

Markets Today

A daily outlook for Australia, key global economies and markets

19 August 2015

Double Whammy: China and the Fed

Direction was taken from the weakness in the Chinese equity market yesterday, as the overnight sessions provided little new news of its own. The 6.15% drop in the Shanghai equity market prompted further declines in EM currencies and developed market equity markets were broadly lower. The anomaly was higher yields. The USD was stronger, with the oil producer Norway underperforming, followed by EUR. GBP outperformed after its higher inflation outcome.

The drop in China's equity markets highlights the settling process that markets go through as they adjust to different regulatory systems. An opening up of domestic, as well as foreign, access leaves them open to changes in sentiment and valuation judgements. Yesterday's move doesn't have one specific "reason" but a combination of fears arising from: modestly rising house prices announced yesterday may mean that there is less than expected policy easing ahead, or the largest liquidity injection into the money market via 7 day repos since the Lunar New Year yesterday (CNY120bn) failed to ease yields as had been hoped, or there were suggestions of an easing of the short selling rules. Or any other cause you might want to mention. With little going on elsewhere, it dominated the sentiment of global markets.

The capital outflows from EM are getting more and more attention and causing a greater amount of volatility in those markets. It has yet to really leech into developed markets. And that is fair; the re-pricing of the risks in these markets from a weaker China and a policy normalisation from the Fed are predominantly in these markets. But, the ball is rolling now, today the FT reports on the over \$1tn outflows from EM in the past 13 months – more than during the financial crisis. That has the potential to slow economic growth, and in turn, that can tend to weigh on the AUD. It bears monitoring.

In the UK, the questions surrounding the BoE's next hiking cycle returned, after a higher than expected pick up in inflation. Now don't get excited, headline inflation remains at 0.1%yoy, but that is better than flat or negative as it has been. And, the core was a whole +1.2%yoy (0.9E, 0.8P) and with the comments from the BoE regarding the possibility of hiking, this brings the debate back on the table, despite the Governor's will they - won't they approach of late. It helped GBP outperform on the night.

In the US, the interest rate cycle lift-off is the persistent theme, but the housing data didn't add much to that overnight. The starts and permits data were as could be expected, with starts higher and permits volatile and influenced by a change in building codes.

It was relatively quiet in Australia yesterday, with the RBA's minutes already having been superseded by the Statement

on Monetary Policy last week. They were a little more upbeat on the domestic economy, but cautious on the international side.

Coming Up

Yet another day likely to be drifting in the Asian timezone, with little top tier data and an eye on the Chinese markets yet again. The weakness in the equity market yesterday, weighed on the AUD, so they will be hoping for re-assurance that policy easing will come if needed.

But the other market focus this year has been, and is likely to remain, the Fed. Two factors today will add to that debate: one looking at what has been and the other, what is to come.

The FOMC minutes will be dissected to see just how close the Fed are to a hike (was it "many" who are looking to normalise policy?), and what their bias and concerns are. Market wisdom at present, gleaned from various speeches, that there is likely to be a move unless the data deteriorates (what prompted the introduction of the word "some" improvement in the labour market?).

The guide to the pressures to come for the Fed is from the CPI release. This is expected to remain relatively low, with steady core inflation below the Fed's target. Given this, there should be little reaction, but the bias for markets to react is likely to a stronger than expected outcome, rather than a surprisingly soft outcome.

Japan trade data has gone back to being of little interest to markets, after its role last year as a market mover. For the record the deficit is expected to improve and as such might get a fraction of a look in from markets if it is much worse than expected, but perhaps not if it is better.

Similarly, the Euro Area's current account surplus doesn't feature as part of what market's find interesting. The build up in the surplus perhaps should be interesting, but isn't.

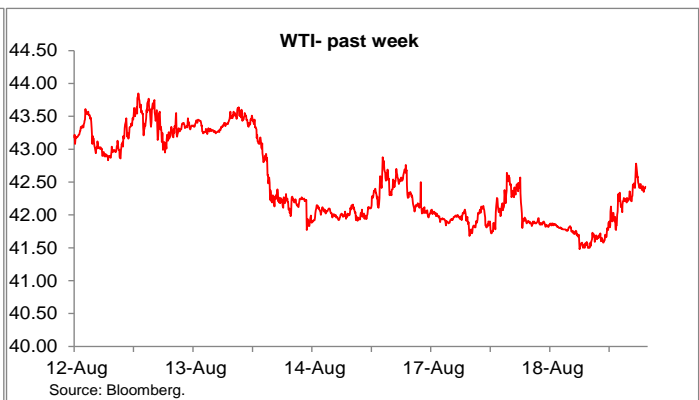
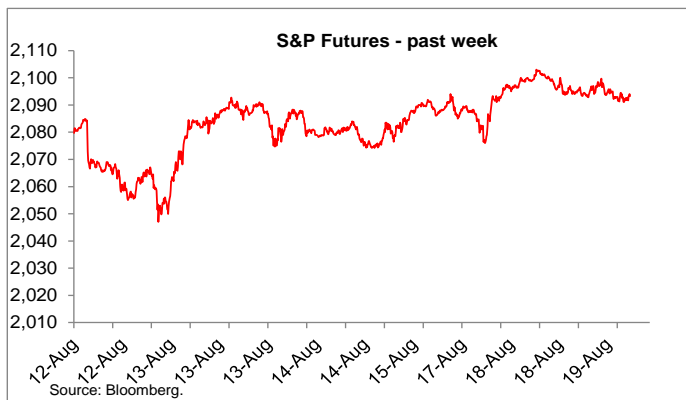
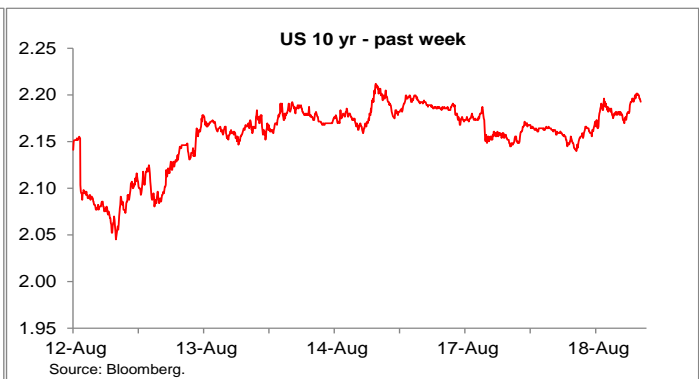
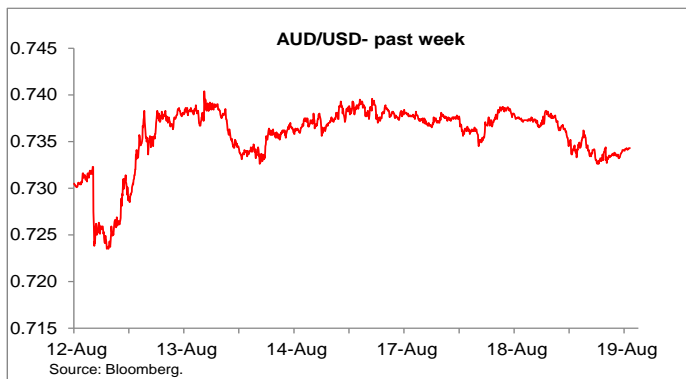
Overnight

On global stock markets, the S&P 500 was -0.30%. Bond markets saw US 10-years +2.47bp to 2.19%. On commodity markets, Brent crude oil -0.39% to \$48.55, gold-0.1% to \$1,117, iron ore +0.5% to \$56.92. AUD is at 0.7344 and the range was 0.732 to 0.7386.

- UK CPI 0.1%yA, 0%E, P; core 1.2%yA, 0.9E, 0.8P
- US housing starts 1206A, 1118E, 1204P; permits 1119A, 1228E, 1337P

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Markets



Foreign Exchange								Equities				Commodities*																																																																																										
<table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="4">Indicative 24hr ranges (**)</th> <th colspan="3">Other FX</th> </tr> <tr> <th>Last</th> <th>% chge</th> <th>Low</th> <th>High</th> <th>Last</th> <th>% chge</th> <th></th> </tr> </thead> <tr> <td>AUD</td> <td>0.7344</td> <td>-0.4</td> <td>0.7320</td> <td>0.7386</td> <td>HKD</td> <td>7.7547</td> <td>0.0</td> </tr> <tr> <td>NZD</td> <td>0.6588</td> <td>0.2</td> <td>0.6557</td> <td>0.6605</td> <td>CNY</td> <td>6.3942</td> <td>0.0</td> </tr> <tr> <td>EUR</td> <td>1.1033</td> <td>-0.4</td> <td>1.1017</td> <td>1.1094</td> <td>SGD</td> <td>1.4043</td> <td>-0.3</td> </tr> <tr> <td>GBP</td> <td>1.5661</td> <td>0.5</td> <td>1.5563</td> <td>1.5717</td> <td>IDR</td> <td>13,800</td> <td>-0.2</td> </tr> <tr> <td>JPY</td> <td>124.37</td> <td>0.0</td> <td>124.18</td> <td>124.51</td> <td>THB</td> <td>35.55</td> <td>0.0</td> </tr> <tr> <td>CAD</td> <td>1.3055</td> <td>-0.2</td> <td>1.3052</td> <td>1.3127</td> <td>KRW</td> <td>1,185</td> <td>0.2</td> </tr> <tr> <td>AUD/EUR</td> <td>0.6655</td> <td>0.0</td> <td></td> <td></td> <td>TWD</td> <td>32.43</td> <td>0.0</td> </tr> <tr> <td>AUD/JPY</td> <td>91.32</td> <td>-0.4</td> <td></td> <td></td> <td>PHP</td> <td>46.32</td> <td>0.0</td> </tr> <tr> <td>AUD/GBP</td> <td>0.4688</td> <td>-0.9</td> <td></td> <td></td> <td>CHF</td> <td>0.98</td> <td>-0.2</td> </tr> <tr> <td>AUD/NZD</td> <td>1.1144</td> <td>-0.6</td> <td></td> <td></td> <td>SEK</td> <td>8.54</td> <td>0.1</td> </tr> </table>									Indicative 24hr ranges (**)				Other FX			Last	% chge	Low	High	Last	% chge		AUD	0.7344	-0.4	0.7320	0.7386	HKD	7.7547	0.0	NZD	0.6588	0.2	0.6557	0.6605	CNY	6.3942	0.0	EUR	1.1033	-0.4	1.1017	1.1094	SGD	1.4043	-0.3	GBP	1.5661	0.5	1.5563	1.5717	IDR	13,800	-0.2	JPY	124.37	0.0	124.18	124.51	THB	35.55	0.0	CAD	1.3055	-0.2	1.3052	1.3127	KRW	1,185	0.2	AUD/EUR	0.6655	0.0			TWD	32.43	0.0	AUD/JPY	91.32	-0.4			PHP	46.32	0.0	AUD/GBP	0.4688	-0.9			CHF	0.98	-0.2	AUD/NZD	1.1144	-0.6			SEK	8.54	0.1
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 | Major Indices | | | | |---------------|--------|-------|-------| | | Last | % day | % y/y | | Dow | 17,511 | -0.2 | 4.0 | | S&P 500 | 2,097 | -0.3 | 6.3 | | Nasdaq | 5,059 | -0.6 | 12.2 | | FTSE | 6,526 | -0.4 | -3.2 | | DAX | 10,916 | -0.2 | 18.1 | | CAC 40 | 4,971 | +0.2 | 17.5 | | Nikkei | 20,554 | -0.3 | 33.0 | | Shanghai | 3,748 | -6.1 | 66.9 | | Hang Seng | 23,475 | -1.4 | -6.6 | | ASX 200 | 5,303 | -1.2 | -5.7 | | | | | | | Last | % day | |-------------|---------|-------| | Oil (Brent) | 48.55 | -0.4 | | Oil (WTI) | 42.43 | 1.3 | | Oil (Tapis) | 49.98 | -0.9 | | Gold | 1117.30 | -0.1 | | CRB | 196.77 | 0.1 | | GS Metals | 267.2 | -1.5 | | Aluminium | 1541 | -0.7 | | Copper | 5037 | -1.5 | | Nickel | 10333 | -2.5 | | Zinc | 1758 | -2.8 | | Ch. steel | 2041 | -0.8 | | Iron ore | 56.9 | 0.5 | | Coal | 59.0 | -0.3 | | Wheat Chic. | 498.8 | -1.1 | | Sugar | 10.73 | 0.9 | | Cotton | 67.93 | -0.1 | | Coffee | 139.1 | 0.4 | | | || | Interest Rates | | | | Benchmark 10 Year Bonds | | | Overnight Futures | | | |-----------------------|------|------|------|-------------------------|--------|------|-------------------|-------|-------| | Indicative Swap Rates | | | | Last | | | Last | | | | | Cash | 3mth | 2Yr | 10Yr | Last | chge | Spnd | Last | Chge | | USD | 0.25 | 0.33 | 0.95 | 2.27 | USD 10 | 2.19 | 0.02 | | | | AUD | 2.00 | 2.14 | 2.11 | 3.11 | AUD 10 | 2.74 | -0.04 | 0.00 | 0.00 | | NZD | 3.00 | 2.91 | 2.89 | 3.62 | NZD 10 | 3.32 | 0.00 | 1.13 | -0.02 | | EUR | 0.05 | 0.06 | 0.09 | 1.00 | CAD 10 | 1.40 | 0.03 | -0.79 | -0.03 | | GBP | 0.50 | 0.59 | 1.11 | 2.05 | EUR 10 | 0.64 | 0.02 | -1.55 | 0.01 | | JPY | 0.10 | 0.09 | 0.14 | 0.55 | GBP 10 | 1.88 | 0.06 | -0.32 | 0.01 | | CAD | 0.50 | 1.17 | 0.73 | 1.92 | JPY 10 | 0.38 | -0.02 | -1.82 | 0.2 | | | | | | | | | | CO ₂ Emissions - Euros | | | |-----------------------------------|------|-------| | | Last | % day | | Jun-2015 | 8.31 | 0.4 | | Dec-2015 | 8.28 | 0.4 | | Dec-2016 | 8.36 | 0.4 | | | |

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		Time Period	NAB Forecast	Consensus	Actual	Previous	GMT	AEST
Wednesday, 19 August 2015								
NZ	PPI Outputs YoY	2Q	-2.4%			-2.5%	22.45	8.45
NZ	Capital Goods Price Index, YoY	Q2				2.80%	22.45	8.45
JN	Trade Balance Adjusted	Jul				-¥251.7B	23.50	9.50
JN	Imports/Exports YoY	Jul				-2.9/9.5	23.50	9.50
AU	Westpac Leading Index MoM	Jul				0.0%	0.30	10.30
AU	Skilled Vacancies MoM	Jul				-0.9%	1.00	11.00
AU	Merchandise imports, BoP basis, sa	Jul				4.0%	1.30	11.30
JN	All Industry Activity Index MoM	Jun		0.40%		-0.5%	4.30	14.30
JN	Leading Index CI	Jun F				107.2	5.00	15.00
JN	Machine Tool Orders YoY	Jul F					6.00	16.00
EC	ECB Current Account SA	Jun				18.0B	8.00	18.00
EC	Construction Output MoM	Jun				0.3%	9.00	19.00
US	MBA Mortgage Applications	Aug-14					11.00	21.00
US	CPI MoM/YoY	Jul		0.2%/0.2%		0.3%/0.1%	12.30	22.30
US	CPI Ex Food and Energy MoM/YoY	Jul		0.2%/1.8%		0.2%/1.8%	12.30	22.30
US	U.S. Fed Releases Minutes from July 28-29 FOMC Meeting						18.00	4.00
Thursday, 20 August 2015								
NZ	ANZ Job Advertisements MoM	Jul				-0.6%	22.00	8.00
US	Fed's Kocherlakota (nv) Speaks at Bank of Korea Event						0.20	10.20
NZ	ANZ Consumer Confidence Index / MoM	Aug				113.9/-5.0%	1.00	11.00
AU	RBA FX Transactions Market	Jul				2922M	1.30	11.30
CH	MNI Business Indicator	Aug				48.8/-4.7	1.45	11.45
AU	Panel participation by RBA's Mark Manning, Deputy Head of Payments Policy at Risk Conference						4.10	14.10
US	Fed's Williams (v) speaks in Indonesia						6.45	16.45
JN	Convenience Store Sales YoY	Jul				0.6%	7.00	17.00
UK	Retail Sales Ex Auto Fuel MoM	Jul		0.2%		-0.2%	8.30	18.30
UK	CBI Trends Total Orders	Aug				-10	10.00	20.00
EC	ECB's Nowotny speaks in Panel on "Europe's Crisis"						11.30	21.30
CA	Wholesale Trade Sales MoM	Jun				-1.0%	12.30	22.30
US	Initial Jobless Claims	Aug-15		270K		274K	12.30	22.30
US	Existing Home Sales	Jul				5.49M	14.00	0.00
US	Philadelphia Fed Business Outlook	Aug		7.0		5.7	14.00	0.00
US	Existing Home Sales MoM	Jul		5.42M/-1.3%		5.49M/3.2%	14.00	0.00
US	Leading Index	Jul		0.20%		0.6%	14.00	0.00
Friday, 21 August 2015								
NZ	Net Migration SA	Jul				4800	22.45	8.45
NZ	Credit Card Spending MoM/YoY	Jul				0.3%/6.5%	3.00	13.00
JN	Supermarket Sales YoY	Jul				0.3%	5.00	15.00
GE	GfK Consumer Confidence	Sep		10.1		10.1	6.00	16.00
UK	Public Finances (PSNCR)	Jul				13.9B	8.30	18.30
CA	CPI NSA MoM/YoY	Jul				0.2%/1.0%	12.30	22.30
CA	CPI Core MoM/YoY	Jul				0.0%/2.3%	12.30	22.30
CA	Retail Sales MoM	Jun				1.0%	12.30	22.30
US	Markit Manufacturing	Aug P				53.8%	13.45	23.45
EC	Consumer Confidence	Aug A				-7.1	14.00	0.00
Monday, 24 August 2015								
JN	Nikkei Japan PMI Mfg	Aug P						11.35
CH	Caixin China PMI Mfg	Aug P						11.45
GE	Markit/BME Germany Manufacturing PMI	Aug P						17.30
GE	Markit Germany Services PMI	Aug P						17.30
GE	Markit/BME Germany Composite PMI	Aug P						17.30
EC	Markit Eurozone Manufacturing PMI	Aug P						18.00
EC	Markit Eurozone Services PMI	Aug P						18.00
EC	Markit Eurozone Composite PMI	Aug P						18.00
US	Chicago Fed Nat Activity Index	Jul				0.1		22.30
US	Markit US Manufacturing PMI	Aug P						23.45
GE	Import Price Index MoM	Jul				-0.5%		0.00
GE	Import Price Index YoY	Jul				-1.4%		0.00
CA	Bloomberg Nanos Confidence	Aug-21						0.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		1-Sep	2.00%	2.00%		2.00%		
UK BOE		6-Aug				0.50%		
Japan, BoJ		7-Aug	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
Europe ECB		3-Sep				0.05%		
New Zealand, RBNZ		10-Sep	2.75%	2.75%		3.00%		
Canada, BoC		10-Sep				0.50%		
US Federal Reserve		18-Sep				0-0.25%		

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

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