

MARKETS TODAY

Break Me Shake Me



Good morning

The USD rally ground to a halt overnight amid continued US political machinations and uncertainty over the trajectory for inflation in the latest FOMC Minutes. It's no surprise then to see the USD (DXY) -0.4% across the board and US Treasury Yields down 4.0bps to 2.23%. The key for markets will be whether the Minutes represent a genuine "Break Me Shake Me" moment for the Fed's dotpoints (title courtesy of Australia's own Savage Garden)– or whether the Fed remains committed to its rate hike trajectory. The market currently only prices a 36% probability of a December Fed rate hike and only 1.3 hikes are priced by the end of 2018 compared to the Fed's dotpoints of 4.

On the Minutes, while "most" FOMC members still expect inflation to pick up over the next couple of years, "many" still see some likelihood that inflation might remain below 2% for longer than they currently expect and "several" indicate that the risks could be tilted to the downside. It's clear from this that the FOMC is split on the trajectory for near term inflation and that the fed will be monitoring inflation developments "closely".

While there is uncertainty around inflation, there was more consensus on the labour market which was assessed to be "close or below" its longer-run normal rate. In such a situation "a few" expressed concerns of the possibility of overshooting full employment. On the balance sheet, members noted that an announcement it could happen "relatively soon" and the Fed's own survey notes the market expects a September announcement.

As for politics, President Trump disbanded two of his economic councils following resignations from a number of CEOs (eight in the past week!). The disbanding of the councils comes as a surprise given the initial fanfare when they were created and marketing as helping to advance his manufacturing and infrastructure agenda. For the market, it's another reason why Trump's policy agenda is going nowhere fast soon – a point also made in the Fed Minutes where several participants noted uncertainty was tending to weight down firms' spending and hiring plans.

In FX, there was broad US dollar weakness (DXY -0.4%). Topping the leaderboard were the commodity currencies with the Aussie +1.4%, Kiwi 1.1% and CAD +1.0%. The strength in the commodity currencies is partly a story of US dollar weakness, as well as from strength in industrial metal prices. The AUD currently sits at 0.7930 and whether it approaches 0.80 will likely hinge on today's Employment report (see below for details).

Zinc rose 5.5% to be above \$3,000 a tonne for the first time in almost a decade and Aluminium is approaching a three year high. Supporting commodities in recent days has been strong Chinese steel production, weakness in the US dollar and reports that China is acting to shut down illegal aluminium and steel plants to cut pollution

levels and excess capacity. Zinc has benefited also from Glencore suspending some output in early 2017.

The other currency move worth noting is the Euro. While it is up 0.3% overnight, it initially traded lower by 0.4% on reports that Draghi would not deliver a new policy message at the Jackson Hole conference and will instead focus on the theme for the conference which is "Fostering a Dynamic Global Economy".

The other major was in oil with the WTI oil price sliding 1.5% to \$46.86 a barrel. IEA data revealed US crude production had hit its highest level since July 2015 at 9.5m, evidence that US shale oil producers continue to ramp up production and presenting a challenge to the OPEC's oil production ceiling. Libya also noted it had increased production at its Sharara oil field.

Coming Up

All focus domestically will be on this morning's Employment/Unemployment figures (11.30am AEST). It's a statistical lottery at the best of times and the market looks for employment growth of +20k and an unchanged unemployment rate at 5.6%. NAB thinks upside there is likely upside risk to the consensus given strong forward indicators to date (rising job ads and a strong NAB Business Survey) along with the possibility of an upward tilt from sample rotation. NAB accordingly forecasts employment of +25k m/m with still upside risk and a fall in the unemployment rate to 5.5%.

Your scribe will be watching the unemployment rate closely – the pace at which Australia approaches full employment (estimated by the RBA to be consistent with a 5% unemployment rate) will be a key driver in determining when the RBA begins to remove policy accommodation.

International focus will be on the ECB Minutes. Markets will be looking at any discussion around the Asset Purchase Program given the language was unchanged in the post-meeting statement despite the previous Minutes noting this item is being discussed (will it be modified in September and when will it begin?). Any hints of worry around the ongoing surge in the Euro will also be observed. Other Eurozone data includes the Trade Balance and the final version of CPI (currently 1.3% y/y for headline).

US data is mostly second-tier but worth watching with Initial Jobless Claims, Philly Fed (will this pick up too after the Empire?) and Industrial Production. Across the Ditch NZ has the ANZ Consumer Confidence report.

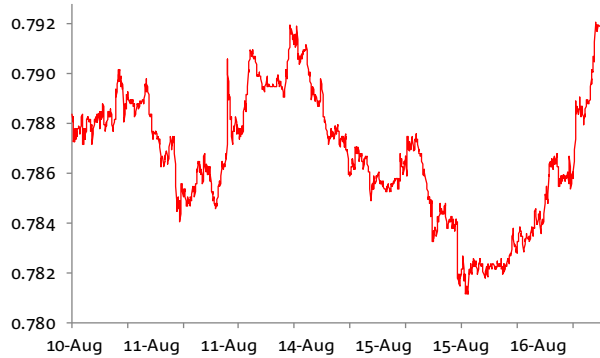
Overnight

On global stock markets, the S&P 500 was +0.14%. Bond markets saw US 10-years -4.91bp to 2.22%. In commodities, Brent crude oil -0.91% to \$50.34, gold+0.6% to \$1,282, iron ore -1.0% to \$72.97, steam coal +2.6% to \$97.45, met. coal +0.0% to \$193.50. AUD is at

0.7928 and the range since yesterday 5pm Sydney time is 0.7808 to 0.7934.

Markets

AUD/USD - past week



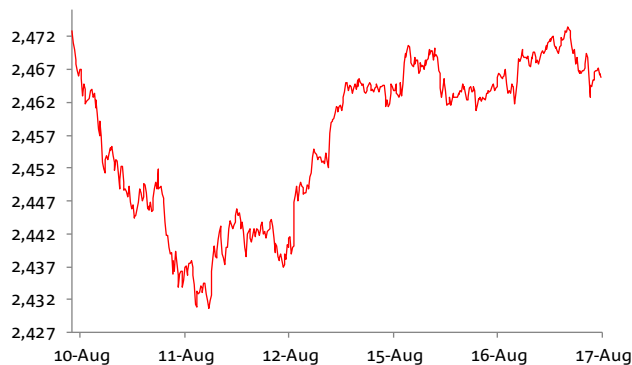
Source: Bloomberg.

US 10yr - past week



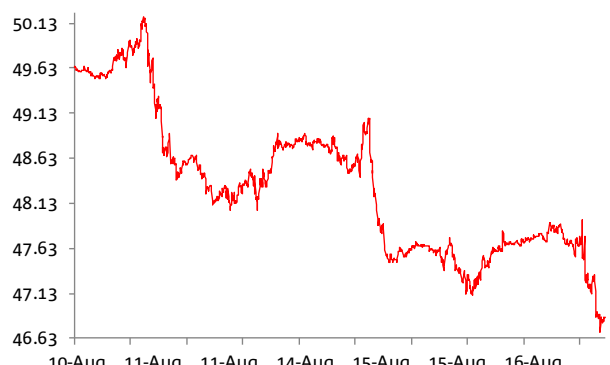
Source: Bloomberg.

S&P Future - past week



Source: Bloomberg.

WTI - past week



Source: Bloomberg.

Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7928	1.4	0.7808	0.7934	HKD	7.8216 0.0
NZD	0.7312	1.1	0.7224	0.7318	CNY	6.6916 0.1
EUR	1.1767	0.3	1.1682	1.1793	SGD	1.3623 -0.3
GBP	1.2891	0.2	1.2842	1.2970	IDR	13,377 0.1
JPY	110.20	-0.4	109.61	110.95	THB	33.26 -0.1
CAD	1.2620	-1.1	1.2614	1.2778	KRW	1,142 0.6
AUD/EUR	0.6737	1.1	0.6660	0.6745	TWD	30.36 0.2
AUD/JPY	87.36	0.9	86.05	87.47	PHP	51.38 0.0
AUD/GBP	0.6150	1.2	0.6042	0.6156	CHF	0.97 -0.7
AUD/NZD	1.0841	0.3	1.0748	1.0868	SEK	8.08 0.0
AUD/CNH	5.2758	0.9	5.2301	5.2686		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.31	1.59	2.18	USD 10	2.22	-4.91
AUD	1.50	1.69	1.92	2.81	AUD 10	2.66	1.50 0.44
NZD	1.75	1.97	2.17	3.16	NZD 10	2.87	-2.40 0.65
EUR	0.00	-0.33	-0.17	0.84	CAD 10	1.87	-3.50 -0.35
GBP	0.25	0.28	0.56	1.17	EUR 10	0.45	1.20 -1.78
JPY	-0.03	-0.03	0.02	0.23	GBP 10	1.11	2.10 -1.12
CAD	0.75	1.30	1.57	2.16	JPY 10	0.04	-0.80 -2.18

Equities

Major Indices			
	Last	% day	% y/y
Dow	22,025	0.12	18.7
S&P 500	2,468	0.14	13.3
Nasdaq	6,345	0.19	21.4
VIX	11.74	-2.49	-7.1
FTSE	7,433	0.7	7.8
DAX	12,264	0.7	14.9
CAC 40	5,177	0.7	16.1
Nikkei	19,729	-0.1	17.8
Shanghai	3,246	-0.1	4.4
Hang Seng	27,409	0.9	20.2
ASX 200	5,785	0.5	4.5

Commodities*

	Last	% day
Oil (Brent)	50.34	-0.9
Oil (WTI)	46.80	-1.6
Oil (Tapis)	51.16	1.2
Gold	1281.50	0.6
CRB	175.36	-0.5
GS Metals	361.3	3.1
Aluminium	2084.0	2.2
Copper	6512.5	2.4
Nickel	10722.0	4.0
Zinc	3118.5	5.5
Ch. steel	3783.0	1.0
Iron ore	73.0	-1.0
St. Coal	97.5	2.6
Met.coal	193.5	0.0
Wheat Chic.	447.0	-2.0
Sugar	12.9	-1.4
Cotton	67.6	-0.2
Coffee	134.5	-0.8

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.28	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.36	-1.50
3/10 sprd	0.44	4.50
SPI	5765.0	-61.0

*Change in bps

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-0.2	-1.0%
FED	#N/A	#N/A

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
Wednesday, 16 August 2017								
AU	Westpac Leading Index MoM	Jul				-0.1	1.30	10.30
AU	Wage Price Index QoQ/YoY	2Q		0.5/1.9		0.5/1.9	2.30	11.30
NZ	Non Resident Bond Holdings	Jul				61.5	4.00	13.00
UK	Jobless Claims Change/Average Weekly earnings 3M YoY	Jul		/1.8		5.9/1.8	9.30	18.30
UK	ILO Unemployment Rate/Employment 3Mths	Jun		4.5/97		4.5/175.0	9.30	18.30
EC	GDP SA QoQ/YoY	2Q P		0.6/2.1		0.6/2.1	10.00	19.00
CA	Int'l Securities Transactions	Jun				29.5	13.30	22.30
US	Housing Starts #/MoM	Jul		1220/0.4		1215.0/8.3	13.30	22.30
US	Building Permits #/MoM	Jul		1250/-2		1254.0/7.4	13.30	22.30
CH	FX Net Settlement - Clients CNY	Jul				-92.3		
US	FOMC Meeting Minutes	Jul 26					19.00	4.00
Thursday, 17 August 2017								
NZ	PPI Input QoQ	2Q				0.8	23.45	8.45
NZ	PPI Output QoQ	2Q				1.4	23.45	8.45
JN	Trade Balance Adjusted	Jul		195.3		81.4	0.50	9.50
NZ	ANZ Consumer Confidence Index/MoM	Aug		/		125.4/-1.9	2.00	11.00
AU	Employment Change/Unemployment rate	Jul		20/5.6		14.0/5.6	2.30	11.30
AU	RBA FX Transactions Market	Jul				1100.0	2.30	11.30
AU	RBA's Ellis Gives Speech in Canberra							
UK	Retail Sales Ex Auto Fuel MoM/YoY	Jul		0.1/1.2		0.9/3.0	9.30	18.30
UK	Retail Sales Inc Auto Fuel MoM/YoY	Jul		0.2/1.4		0.6/2.9	9.30	18.30
EC	Trade Balance SA	Jun		20.25		19.7	10.00	19.00
EC	CPI MoM/YoY	Jul		-0.5/1.3		0.0/1.3	10.00	19.00
EC	CPI Core YoY	Jul F		1.2		1.2	10.00	19.00
EC	ECB account of the monetary policy meeting						12.30	21.30
CA	Manufacturing Sales MoM	Jun		-1		1.1	13.30	22.30
US	Initial Jobless Claims	Aug 12		240		244.0	13.30	22.30
US	Continuing Claims	Aug 5		1955		1951.0	13.30	22.30
US	Philadelphia Fed Business Outlook	Aug		18		19.5	13.30	22.30
US	Industrial Production MoM	Jul		0.3		0.4	14.15	23.15
US	Bloomberg Consumer Comfort	Aug 13				51.4	14.45	23.45
US	Bloomberg Economic Expectations	Aug				47.0	14.45	23.45
US	Leading Index	Jul		0.3		0.6	15.00	0.00
US	Fed's Kaplan (voter) speaks in Texas						18.00	3.00
Friday, 18 August 2017								
CH	Property Prices	Jul					2.30	11.30
EC	ECB Current Account SA	Jun				30.1	9.00	18.00
EC	Construction Output MoM/YoY	Jun		/		-0.7/2.6	10.00	19.00
CA	CPI NSA MoM/YoY	Jul		0/1.2		-0.1/1.0	13.30	22.30
CA	CPI Core- Common/Trim YoY%	Jul		/		1.4/1.2	13.30	22.30
CA	CPI Core- Median YoY%	Jul		/		1.6	13.30	22.30
US	U. of Mich. Sentiment/5-10 Yr Inflation expectations	Aug P		94/		93.4/2.6	15.00	0.00
US	Fed's Kaplan (voter) speaks in Dallas						15.15	0.15
US	Baker Hughes U.S. Rig Count/Oil rigs	Aug 18		/		949.0/768.0	18.00	3.00
UK	CBI Trends Total Orders/Selling Prices	Aug		/		10.0/9.0	17-26 Aug release	
Monday, 21 August 2017								
NZ	Net Migration SA	Jul				6350.0	23.45	8.45
UK	Rightmove House Prices MoM	Aug				0.1	0.10	9.10
UK	Rightmove House Prices YoY	Aug				2.8	0.10	9.10
NZ	Credit Card Spending MoM	Jul				0.2	4.00	13.00
NZ	Credit Card Spending YoY	Jul				8.3	4.00	13.00
JN	All Industry Activity Index MoM	Jun				-0.9	5.30	14.30
JN	Convenience Store Sales YoY	Jul				-0.1	8.00	17.00
UK	Public Finances (PSNCR)	Jul				18.3	9.30	18.30
UK	Central Government NCR	Jul				18.0	9.30	18.30
UK	Public Sector Net Borrowing	Jul				6.3	9.30	18.30
UK	PSNB ex Banking Groups	Jul				6.9	9.30	18.30
CA	Wholesale Trade Sales MoM	Jun				0.9	13.30	22.30
US	Chicago Fed Nat Activity Index	Jul				0.1	13.30	22.30
CA	Bloomberg Nanos Confidence	Aug 18				61.2	15.00	0.00
Tuesday, 22 August 2017								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Aug 13				113.7	0.30	9.30
GE	ZEW Survey Current Situation	Aug				86.4	10.00	19.00
EC	ZEW Survey Expectations	Aug				35.6	10.00	19.00
GE	ZEW Survey Expectations	Aug				17.5	10.00	19.00
EC	ECB's Constancio Speaks at Economists' Congress in Lisbon						13.00	22.00
CA	Retail Sales MoM	Jun				0.6	13.30	22.30
CA	Retail Sales Ex Auto MoM	Jun				-0.1	13.30	22.30
US	FHFA House Price Index MoM	Jun				0.4	14.00	23.00
US	House Price Purchase Index QoQ	2Q				1.4	14.00	23.00
CH	Conference Board Leading Economic Index	Jul					14.00	23.00
US	Richmond Fed Manufact. Index	Aug		10		14.0	15.00	0.00
Wednesday, 23 August 2017								
AU	Skilled Vacancies MoM	Jul				0.9	2.00	11.00
JN	Machine Tool Orders YoY	Jul F				26.3	7.00	16.00
EU	ECB's Draghi Speaks in Lindau, Germany							
GE	Markit/BME Germany Manufacturing PMI	Aug P				58.1	8.30	17.30
GE	Markit Germany Services PMI	Aug P				53.1	8.30	17.30
GE	Markit/BME Germany Composite PMI	Aug P				54.7	8.30	17.30
EC	Markit Eurozone Manufacturing PMI	Aug P				56.6	9.00	18.00
EC	Markit Eurozone Services PMI	Aug P				55.4	9.00	18.00
EC	Markit Eurozone Composite PMI	Aug P				55.7	9.00	18.00
US	MBA Mortgage Applications	Aug 11				3.0	12.00	21.00
US	Markit US Manufacturing PMI	Aug P				53.3	14.45	23.45
US	Markit US Services PMI	Aug P				54.7	14.45	23.45
US	Markit US Composite PMI	Aug P				54.6	14.45	23.45
US	New Home Sales	Jul		612.5		610.0	15.00	0.00
US	New Home Sales MoM	Jul		0.4		0.8	15.00	0.00
EC	Consumer Confidence	Aug A				-1.7	15.00	0.00
Upcoming Central Bank Interest Rate Announcements								
New Zealand, RBNZ		10-Aug	1.75%	1.75%		1.75%		
Australia, RBA		5-Sep	1.50%	1.50%		1.50%		
Canada, BoC		6-Sep				0.75%		
Europe ECB		7-Sep	-0.4%	-0.4%		-0.4%		
UK BOE		14-Sep				0.25%		
US Federal Reserve		21-Sep	1.00-1.25%	1.00-1.25%		1.00-1.25%		
Japan, BoJ		21-Sep	-0.1%	-0.1%		-0.1%		

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

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