



Markets Today

A daily outlook for Australia, key global economies and markets

27 August 2015

Positioning, Liquidity and Uncertainty

Difficult huh? You thought you knew which direction this was all going? After big moves there can often be big reversals. It doesn't mean that the underlying issue is resolved but rather is often a factor of positioning, liquidity and uncertainty. We have a jumble of all three going on.

China's equities ended down, helping drive down European equities, and European EM currencies, but the US had a very strong upswing. That could be because markets thought that the Fed wasn't going to hike, except bond yields were higher. Growth pricing wasn't exactly surging as oil prices and iron ore were lower. And despite the Fed pricing change (less priced for September), the USD was stronger, with the EUR and JPY under pressure in particular. The lack of consistency points to the positioning, liquidity and uncertainty described above.

What we do know is that the Fed is less certain of its hiking cycle now, and the ECB are wary about meeting its inflation target and are willing to do more QE. The difference in the currencies is that one is going to potentially do nothing but the other is going to potentially ease further. Cue the EUR decline. And the rollercoaster continues. It will be interesting to see the developments next week as the Northern Hemisphere returns to work and the central banks report. We have the unwinding of positions of the past few weeks, an increase in liquidity and more clarity on what the central banks are thinking.

Yesterday, we implemented a quasi red (down) and green (up) flag system to keep the desk informed of the gyrations in the Shanghai equity market. There was a flurry of semaphore incomprehension going on. The AUD gave up, after first trying to follow (as did we). We ended the day with Shanghai -1.3%. After first allowing the Chinese currency to weaken and move to a more market orientated system there has been pressure on the CNY to weaken further. Be it driven by equity market weakness, concerns about domestic growth, a need for USDs or speculative pressures. The PBoC are trying to contain this weakness to some extent and the daily USD/CNY fix has been lower than many anticipated of late. There has also been direct intervention since the deval. The problem is that there are still capital controls and the PBoC are trying to implement independent monetary policy. Attempting to control the exchange rate, capital flows and monetary policy can prove problematic. That is perhaps behind the rising concerns about what is happening and why there is a degree of nervousness with regards to policy options. And what it means for the rest of the world. So while we may be confused on an intra-day basis, it remains a key factor in the weeks ahead.

Clearly the ECB and the Fed are watching. First up last night was the ECB's Praet who noted that there was a downside

risk in achieving their inflation target, and that they would act if needed to address this (ie more QE). The Fed's Dudley followed this up with saying (in the Q and A) that the decision to begin to the normalisation process at the September meeting seems less compelling, but he noted it could become more compelling with additional information. So he doesn't rule out a hiking cycle, but that the equity decline and the uncertainty surrounding China are factors they are watching. It makes it harder to suggest that they will have all the information that they need before mid-September. Markets seem to think so. On the upside, the durable goods orders were pretty good, albeit very volatile.

Coming Up

Apologies, I erroneously wrote yesterday that we would get capex on Wednesday. It is today. The same holds- absent a big move, which is in line with the existing mood of markets, it is unlikely to have an impact on the day. That is not to say it isn't important in the longer term view of growth; markets just won't want to know today.

The ECB's Couere speaks today, and after Praet signalled that the ECB were concerned about inflation this will be watched with interest. A lack of concern would generate some volatility but a confirmation of Praet's worries would add to the EUR pressure but are less likely to generate the moves seen today.

The US reports its Q2 GDP revision today, which is expected to improve. But, with GDP being a lagging indicator, and the potential for a shift in global growth expectations, this may not get a look in for market's thinking.

What is likely to be more important, but ramp up over the weekend, is the annual Fed Jackson Hole symposium. The key topic is on inflation and monetary policy, hugely important at present, with inflation remaining very low and the Fed in particular itching to raise interest rates. With Yellen not attending, Deputy Chair Fisher will be the main event. There are no speakers officially on the agenda, but expect headlines as attendees arrive.

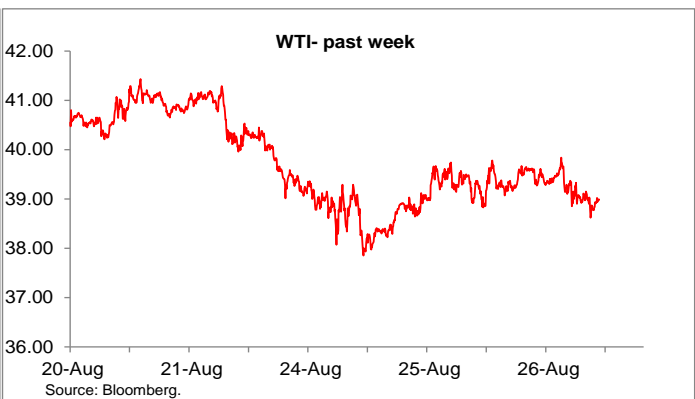
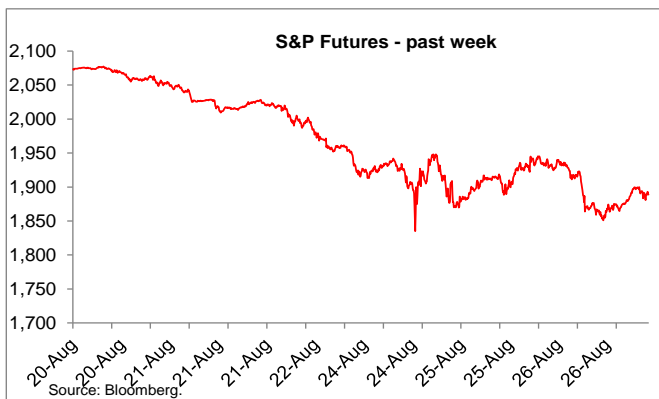
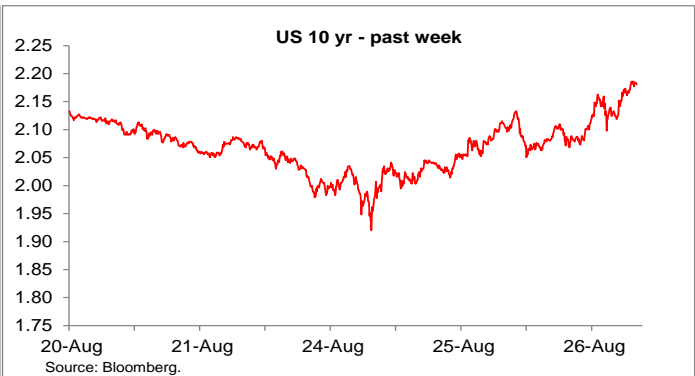
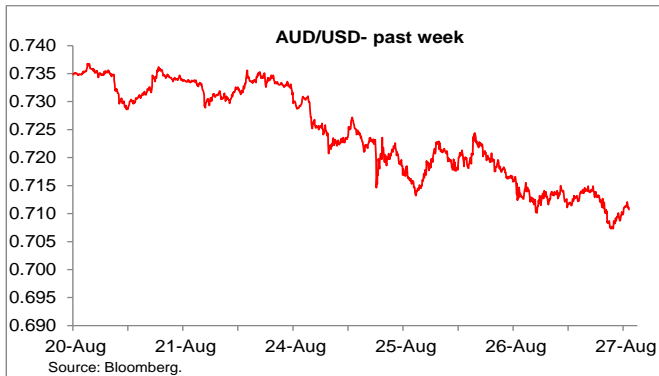
Overnight

On global stock markets, the S&P 500 was +3.90%. Bond markets saw US 10-years +10.91bp to 2.18%. On commodity markets, Brent crude oil +0.83% to \$43.57, gold-1.2% to \$1,125, iron ore +0.4% to \$53.67. AUD is at 0.7121 and the range was 0.707 to 0.7158.

- US Durable goods headline +2%A, -0.4%E, +4.1P
- US Durable goods ex transport +0.6A, 0.3E, 1P
- US Durable goods ex aircraft non defence 2.2A, 0.3E, 1.4P

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Markets



Foreign Exchange						
Indicative 24hr ranges (**)				Other FX		
	Last	% chge	Low	High	Last	% chge
AUD	0.7107	-0.3	0.7070	0.7158	HKD	7.7521 0.0
NZD	0.6432	-0.6	0.6409	0.6514	CNY	6.4093 -0.1
EUR	1.1327	-1.6	1.1322	1.1561	SGD	1.4057 0.0
GBP	1.5470	-1.4	1.5465	1.5720	IDR	14,133 0.6
JPY	119.92	0.9	118.45	119.94	THB	35.63 0.2
CAD	1.3330	0.0	1.3251	1.3350	KRW	1,186 -0.8
AUD/EUR	0.6271	1.4			TWD	32.62 0.3
AUD/JPY	85.20	0.6			PHP	46.67 0.2
AUD/GBP	0.4594	1.1			CHF	0.95 1.6
AUD/NZD	1.1046	0.3			SEK	8.48 1.3

Equities			
Major Indices			
	Last	% day	% y/y
Dow	16,286	+4	-4.8
S&P 500	1,941	+3.9	-3.0
Nasdaq	4,698	+4.2	2.8
FTSE	5,979	-1.7	-12.4
DAX	9,997	-1.3	4.3
CAC 40	4,501	+0.2	2.5
Nikkei	18,377	+3.2	18.3
Shanghai	2,927	-1.3	32.5
Hang Seng	21,080	-1.5	-15.4
ASX 200	5,173	+0.7	-8.5

Commodities*		
	Last	% day
Oil (Brent)	43.57	0.8
Oil (WTI)	38.99	-0.8
Oil (Tapis)	43.79	-2.0
Gold	1124.60	-1.2
CRB	185.28	-1.3
GS Metals	261.2	-2.1
Aluminium	1520	-1.7
Copper	4961	-2.6
Nickel	9544	-0.4
Zinc	1688	-2.7
Ch. steel	1943	-0.5
Iron ore	53.7	0.4
Coal	58.6	0.1
Wheat Chic.	494.3	-1.1
Sugar	10.53	-0.7
Cotton	62.56	-1.9
Coffee	122.2	1.4

Interest Rates								
Indicative Swap Rates				Benchmark 10 Year Bonds				
	Cash	3mth	2Yr	10Yr	Last	chge	Spred	
USD	0.25	0.33	0.82	2.23	USD 10	2.18	0.11	
AUD	2.00	2.12	2.02	3.11	AUD 10	2.65	0.06	0.47
NZD	3.00	2.92	2.82	3.54	NZD 10	3.18	0.00	1.00
EUR	0.05	0.06	0.09	1.06	CAD 10	1.45	0.12	-0.73
GBP	0.50	0.58	1.02	2.00	EUR 10	0.70	-0.03	-1.48
JPY	0.10	0.09	0.13	0.56	GBP 10	1.96	0.05	-0.23
CAD	0.50	1.17	0.68	1.94	JPY 10	0.37	-0.01	-1.81

Overnight Futures		
	Last	Chge
Australia		
3 mth bill	97.92	-0.02
3 Yr bond	98.17	-0.06
10 Yr bonc	97.21	-0.15
3/10 sprd	0.96	0.09
SPI	96.0	1.9

CO ₂ Emissions - Euros		
	Last	% day
Jun-2015	8.14	-1.8
Dec-2015	8.11	-1.8
Dec-2016	8.19	-1.8

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, 27 August 2015								
JN	BoJ's Kuroda Speaks about Japan's Inflation Target in NY						23.00	9.00
JN	Japan Buying Foreign Bonds and Stocks	Aug-21					23.50	9.50
AU	Private Capital Expenditure	2Q	-4.0%	-2.5%		-4.4%	1.30	11.30
AU	Private Capital Expenditure 2015-16 Spend	2015/16	118bn	111bn		104bn	1.30	11.30
GE	Import Price Index MoM/YoY	Jul		-0.3%/-1.4%		-0.5%/-1.4%	6.00	16.00
UK	Nationwide House Price MoM/ NSA YoY	Aug		0.4%/3.1%		0.4%/3.5%	6.00	16.00
EC	M3 Money Supply YoY/3m average	Jul		4.9%/5.0%		5.0%/5.1%	8.00	18.00
EC	ECB's Coeure speaks in Paris							21.00
US	GDP Annualized QoQ	2Q S		3.2%		2.3%	12.30	22.30
US	Personal Consumption	2Q S		3.1%		2.9%	12.30	22.30
US	GDP Price Index	2Q S		2.0%		2.0%	12.30	22.30
US	Core PCE QoQ	2Q S		1.8%		1.8%	12.30	22.30
US	Initial Jobless Claims	Aug-22		275K		277K	12.30	22.30
US	Kansas City Fed Hosts Symposium in Jackson Hole, Wyoming							
US	Pending Home Sales MoM/ NSA YoY	Jul		1.0%/8.3%		-1.8%/11.1%	14.00	0.00
US	Kansas City Fed Manf. Activity	Aug		-4		-7	15.00	1.00
Friday, 28 August 2015								
UK	GfK Consumer Confidence	Aug		4		4	23.05	9.05
JN	Jobless Rate	Jul		3.4%		3.4%	23.30	9.30
JN	Natl CPI YoY	Jul		0.2%		0.4%	23.30	9.30
JN	Natl CPI Ex Fresh Food YoY/ Ex Food Energy YoY	Jul		-0.2%/0.6%		0.1%/0.6%	23.30	9.30
JN	Retail Trade MoM/YoY	Jul		0.6%/1.1%		-0.8%/0.9%	23.50	9.50
CH	Industrial Profits YoY	Jul				-0.3%	1.30	11.30
UK	Nationwide House Px MoM/NSA YoY	Aug		0.4%/3.1%		0.4%/3.5%	6.00	16.00
UK	BoE's David Rule speaks in Edinburgh						8.15	18.15
UK	GDP QoQ/YoY	2Q P		0.7%/2.6%		0.7%/2.6%	8.30	18.30
EC	Economic Confidence	Aug		103.8		104	9.00	19.00
EC	Consumer Confidence	Aug F				-6.8	9.00	19.00
GE	CPI MoM/YoY	Aug P		-0.1%/0.1%		0.2%/0.2%	12.00	22.00
US	Personal Income/Spending	Jul		0.4%/0.4%		0.4%/0.2%	12.30	22.30
US	PCE Deflator MoM/YoY	Jul		0.1%/0.3%		0.2%/0.3%	12.30	22.30
US	PCE Core MoM/YoY	Jul		0.1%/1.3%		0.1%/1.3%	12.30	22.30
CH	Leading Index	Jul				98.71	14.00	0.00
US	U. of Mich. Sentiment	Aug F		93.2		92.9	14.00	0.00
Saturday, 29 August 2015								
UK	BoE's Mark Carney speaks at Jackson Hole						2.25	12.25
US	Fed's Fischer remarks on US inflation developments						16.25	2.25
EC	ECB's Constancio speaks at Jackson Hole						16.25	2.25
Monday, 31 August 2015								
NZ	Building Permits MoM	Jul				-4.1%	22.45	8.45
JN	Industrial Production MoM/YoY	Jul P				1.1%/2.30%	23.50	9.50
AU	TD Securities Inflation MoM/YoY	Aug				0.2%/1.6%	0.30	10.30
AU	HIA New Home Sales MoM	Jul				0.5%	1.00	11.00
NZ	ANZ Activity Outlook	Aug				19	1.00	11.00
NZ	ANZ Business Confidence	Aug				-15.3	1.00	11.00
AU	Company Operating Profit QoQ	2Q		0.2%			1.30	11.30
AU	Inventories SA QoQ	2Q		0.4%			1.30	11.30
AU	Private Sector Credit MoM/YoY	Jul				0.4%/5.9%	1.30	11.30
NZ	Money Supply M3 YoY	Jul				9.5%	3.00	13.00
EC	CPI Estimate YoY / Core YoY	Aug				0.2%/1.0%	9.00	19.00
CA	Current Account Balance	2Q				-\$17.50B	12.30	22.30
US	Chicago Purchasing Manager	Aug		54.3		54.7	13.45	23.45
Upcoming Central Bank Interest Rate Announcements								
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

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