

## September Song

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Janet Yellen's appearance Friday morning 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 ¥101.84 (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

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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 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

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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.

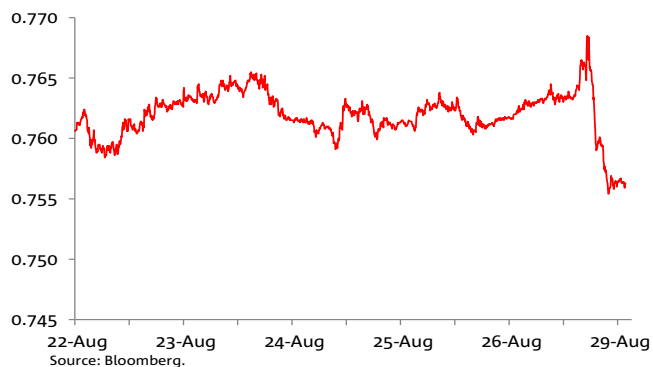
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### Author:

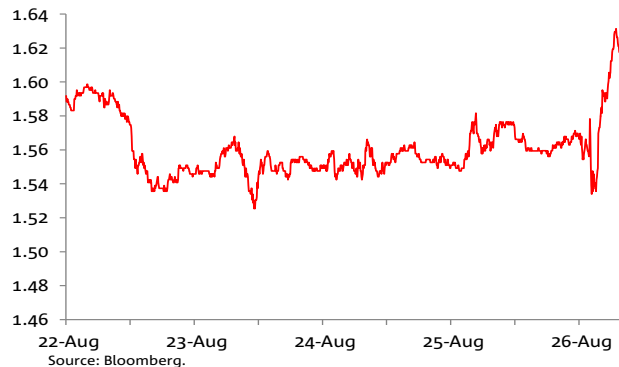
Ray Attrill – Co-head of FX Strategy

## Markets

### AUD/USD - past week



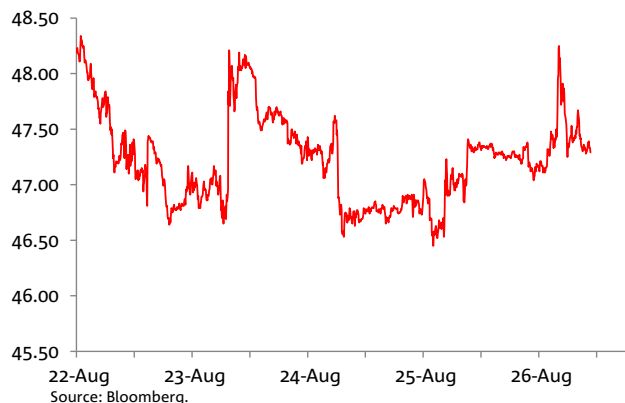
### US 10 yr - past week



### S&P Futures - past week



### WTI - past week



### Foreign Exchange

|         | Indicative 24hr ranges (**) |        |        |        | Other FX |             |
|---------|-----------------------------|--------|--------|--------|----------|-------------|
|         | Last                        | % chge | Low    | High   | Last     | % chge      |
| AUD     | 0.7563                      | -0.7   | 0.7551 | 0.7692 | HKD      | 7.7566 0.0  |
| NZD     | 0.7227                      | -1.0   | 0.7221 | 0.7380 | CNY      | 6.6695 0.2  |
| EUR     | 1.1179                      | -0.9   | 1.1176 | 1.1341 | SGD      | 1.3589 0.4  |
| GBP     | 1.3113                      | -0.6   | 1.3108 | 1.3279 | IDR      | 13,212 -0.3 |
| JPY     | 102.09                      | 1.6    | 100.06 | 102.09 | THB      | 34.67 0.1   |
| CAD     | 1.2993                      | 0.5    | 1.2832 | 1.3012 | KRW      | 1,114 -0.7  |
| AUD/EUR | 0.6756                      | -0.1   | 0.6742 | 0.6804 | TWD      | 31.68 -0.3  |
| AUD/JPY | 77.02                       | 0.7    | 76.56  | 77.21  | PHP      | 46.36 -0.3  |
| AUD/GBP | 0.5757                      | 0.0    | 0.5746 | 0.5810 | CHF      | 0.98 1.2    |
| 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 |          |             |

### Interest Rates

|     | Indicative Swap Rates |       |       |      | Benchmark 10 Year 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  |
| CAD | 0.50                  | 0.89  | 0.95  | 1.29 | JPY 10                  | -0.07 | -0.20 -1.70 |

### Equities

#### 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* |
|------------------|--------|-------|
| <b>Australia</b> |        |       |
| 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 |
|-------------|---------|-------|
| 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<sub>2</sub> Emissions - Euros

|          | Last | % day |
|----------|------|-------|
| Dec-2016 | 4.71 | 2.2   |
| Jun-2017 | 4.73 | 2.2   |
| Dec-2017 | 4.73 | -0.2  |

\* clsd = market holiday

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



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