXY dollar indices finished the 24-hour day +0.81%. The biggest G10 mover was USD/JPY, 1.3% higher to Y101.84 (its highest level in two weeks). The AUD ended mid-pack, -0.71% at 0.7564 and its lowest level since August 2 (the day of the RBA's last rate cut). NZD lost slightly more, -0.9% to 0.7236.

Commodities in general didn't suffer much in the hands of dollar strength, though iron ore did - probably because of late it has been the biggest gainer - down \$2.30 to \$59.13 for the 62% fines China import price.

Coming Up

If Jackson Hole was the pretext for last week's market inertia, then beyond the initial absorption of Friday's Fed messaging by the Asia Pacific market, the proximity to the next set of US employment figures this Friday threatens to provide the excuse for a lack of activity this week. The Fed's ongoing data dependency was the message from Yellen on Friday alongside the suggestion that the case for a rise in the fed funds rate had strengthened, and there is no more data on which we all depend than the monthly US employment ritual.

The peak UK summer holiday week (including today's bank holiday) also adds to the inertia risk, though the there is plenty going on data and events wise to hold at least some market interest.

Internationally and ahead of payrolls, the US data highlights should be the latest inflation figures (the Fed's preferred PCE deflators) on Monday and the manufacturing ISM survey on Thursday.

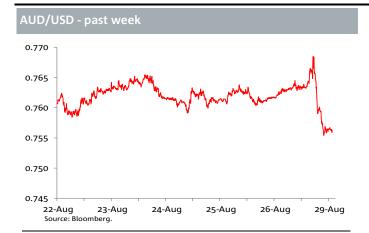
China is also back in the spotlight with official manufacturing and non-manufacturing PMIs, together with the Caixin version of manufacturing, all on Thursday. Japan has unemployment, household spending and retail sales Tuesday, and industrial production on Wednesday. Canada has Q2 GDP on Wednesday and is expected to show growth went negative (-1.5% saar).

Locally, we are heading towards the Q2 GDP figures (and RBA meeting) next week, with building approvals on Tuesday and both Q2 capex and retail sales on Thursday.

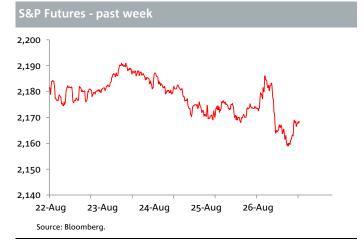
Overnight

On global stock markets, the S&P 500 was -0.29%. Bond markets saw US 10-years +5.65bp to 1.63%. In commodities, Brent crude oil +1.77% to \$49.92, gold-0.2% to \$1,322, iron ore -4.2% to \$59.13. AUD is at 0.7563 and the range since Friday 5pm Sydney time is 0.7554 to 0.7685.

Markets







48.50				
48.00	M			
47.50	1 N	myand	M	~~~ N/M
47.00	'H_\\\	νγ	my hours	M
46.50 -	V W	July.	M	
46.00 -				
45.50				
22-Aug	23-Aug	24-Aug	25-Aug	26-Aug

Foreign Exchange								
Indicative 24hr ranges (**)							Other FX	(
	Last	% chge	Low High				Last	% chge
AUD	0.7563	-0.7	0.7551	0.7692	Н	IKD	7.7566	0.0
NZD	0.7227	-1.0	0.7221	0.7380	C	NY	6.6695	0.2
EUR	1.1179	-0.9	1.1176	1.1341	S	GD	1.3589	0.4
GBP	1.3113	-0.6	1.3108	1.3279	11	OR	13,212	-0.3
JPY	102.09	1.6	100.06	102.09	Т	НВ	34.67	0.1
CAD	1.2993	0.5	1.2832	1.3012	K	RW	1,114	-0.7
AUD/EUR	0.6756	-0.1	0.6742	0.6804	Т	WD	31.68	-0.3
AUD/JPY	77.02	0.7	76.56	77.21	Р	HP	46.36	-0.3
AUD/GBP	0.5757	0.0	0.5746	0.5810	C	HF	0.98	1.2
AUD/NZD	1.0450	0.4	1.0414	1.0471	S	EK	8.49	1.0
AUD/CNH	5.1005	0.7	5.0560	5.1323				

AUD/NZD	1.0450	0.4	1.0414	1.0471	SEK	8.49	1.0	
AUD/CNH	5.1005	0.7	5.0560	5.1323				
			Inte	rest Rate	S			
	Indicati	ve Swap	Rates		Benc	hmark :	LO Year E	Bonds
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	0.50	0.83	1.07	1.49	USD 10	1.63	6.85	
AUD	1.50	1.73	1.65	2.12	AUD 10	1.85	1.20	0.22
NZD	2.00	2.24	1.97	2.40	NZD 10	2.27	0.90	0.64
EUR	0.00	-0.30	-0.20	0.30	CAD 10	1.09	5.20	-0.54
GBP	0.25	0.39	0.45	0.73	EUR 10	-0.07	1.70	-1.70
JPY	-0.02	-0.02	-0.06	0.08	GBP 10	0.56	1.10	-1.07

Major Indices								
	Last	% day	% y/y					
Dow	18,395	-0.5	10.5					
S&P 500	2,169	-0.3	9.1					
Nasdaq	5,219	0.0	8.1					
VIX	14	1.5	-47.6					
FTSE	6,838	0.0	9.4					
DAX	10,588	-0.3	2.8					
CAC 40	4,442	0.1	-5.0					
Nikkei	16,361	-1.4	-14.5					
Shanghai	3,070	-0.5	-5.0					
Hang Seng	22,910	0.4	6.0					
ASX 200	5,515	-0.8	4.8					

Overnight Futures						
	Last	Chge*				
Australia						
3 mth bill	98.25	0.00				
3 Yr bond	97.8	1.00				
10 Yr bond	98.08	-7.00				
3/10 sprd	-0.28	8.00				
SPI	5482.0	61.0				
*Change in bps						

Commodities*						
	Last	% day				
	LdSt	70 uay				
Oil (Brent)	49.92	1.8				
Oil (WTI)	47.64	1.9				
Oil (Tapis)	49.04	0.0				
Gold	1321.50	-0.2				
CRB	186.11	0.2				
GS Metals	271.2	-0.1				
Aluminium	1632.5	-0.3				
Copper	4604.0	-0.4				
Nickel	9772.3	-1.9				
Zinc	2312.5	1.7				
Ch. steel	2452.0	-5.5				
Iron ore	59.1	-4.2				
Coal	67.2	1.0				
Wheat Chic.	407.5	-4.4				
Sugar	20.6	1.9				
Cotton	67.7	0.4				
Coffee	144.9	1.2				
CO ₂ Emission	ns - Euros					
	Last	% day				
Dec-2016	4.71	2.2				
Jun-2017	4.73	2.2				
Dec-2017 * clsd = market	4.73 holiday	-0.2				

 $Please\ note\ the\ high/low\ FX\ rates\ are\ only\ an\ indication.\ Please\ refer\ to\ your\ National\ Dealer\ for\ confirmation.$

JPY 10

-0.20 -1.70

-0.07

1.29

Last is around 6:30am Sydney

0.50

0.89

0.95

Source: Bloomberg

CAD

^{*} 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

Calendar

	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, <i>UK</i>	29 August 2016 Nationwide House PX MoM/YoY	Aug		-0.2		0.5/5.2	29 Aug-4	бер
AU	HIA New Home Sales MoM	Jul				-1.8	1.00	11.00
US	Personal Income/Spending	Jul		0.4/0.3		0.2/0.4	12.30	22.30
US US	Real Personal Spending PCE Deflator MoM/YoY	Jul Jul		0.2		0.3 0.1/0.9	12.30 12.30	22.30 22.30
US	PCE Core MoM/YoY	Jul		0.1/1.5		0.1/1.6	12.30	22.30
CA	Bloomberg Nanos Confidence	Aug 26				59.9	14.00	0.00
US	Dallas Fed Manf. Activity 30 August 2016	Aug		-3.9		-1.3	14.30	0.30
NZ	Building Permits MoM	Jul				16.3	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Aug 28				121.8	23.30	9.30
JN	Jobless Rate/Jobs-to-applicants ratio	Jul		3.1/1.38		3.1/1.4	23.30	9.30
JN JN	Overall Household Spending YoY Retail Sales MoM/YoY	Jul Jul		-1.4 0.8		-2.2 0.2/-1.4	23.30 23.50	9.30 9.50
AU	Building Approvals MoM	Jul	-2.0/-11.0	1.1/-8.3		-2.9/-5.9	1.30	11.30
AU	NAB Online Retail Sales Index MoM/YoY	Jul				0.8/13.5	1.30	11.30
UK EC	Mortgage Approvals Business Climate Indicator	Jul Aug		61.9 0.36		64.8 0.4	8.30 9.00	18.30 19.00
GE	CPI EU Harmonized MoM	Aug P		0.1		0.4	12.00	22.00
CA	Current Account Balance	2Q		-20.35		-16.8	12.30	22.30
CA	Industrial Product Price MoM	Jul		-0.5		0.6	12.30	22.30
US US	S&P CoreLogic CS 20-City MoM/YoY Consumer Confidence Index	Jun Aug		-0.1/5.1 97		-0.1/5.2 97.3	13.00 14.00	23.00 0.00
	ay, 31 August 2016	, lug		3,		37-3		
UK	Lloyds Business Barometer	Aug		•		29.0	23.10	9.10
UK JN	GfK Consumer Confidence Industrial Production MoM	Aug Jul P		-8 0.7		-12.0 2.3	23.50 23.50	9.50 9.50
NZ	ANZ Activity Outlook/Business Confidence	Aug		5.,		31.4/16.0	1.00	11.00
AU	RBA's Debelle Gives Speech at FX Week Asia, Singapore	_				- "	1.00	11.00
AU CH	Private Sector Credit MoM Westpac-MNI Consumer Sentiment	Jul Aug	0.4/6.1	0.4/6.1		0.2/6.2 114.0	1.30 1.45	11.30 11.45
NZ NZ	Credit aggregates, household YoY	Aug Jul				8.3	1.45 3.00	13.00
JN	Small Business Confidence	Aug				47.8	5.00	15.00
US	Fed's Rosengren speaking in Beijing	A				7.0	7.15	17.15
GE EC	Unemployment Change (000's) Unemployment Rate	Aug Jul		-4 10		-7.0 10.1	7.55 9.00	17.55 19.00
EC	CPI Estimate YoY/Core YoY	Aug		0.3/0.9		0.2/0.9	9.00	19.00
US	Fed's Kashkari Speaks on Fed Structure in St. Paul						12.00	22.00
US CA	ADP Employment Change GDP MoM/YoY	Aug Jun		175 0.4/1		179.0 -0.6/1.0	12.15 12.30	22.15 22.30
CA	Quarterly GDP Annualized	2Q		-1.5		2.4	12.30	22.30
EC	ECB's Vileroy speaks in Frankfurt						12.45	22.45
US	Chicago Purchasing Manager	Aug		54.5		55.8	13.45	23.45
US Thursday	Pending Home Sales MoM/YoY , 1 September 2016	Jul		0.7/2.2		0.2/0.3	14.00	0.00
NZ	Terms of Trade Index QoQ	2Q	0.8	-1.5		4.4	22.45	8.45
AU	AiG Perf of Mfg Index	Aug				56.4	23.30	9.30
JN JN	Capital Spending Ex Software Company Profits/Sales	2Q 2Q				4.3 -9.3/-3.3	23.50 23.50	9.50 9.50
AU	CoreLogic House Px MoM	Aug	0.6			0.5	0.00	10.00
CH	Manufacturing/Non-manufacturing PMI	Aug		49.9/		49.9/53.9	1.00	11.00
AU	Private Capital Expenditure Private Capex, 3rd estimate 2016-17, \$Abn	2Q	-8.0 97.6	-4.1 97.0		-5.2 89.2	1.30 1.30	11.30 11.30
AU	Retail Sales MoM	Jul	0.0	0.3		0.1	1.30	11.30
CH	Caixin China PMI Mfg	Aug		50.1		50.6	1.45	11.45
JN AU	Nikkei Japan PMI Mfg Commodity Index AUD/YoY	Aug F				49.6	0.30 6.30	10.30
GE	Markit/BME Germany Manufacturing PMI	Aug Aug F		53.6		90.5/-2.0 53.6	7.55	16.30 17.55
EC	Markit Eurozone Manufacturing PMI	Aug F		51.8		51.8	8.00	18.00
UK	Markit UK PMI Manufacturing SA	Aug		49		48.2 -E7.1	8.30	18.30
US US	Challenger Job Cuts YoY Nonfarm Productivity/Unit labour costs	Aug 2Q F		-0.6/2.1		-57.1 -0.5/2.0	11.30 12.30	21.30 22.30
US	Initial Jobless Claims	Aug 27		265		261	12.30	22.30
CA	RBC Canadian Manufacturing PMI	Aug				51.9	13.30	23.30
US US	Markit US Manufacturing PMI Wards Total Vehicle Sales	Aug F Aug		52.1 17.2		52.1 17.8	13.45	23.45
US	Construction Spending MoM	Jul		0.5		-0.6	14.00	0.00
US	ISM Manufacturing	Aug		52		52.6	14.00	0.00
EC US	ECB's Nowotny speaks in Austria Fed's Mester speaks to Kentucky Philanthropy Initiative						16.00 16.25	2.00 2.25
	September 2016						10.25	ر ع.۔۔
NZ	Value of All Buildings SA QoQ	2Q	1.0	2		5.3	22.45	8.45
JN UK	Consumer Confidence Index Markit/CIPS UK Construction PMI	Aug		41.5 46.5		41.3 45.0	5.00 8.30	15.00 18.30
US	Trade Balance	Aug Jul		46.5 -42		45.9 -44.5	8.30 12.30	22.30
CA	Labor Productivity QoQ	2Q		-0.4		0.4	12.30	22.30
CA	Int'l Merchandise Trade Change in Nonfarm Payrolls (Unemployment rate)	Jul		-3.2 180/4 8		-3.6	12.30 12.30	22.30
US US	Change in Nonfarm Payrolls/Unemployment rate Average Hourly Earnings MoM/YoY	Aug Aug		180/4.8 0.2/2.5		255.0/4.9 0.3/2.6	12.30	22.30 22.30
US	ISM New York	Aug				60.7	13.45	23.45
US	Factory Orders	Jul		2		-1.5	14.00	0.00
US US	Cap Goods Orders Nondef Ex Air (revised) Fed's Lacker speaks on Interest Rate Benchmarks in Richi	Jul F mond				1.6	14.00 17.00	0.00 3.00
	ng Central Bank Interest Rate Announcements						2,.30	J.00
Canada, I	-	7-Sep				0.50%		
Australia	, RBA	6-Sep	1.50%			1.50%		
Europe E	CB	8-Sep				0.00%		
UK BOE Japan, Bo	J	15-Sep 21-Sep				0.25% -0.1% to +0.1%		
	al Reserve	21-3ep 22-Sep				0.25-0.50%		
	and, RBNZ	22-Sep	2.00%	2.00%		2.00%		
GMT: Gre	enwich Mean Time; AEST: Australian Eastern Standard Ti	me						

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