

Markets Today

A daily outlook for Australia, key global economies and markets

20 August 2015

Inflation Not Employment

Inflation is back in vogue, and (in the US) it is being kept lower by a stronger USD and lower commodity prices. That provided a theme from the FOMC minutes and has reversed some of yesterday's market moves, as we all watched the Chinese yo-yo'ing equity market.

We start the day with European equities much lower, but the US having stemmed some gains before the close. Yields are generally lower, and gold prices are up. The USD fell sharply after the minutes, with the EUR outperforming.

Oil prices are down to lows not seen since 2009 for WTI, coming on the back of an official report showing an increasing glut of supply. This is likely to further weigh on commodity prices related to energy and growth, and their related currencies.

But it also gets interesting, in that the Fed spent a long time discussing inflation, in which they are not totally convinced that it shall meet their 2% target at the going rate. And that is partly due to declining energy prices, and partly due to the stronger USD. The minutes were not all dovish, given that "most" members felt that the time to begin normalising policy is "approaching." But there were perhaps more concerns about inflation than market participants had expected. The concerns about the labour market were mostly gone, so we turn to inflation.

This concern was added to in light of the earlier release of the CPI data, adding to confirmation bias. That data showed that headline inflation was a little under expectations (0.1%mA, 0.2E, 0.3P) due to a drop in energy prices but also a one-off drop in airline fares. This one-off had a bigger influence in the core inflation missing expectations by the same amount as the headline. Shelter, or housing, which is a bigger proportion of inflation than energy rose. But with the Fed shifting its gaze a little, today's miss played into the general sentiment and pushed out pricing for the FOMC hike mostly beyond September.

So while the FOMC minutes suggest that the effects of a stronger USD and lower energy prices will abate, there are cautions, and we are likely left obsessively monitoring all and every price indicator released.

They also showed some concerns about the weakening growth indicated by the events in China (Greece was deemed dealt with). These are still playing out. Yesterday we saw further sharp declines in the equity market, but a liquidity policy from the PBoC called the MLF (medium term lending facility) which provides funding to banks to ease intrabank liquidity concerns provided around CNY110bn to 14 banks. This was to counter the rise in short term yields which continued yesterday, despite Tuesday's injection of funds via

7 day repos. There is much written about the likelihood of a RRR cut soon and markets will be monitoring for other easing measures to allay concerns.

In Europe, Germany ratified its bailout funds to Greece, not without objections, but the funds will be paid. Nothing to see there on the policy front.

From a local point of view, what caught my eye yesterday was the news that an iron ore exploration company has decided that it is more profitable to sell eggs to China, from Australia, than to continue with its ore exploration plans. This adds to the theme of miners using land to produce agricultural products to export, as well or instead of producing ore. Given the drop in price of iron ore, it makes sense. But, we have looked at this agriculture versus minerals debate before. Increasing agricultural exports is good for the economy and they will contribute, but they won't take the place of energy and mineral exports. The ramp up in volumes in iron ore and LNG volumes mean that there are just not enough eggs to compete. It does, however, highlight that there are options for smaller players.

Coming Up

Another quiet day is likely, as market have no new news locally and we are left monitoring China for guidance.

Fed's Williams is speaking late afternoon, and as a neutral voter has the potential to sway the market back to hiking if there is any hint of a willingness to start the normalisation policy; given the minutes last night.

UK retail sales are expected to pick up and add to the GBP support of recent days. A surprise would be weakness after the June numbers.

US Philly Fed will hopefully expel the concerns arising from the shocking decline in the Empire Survey. The survey is broader and is expected to improve modestly. Existing home sales are volatile and should have lesser interest to markets.

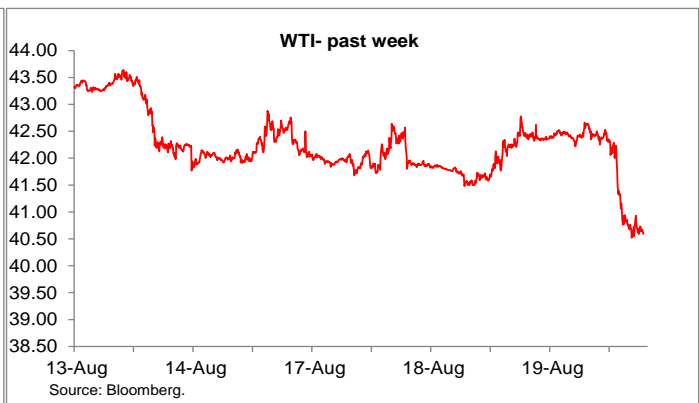
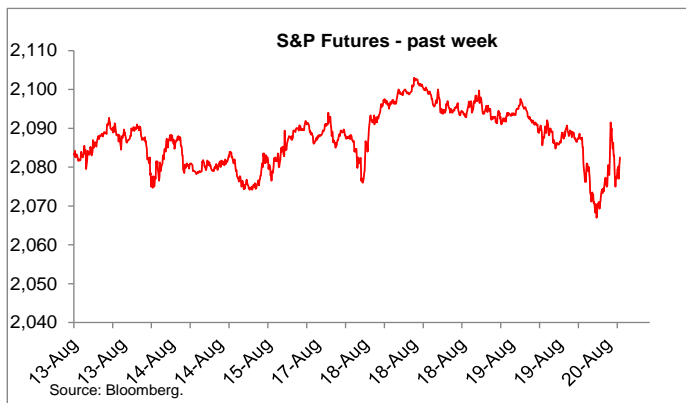
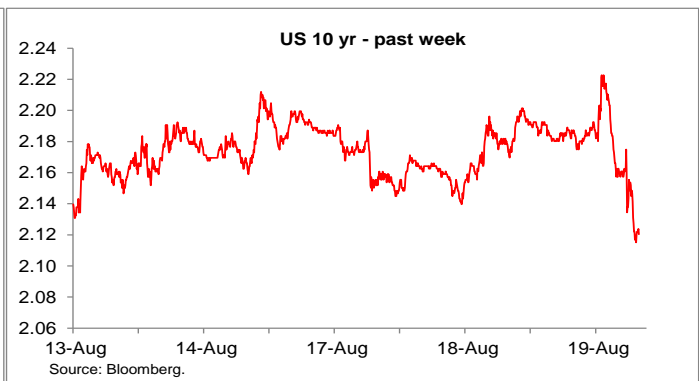
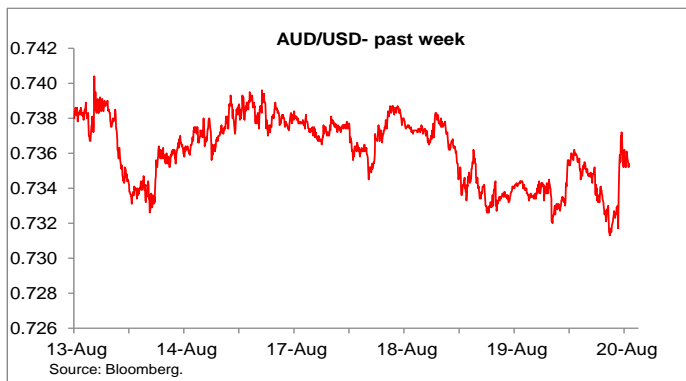
Overnight

On global stock markets, the S&P 500 was -0.60%. Bond markets saw US 10-years -7.22bp to 2.12%. On commodity markets, Brent crude oil -3.85% to \$46.93, gold+1.5% to \$1,134, iron ore -0.9% to \$56.41. AUD is at 0.7354 and the range was 0.7312 to 0.7375.

- US CPI 0.1%mA, 0.2E, 0.3P yoy 0.2%YA, E, 0.1P
- US core CPI 0.1%mA, 0.2E, P, 1.8%yA, E, P

Emma.lawson@nab.com.au

Markets



| Foreign Exchange | | | | | | | | Equities | | | | Commodities* | | | | |
|------------------------------------|--------|--------|--------|-----------------|-----|--------|--------|----------------------|--------|-------|-------|---|---------|-------|-------|-------|
| Indicative 24hr ranges (**) | | | | Other FX | | | | Major Indices | | | | | | | | |
| | Last | % chge | Low | High | | Last | % chge | | Last | % day | % y/y | | Last | % day | | |
| AUD | 0.7354 | 0.2 | 0.7312 | 0.7375 | HKD | 7.7537 | 0.0 | Dow | 17,371 | -0.8 | 2.7 | Oil (Brent) | 46.93 | -3.9 | | |
| NZD | 0.6604 | 0.0 | 0.6551 | 0.6624 | CNY | 6.3956 | 0.0 | S&P 500 | 2,083 | -0.6 | 5.1 | Oil (WTI) | 40.59 | -4.8 | | |
| EUR | 1.1122 | 0.9 | 1.1018 | 1.1134 | SGD | 1.4029 | -0.1 | Nasdaq | 5,026 | -0.7 | 11.0 | Oil (Tapis) | 49.63 | -0.7 | | |
| GBP | 1.5679 | 0.1 | 1.5635 | 1.5701 | IDR | 13,843 | 0.3 | FTSE | 6,403 | -1.9 | -5.5 | Gold | 1133.80 | 1.5 | | |
| JPY | 123.87 | -0.4 | 123.69 | 124.47 | THB | 35.54 | 0.0 | DAX | 10,682 | -2.1 | 14.4 | CRB | 193.75 | -1.5 | | |
| CAD | 1.3117 | 0.4 | 1.3025 | 1.3178 | KRW | 1,186 | 0.0 | CAC 40 | 4,884 | -1.1 | 14.8 | GS Metals | 267.2 | -1.5 | | |
| AUD/EUR | 0.6611 | -0.7 | | | TWD | 32.55 | 0.4 | Nikkei | 20,223 | -1.6 | 30.9 | Aluminium | 1543 | 0.1 | | |
| AUD/JPY | 91.06 | -0.3 | | | PHP | 46.31 | 0.0 | Shanghai | 3,794 | +1.2 | 69.4 | Copper | 4999 | -0.8 | | |
| AUD/GBP | 0.4689 | 0.1 | | | CHF | 0.97 | -1.2 | Hang Seng | 23,168 | -1.3 | -7.9 | Nickel | 10392 | 0.6 | | |
| AUD/NZD | 1.1129 | 0.1 | | | SEK | 8.51 | -0.4 | ASX 200 | 5,380 | +1.5 | -4.5 | Zinc | 1780 | 1.3 | | |
| | | | | | | | | | | | | Ch. steel | | | 2037 | 0.0 |
| | | | | | | | | | | | | Iron ore | | | 56.4 | -0.9 |
| | | | | | | | | | | | | Coal | | | 58.9 | -0.2 |
| | | | | | | | | | | | | Wheat Chic. | | | 500.0 | 0.3 |
| | | | | | | | | | | | | Sugar | | | 10.59 | -1.3 |
| | | | | | | | | | | | | Cotton | | | 67.36 | -0.8 |
| | | | | | | | | | | | | Coffee | | | 134.8 | -3.1 |
| | | | | | | | | | | | | CO₂ Emissions - Euros | | | | |
| | | | | | | | | | | | | | | | Last | % day |
| | | | | | | | | | | | | Jun-2015 | | | 8.38 | 0.8 |
| | | | | | | | | | | | | Dec-2015 | | | 8.35 | 0.8 |
| | | | | | | | | | | | | Dec-2016 | | | 8.43 | 0.8 |

| Interest Rates | | | | | Benchmark 10 Year Bonds | | | | Overnight Futures | | |
|------------------------------|------|------|------|------|-------------------------|------|-------|-------|-------------------|-------|-------|
| Indicative Swap Rates | | | | | | | | | | | |
| | Cash | 3mth | 2Yr | 10Yr | | Last | chge | Sprd | | Last | Chge |
| USD | 0.25 | 0.33 | 0.90 | 2.20 | USD 10 | 2.12 | -0.07 | | Australia | | |
| AUD | 2.00 | 2.14 | 2.06 | 3.04 | AUD 10 | 2.74 | 0.00 | 0.62 | 3 mth bill | 97.89 | 0.00 |
| NZD | 3.00 | 2.93 | 2.89 | 3.64 | NZD 10 | 3.34 | 0.02 | 1.22 | 3 Yr bond | 98.1 | 0.04 |
| EUR | 0.05 | 0.06 | 0.08 | 0.95 | CAD 10 | 1.31 | -0.08 | -0.81 | 10 Yr bonc | 97.28 | 0.09 |
| GBP | 0.50 | 0.59 | 1.07 | 2.01 | EUR 10 | 0.62 | -0.02 | -1.50 | 3/10 sprd | 0.82 | -0.05 |
| JPY | 0.10 | 0.09 | 0.13 | 0.54 | GBP 10 | 1.83 | -0.04 | -0.29 | SPI | -30.0 | -0.6 |
| CAD | 0.50 | 1.17 | 0.69 | 1.84 | JPY 10 | 0.38 | 0.00 | -1.74 | | | |

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 |
|----------------------------------|--|-------------|--------------|-------------|--------|-------------|-------|-------|
| Thursday, 20 August 2015 | | | | | | | | |
| NZ | ANZ Job Advertisements MoM | Jul | | | | -0.6% | 22.00 | 8.00 |
| 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 | | 0.4% | | -0.2% | 8.30 | 18.30 |
| UK | CBI Trends Total Orders | Aug | | -10 | | -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% | | -1.0% | 12.30 | 22.30 |
| US | Initial Jobless Claims | Aug-15 | | 271K | | 274K | 12.30 | 22.30 |
| US | Philadelphia Fed Business Outlook | Aug | | 6.8 | | 5.7 | 14.00 | 0.00 |
| US | Existing Home Sales MoM | Jul | | 5.43M/-1.2% | | 5.49M/3.2% | 14.00 | 0.00 |
| US | Leading Index | Jul | | 0.20% | | 0.6% | 14.00 | 0.00 |
| US | Fed's Kocherlakota speaks at Bank of Korea Event | | | | | | 0.20 | 10.20 |
| Friday, 21 August 2015 | | | | | | | | |
| NZ | Net Migration SA | Jul | | | | 4800 | 22.45 | 8.45 |
| JN | Nikkei Japan PMI Mfg | Aug P | | | | 51.2 | 1.35 | 11.35 |
| CH | Caixin China PMI Mfg | Aug P | | 48.2 | | 47.8 | 1.45 | 11.45 |
| 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 |
| GE | Markit/BME Germany Manufacturing PMI | Aug P | | 51.6 | | 51.8 | 7.30 | 17.30 |
| GE | Markit Germany Services PMI | Aug P | | 53.7 | | 53.8 | 7.30 | 17.30 |
| GE | Markit/BME Germany Composite PMI | Aug P | | 53.6 | | 53.7 | 7.30 | 17.30 |
| EC | Markit Eurozone Manufacturing PMI | Aug P | | 52.2 | | 52.4 | 8.00 | 18.00 |
| EC | Markit Eurozone Services PMI | Aug P | | 54 | | 54 | 8.00 | 18.00 |
| EC | Markit Eurozone Composite PMI | Aug P | | 53.7 | | 53.9 | 8.00 | 18.00 |
| UK | Public Finances (PSNCR) | Jul | | | | 13.9B | 8.30 | 18.30 |
| CA | CPI NSA MoM/YoY | Jul | | 0.1%/1.3% | | 0.2%/1.0% | 12.30 | 22.30 |
| CA | CPI Core MoM/YoY | Jul | | 0.0%/2.4% | | 0.0%/2.3% | 12.30 | 22.30 |
| CA | Retail Sales MoM | Jun | | 0.2% | | 1.0% | 12.30 | 22.30 |
| US | Markit Manufacturing PMI | Aug P | | 53.8 | | 53.8% | 13.45 | 23.45 |
| EC | Consumer Confidence | Aug A | | -6.9 | | -7.1 | 14.00 | 0.00 |
| Monday, 24 August 2015 | | | | | | | | |
| US | Chicago Fed Nat Activity Index | Jul | | | | 0.1 | 12.30 | 22.30 |
| GE | Import Price Index MoM/YoY | Jul | | | | 35.7% | 14.00 | 0.00 |
| US | Fed's Lockhart speaks to Public Pension Funding Forum | | | | | | 19.55 | 5.55 |
| Tuesday, 25 August 2015 | | | | | | | | |
| AU | ANZ Roy Morgan Weekly Consumer Confidence Index | Aug-23 | | | | 113.2 | 23.30 | 9.30 |
| AU | Conf. Board Leading Index MoM | Jun | | | | 0.2% | 0.00 | 10.00 |
| CH | Conference Board China July Leading Economic Index | | | | | | 2.00 | 12.00 |
| NZ | 2Yr Inflation Expectation | 3Q | | | | 1.9% | 3.00 | 13.00 |
| GE | GDP SA QoQ | 2Q F | | | | | 6.00 | 16.00 |
| GE | GDP NSA YoY | 2Q F | | | | | 6.00 | 16.00 |
| GE | IFO Business Climate | Aug | | | | 108 | 8.00 | 18.00 |
| GE | IFO Current Assessment | Aug | | | | 113.9 | 8.00 | 18.00 |
| GE | IFO Expectations | Aug | | | | 102.4 | 8.00 | 18.00 |
| US | FHFA House Price Index MoM | Jun | | 0.40% | | 0.4% | 13.00 | 23.00 |
| US | House Price Purchase Index QoQ | 2Q | | | | 1.3% | 13.00 | 23.00 |
| US | S&P/CS 20 City MoM/YoY SA | Jun | | | | | 13.00 | 23.00 |
| US | Markit US Composite PMI | Aug P | | | | | 13.45 | 23.45 |
| US | Markit US Services PMI | Aug P | | | | | 13.45 | 23.45 |
| US | New Home Sales / MoM | Jul | | 514K/6.5% | | 482K/-6.8% | 14.00 | 0.00 |
| US | Consumer Confidence Index | Aug | | 93 | | | 14.00 | 0.00 |
| US | Richmond Fed Manufact. Index | Aug | | 8 | | | 14.00 | 0.00 |
| CA | Bank of Canada Deputy Schembri Speaks in Ontario | | | | | | 16.25 | 2.25 |
| Wednesday, 26 August 2015 | | | | | | | | |
| NZ | Imports | Jul | | | | 4.29B | 22.45 | 8.45 |
| NZ | Exports | Jul | | | | 4.23B | 22.45 | 8.45 |
| NZ | Trade Balance | Jul | | | | -60M | 22.45 | 8.45 |
| NZ | Trade Balance 12 Mth YTD | Jul | | | | -2848M | 22.45 | 8.45 |
| JN | PPI Services YoY | Jul | | | | 0.4% | 23.50 | 9.50 |
| AU | Construction Work Done | 2Q | | | | -2.4% | 1.30 | 11.30 |
| AU | Remarks by RBA Governor Glenn Stevens at a National Reform Summit | | | | | | | |
| CH | Westpac-MNI Consumer Sentiment | Aug | | | | | 1.45 | 11.45 |
| UK | BBA Loans for House Purchase | Jul | | | | 44488 | 8.30 | 18.30 |
| US | MBA Mortgage Applications | Aug-21 | | | | | 11.00 | 21.00 |
| US | Durable Goods Orders | Jul | | -0.50% | | 3.4% | 12.30 | 22.30 |
| US | Durables Ex Transportation | Jul | | 0.20% | | 0.8% | 12.30 | 22.30 |
| Australia, RBA | | 1-Sep | 2.00% | 2.00% | | 2.00% | | |
| UK BOE | | 10-Sep | | | | 0.50% | | |
| Japan, BoJ | | 15-Sep | 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

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia

Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Emma Lawson
Senior Currency Strategist
+61 2 9237 8154

Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Rodrigo Catril
Interest Rate Strategist
+61 2 9293 7109

Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 2 9237 1076

Distribution

Barbara Leong
Research Production Manager
+61 2 9237 8151

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Kymerly Martin
Senior Market Strategist
+64 4 924 7654

Raiko Shareef
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

Asia

Christy Tan
Head of Markets Strategy/Research, Asia
+852 2822 5350

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+44 207 710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 1588

Derek Allassani
Research Production Manager
+44 207 710 1532

James Glenn
Senior Economist – Australia
+61 3 9208 8129

Vyanne Lai
Economist – Australia
+61 3 8634 0198

Phin Ziebell
Economist – Agribusiness
+61 475 940 662

Amy Li
Economist – Australia
+61 3 8634 1563

Dean Pearson
Head of Industry Analysis
+61 3 8634 2331

Robert De lure
Senior Economist – Industry Analysis
+61 3 8634 4611

Brien McDonald
Senior Economist – Industry Analysis
+61 3 8634 3837

Karla Bulauan
Economist – Industry Analysis
+61 3 8641 4028

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+61 3 9208 5049

Gerard Burg
Senior Economist – Asia
+61 3 8634 2788

John Sharma
Economist – Sovereign Risk
+61 3 8634 4514

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.