



Markets Today

A daily outlook for Australia, key global economies and markets

28 August 2015

I'm Going to Jackson (Hole)

In the immortal words of Johnny Cash (singing) "I 'm going to Jackson..." Nope, can't do it justice, although Ray (MT's co-author) is definitely having an influence on me. But we do see the central bankers heading to Jackson Hole (JH) and the main event will be the speakers starting with the SNB President Jordan. He is then followed by: the BoE's Carney, the Fed's Fisher and the ECB's Constancio. So no matter the events of last night or through the day today, what matters are the speakers over the weekend; particularly at this sensitive time for markets.

The Chinese equity market rallied hard into the close yesterday as investors got behind the idea that the Chinese pension funds were about to invest in the local market and there was talk of more official assistance. The Shanghai ended the day +5.3%. This buoyed other markets, with Europe up strongly, and the US putting in a fairly good effort at an upswing. Commodities were supported and this duly was reflected in the currencies, with the USD higher, and AUD, CAD and NZD outperforming. The EUR and JPY underperformed. Bond yields were higher.

There was additional news that China had eased the pressures in the CNY swap market, as well as equities. We head into a long holiday in China next week (Sep 3-5) and the newsflow suggests that an easing of market stresses is desired before that holiday. It appeared to have worked in the last 24 hours at least.

The data was good overnight, with the US GDP second release showing a strong upward revision, and was consistent across the categories. With some stability in China expected this week, and good data, the chatter at JH is going to get just that bit more interesting.

The USD has been under pressure of late, and US yields are rising. On the other side has been continued intervention in the FX market to slow EM currency depreciation from their central banks. That requires a selling of USD and purchase of the currency in question. This intervention will necessarily result in the sale of underlying reserve assets such as US Treasuries at some point; with or without disruption to broader markets. With the USD making up (on average) 64% of reserve holdings the main channel of reserve asset change is through the US. However, the US market is particularly large, and while not immune to selling by this large investor, it has some alternative buyers. It is something to keep an eye on but not over-react for the moment.

But since the reserve managers started diversifying their reserve portfolios into other currencies, there is the likelihood that as reserves are drawn down (in USDs) that some rebalancing may be required, at some point (it doesn't have to be done immediately). That means selling EURs (with QE in place, the ECB are buyers), JPY (the BoJ are also QE

buyers), as well as GBP (which has a large pool to sell into). It is the rise in holdings in currencies of the smaller markets, which were driven up in the accumulation phase, which might experience some interesting times as reserves are drawn down and rebalanced. That includes AUD and CAD, as well as other smaller currencies. This may not happen in the short term, but as reserves decline, these pressures are more likely to build. So if you see a higher *positive* correlation between currencies and bonds (prices) then this might be your answer.

Yesterday, Australia released its capital expenditure data for Q2. This showed a greater than expected decline in capex for the quarter. On the upside, there was a pickup in the expected capex for the third estimate of 2015/16, although it remains well below that of the 2014/15 equivalent.

Coming Up

The Jackson Hole symposium is held by the Kansas Fed every year and focuses of a topic of the central bank's choosing. This year it is inflation dynamics and monetary policy. With economies still running below (past) potential and commodity prices declining, the ability to hit inflation targets and thus justify normalising interest rates is a very pertinent topic.

The BoE's Carney likes to mix things up a little and his to and fro-ing about the BoE's proximity to normalising rates has generated a fair amount of volatility. Thus his comments should be closely monitored. The key speaker is likely to be Fed Deputy Chair Fisher (Yellen is not attending). What he has to say will underpin more definitively the market's view of when the Fed can raise interest rates. Given we know that they have turned their attention away from employment and towards inflation, add the current market volatility, it would be more of a surprise if he were upbeat and raring to hit the hike button.

Speaking of inflation, we get Japan's CPI today; the BoJ's Kuroda told us yesterday that there was no deflationary problem in Japan, so that's ok then. The CPI official data might tell us different. The US's PCE deflator is released; with the Fed's inflation focus this is important but it might get lost amongst the Fed speak.

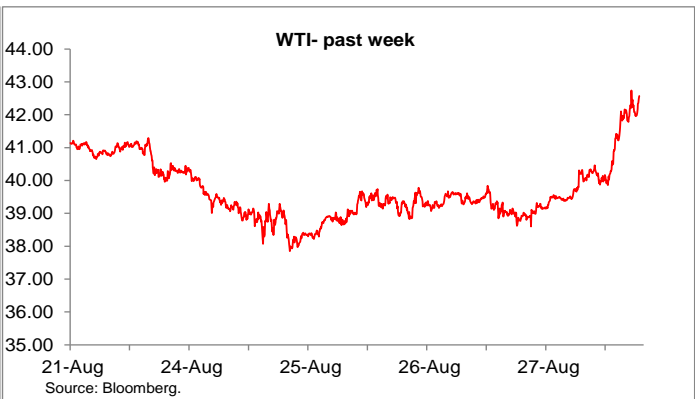
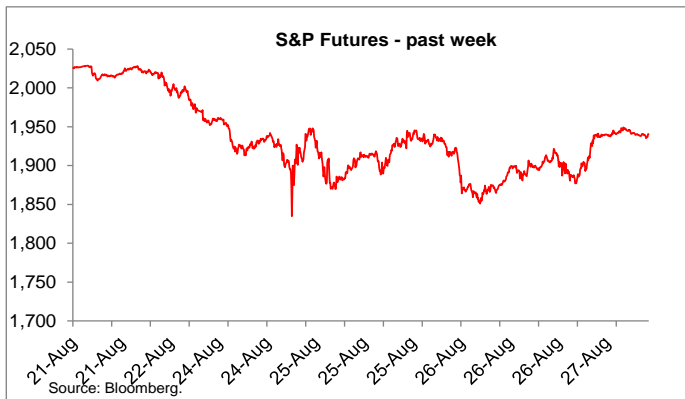
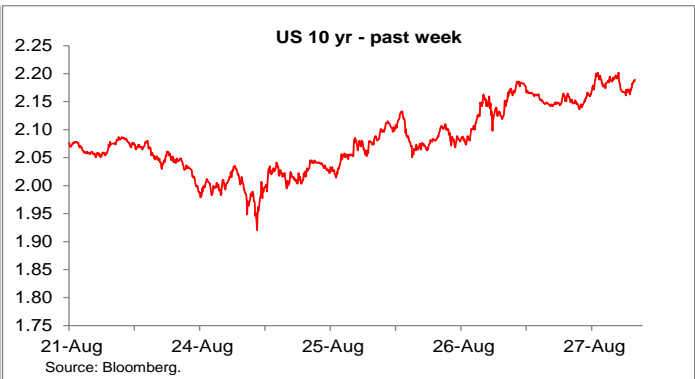
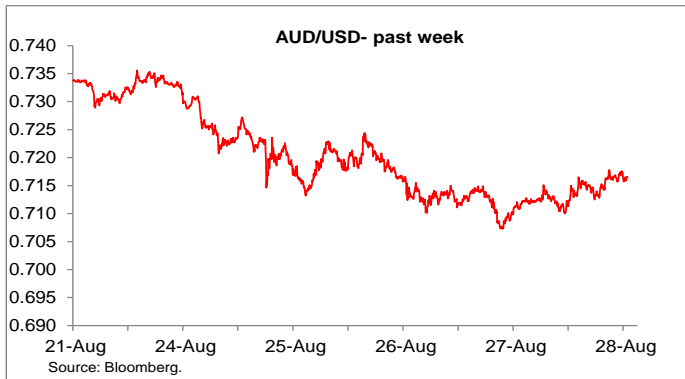
Overnight

On global stock markets, the S&P 500 was +1.70%. Bond markets saw US 10-years +1.42bp to 2.19%. On commodity markets, Brent crude oil +9.81% to \$47.37, gold-0.2% to \$1,122, iron ore +0.5% to \$53.93. AUD is at 0.7169 and the range was 0.7099 to 0.7181.

- US GDP +3.7%A, 3.2E, 2.3P
- US pending home sales +0.5A, 1E, -1.7P

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Markets



Foreign Exchange						
Indicative 24hr ranges (**)				Other FX		
	Last	% chge	Low	High	Last	% chge
AUD	0.7168	0.6	0.7099	0.7181	HKD	7.7501 0.0
NZD	0.6462	0.4	0.6431	0.6490	CNY	6.4056 -0.1
EUR	1.1246	-0.6	1.1203	1.1364	SGD	1.3991 -0.5
GBP	1.5412	-0.3	1.5370	1.5509	IDR	13,990 -1.0
JPY	121.07	1.0	119.79	121.40	THB	35.67 0.0
CAD	1.3217	-0.6	1.3179	1.3306	KRW	1,185 -0.1
AUD/EUR	0.6369	1.2			TWD	32.16 -1.4
AUD/JPY	86.72	1.6			PHP	46.66 0.0
AUD/GBP	0.4648	0.9			CHF	0.97 1.1
AUD/NZD	1.1095	0.3			SEK	8.46 -0.3

Equities			
Major Indices			
	Last	% day	% y/y
Dow	16,634	+2.1	-2.8
S&P 500	1,973	+1.7	-1.4
Nasdaq	4,807	+2.3	5.2
FTSE	6,192	+3.6	-9.3
DAX	10,316	+3.2	7.8
CAC 40	4,658	+2.5	6.0
Nikkei	18,574	+1.1	20.1
Shanghai	3,084	+5.3	40.4
Hang Seng	21,839	+3.6	-11.7
ASX 200	5,233	+1.2	-7.0

Commodities*		
	Last	% day
Oil (Brent)	47.37	9.8
Oil (WTI)	42.56	10.3
Oil (Tapis)	45.32	3.5
Gold	1122.40	-0.2
CRB	192.63	4.0
GS Metals	261.2	-2.1
Aluminium	1550	2.0
Copper	5168	4.2
Nickel	10037	5.2
Zinc	1755	4.0
Ch. steel	1988	1.5
Iron ore	53.9	0.5
Coal	58.4	-0.3
Wheat Chic.	489.8	-0.9
Sugar	11.06	5.0
Cotton	63.83	2.0
Coffee	124.6	1.9

Interest Rates							
Indicative Swap Rates				Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.25	0.33	0.83	2.26	USD 10	2.19	0.01
AUD	2.00	2.13	2.00	3.07	AUD 10	2.71	0.05 0.52
NZD	3.00	2.92	2.80	3.58	NZD 10	3.21	0.03 1.02
EUR	0.05	0.06	0.09	1.06	CAD 10	1.46	0.01 -0.73
GBP	0.50	0.59	1.04	2.02	EUR 10	0.74	0.04 -1.45
JPY	0.08	0.09	0.13	0.57	GBP 10	1.98	0.02 -0.21
CAD	0.50	1.17	0.69	1.93	JPY 10	0.39	0.02 -1.80

Overnight Futures		
	Last	Chge
Australia		
3 mth bill	97.90	-0.02
3 Yr bond	98.18	-0.03
10 Yr bonc	97.24	0.02
3/10 sprd	0.94	-0.05
SPI	90.0	1.7

CO ₂ Emissions - Euros		
	Last	% day
Jun-2015	8.08	-0.7
Dec-2015	8.05	-0.7
Dec-2016	8.13	-0.7

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			GMT	AEST
			Forecast	Consensus	Actual		
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
JN	Small Business Confidence	Aug				14.00	0.00
Tuesday, 1 September 2015							
NZ	Terms of Trade Index QoQ	2Q			1.5%	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Aug-30			113	23.30	9.30
JN	Capital Spending Ex Software	2Q			8.1%	23.50	9.50
AU	CoreLogic RP Data House Px MoM	Aug			2.80%	0.00	10.00
NZ	QV House Prices YoY	Aug			10.10%	0.00	10.00
CH	Manufacturing PMI	Aug		49.7	50	1.00	11.00
CH	Non-manufacturing PMI	Aug			53.9	1.00	11.00
JN	Labor Cash Earnings YoY	Jul				1.30	11.30
JN	Real Cash Earnings YoY	Jul				1.30	11.30
AU	BoP Current Account Balance	2Q			-10.7B	1.30	11.30
AU	Building Approvals MoM/YoY	Jul			-8.2%/8.6%	1.30	11.30
AU	Net Exports of GDP	2Q			0.5	1.30	11.30
CH	Caixin China PMI Mfg	Aug F			47.1	1.45	11.45
AU	RBA Cash Rate Target	Sep-01		2.00%	2.00%	4.30	14.30
AU	Commodity Index AUD	Aug			79.5/-20.2%	6.30	16.30
GE	Unemployment Claims Rate SA	Aug			6.4%	7.55	17.55
GE	Markit/BME Germany Manufacturing PMI	Aug F			53.2	7.55	17.55
EC	Markit Eurozone Manufacturing PMI	Aug F			52.4	8.00	18.00
UK	Net Lending Sec. on Dwellings	Jul			2.6B	8.30	18.30
UK	Money Supply M4 MoM	Jul			-0.5%	8.30	18.30
UK	Markit UK PMI Manufacturing SA	Aug			51.9	8.30	18.30
EC	Unemployment Rate	Jul			11.1%	9.00	19.00
CA	GDP MoM	Jun			-0.2%/0.5%	12.30	22.30
CA	RBC Canadian Manufacturing PMI	Aug			50.8	13.30	23.30
US	Markit US Manufacturing PMI	Aug F			52.9	13.45	23.45
US	Construction Spending MoM	Jul		0.6%	0.1%	14.00	0.00
US	IBD/TIPP Economic Optimism	Sep			46.9	14.00	0.00
US	ISM Manufacturing	Aug		52.8	52.7	14.00	0.00
US	ISM Prices Paid	Aug		41	44	14.00	0.00
US	Fed's Rosengren Speaks on Economic Outlook					17.10	3.10
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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