

Markets Today

A daily outlook for Australia, key global economies and markets

25 August 2015

"Oh What A Night"

Frankie Vallie and the Four Seasons' 1975 Classic was originally penned as a celebration of the end of Prohibition in 1933. That may not therefore seem like an appropriate title for today's missive, though there will be more than a few traders and investor staggering out of their Manhattan offices grateful that the law still allows them to drown their sorrows in their local watering hole.

Feeding off Monday's 8.5% plunge in the Shanghai index and not much else, US stock markets have just closed with the S&P500 down 3.92%, the NASDAQ -3.81% and the Dow 3.56%. This masks much more extreme intraday volatility and which saw indices down more than 5% earlier in the US session. The 'fear gauge' soubriquet commonly applied to the VIX (a measure of the volatility of the S&P 500 option market but which only goes up when stocks go down) hit a high of 53% today. Earlier this month it was trading below 11, so a rally of 487% from intra month low to high (so far).

This is relevant in our part of the world since it feeds directly into our assessment of short term fair value for the AUD/USD rate (not that we recommend using this as a short term trading tool). Last week, this was indicating short term fair value close to 80 cents; today, it is more like 68 cents. It comes as little surprise therefore to come in to find that the AUD (and NZD – also a highly risk sensitive currency) are the worst performer in the G10 currency arena by a very considerable margin. AUD is down 3% on Friday's close and the NZD -2.15%. There's still a stewards enquiry going on as to the act low in the NZD/USD, but our New York desk suggest it looks like being 0.62, and which if right means that at one point last night the flightless bird was off 7.3%! The low of the AUD meanwhile looks to have been somewhere near 0.7050, so over 4% down.

Pure volatility aside, we also need to remain highly cognizant of the strong correlation between the AUD and Asian EM currencies. More pressure on the latter today almost certainly means more downward pressure on the AUD at some point. In this regard, the fixing of the USD/CNY rate by the PBoC this morning will be a very key focal point, after the central bank failed last night to do its now customary job of intervening to push USD/CNY into the onshore (18:30 AEST) close. Instead, USD/CNY blew out to above 6.40 from below 6.39 on Friday. USD/CNH is closing in New York around 6.50, about 0.75% up on the day. Though other Asia currencies has arguably already weakened in anticipation of further depreciation in the RMB, a higher fix today may well elicit a familiar feedback loop back to the currencies in the rest of the region.

If there is a surprise looking at the overnight currency scoreboard, it is perhaps that currencies that have become quite pure oil price plays – CAD and NOK, have fared worse

(oil is off 5.75-6.5%). The Canadian dollar is off little more than 0.5% and the NOK less than 0.2% lower. Less surprising is that the JPY – the traditional bastion of safe haven support in a crisis – has fared best with a near 3% gain (at one point USD/JPY traded as low as Y116.18). Japan may no longer be running large current account surplus but its enormous stock of external assets makes the currency ripe for large scale repatriation flows in a crisis. Also unsurprising is Euro strength (+2%) and where we continue to see purging of short positioning (more so we suspect in spot and options than currency futures).

Perhaps the other surprise to some is that US bond yields aren't lower, especially at the front end of the curve (2yr Treasuries 4.5bps lower at 0.568%). That the dollar is not stronger might be part of the story here, while incoming Fed speak is holding to the view that the US central bank will still make a first move on rates this year (really?). Dennis Lockhart, considered a centrist and a current FOMC voter, has just said that the Yuan, dollar and oil prices all complicate the US outlook (no mention of stocks of course), but that he expects the Fed to begin raising rates this year. Meanwhile ex-Dallas Fed President Richard Fisher has just told CNBC markets today were quite orderly. He sounds more like an investment banker who just might be short of equities than a policy maker. Oh wait – he is.

Coming Up

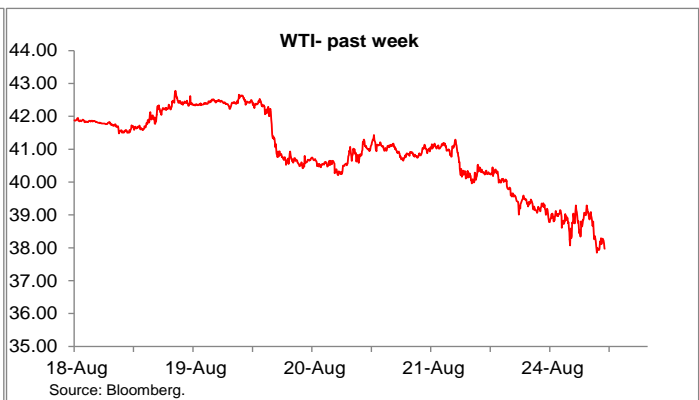
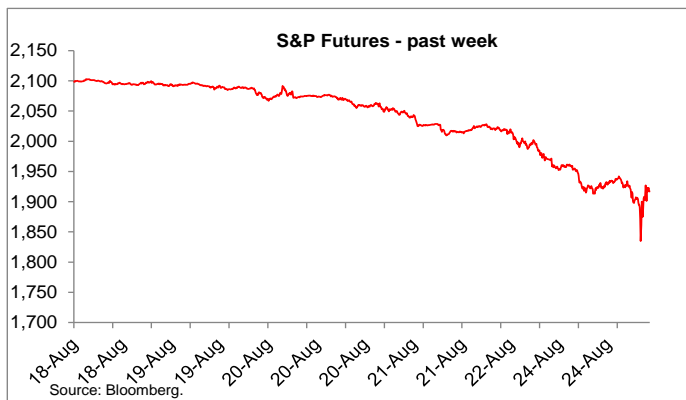
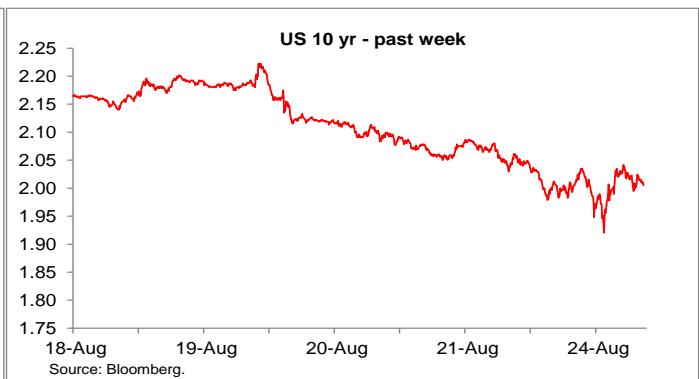
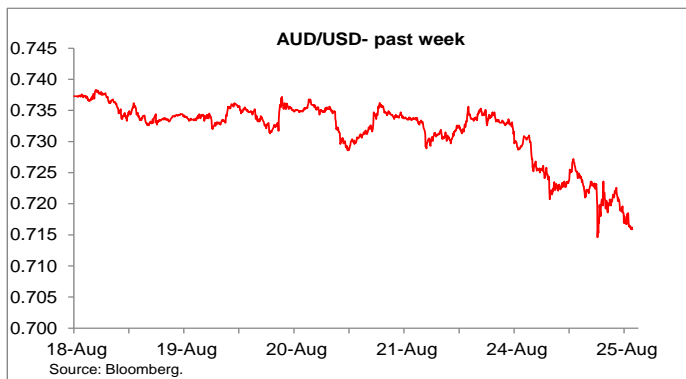
There's nothing much on the developed world calendar to detract from or amplify the ongoing travails of global stocks and currency markets. The only thing on the domestic calendar this morning is the weekly ANZ Roy Morgan consumer confidence reading – safely ignored. Offshore tonight in Europe, as well as detail of German Q2 GDP we'll get the August German IFO survey. The interest here should be in the extent – or otherwise - to which German business sentiment has been negatively impacted by China's recent currency moves and sharply elevated concerns regarding China's growth slowdown and how that is impacting demand for exports from Europe's primary growth locomotive.

In the US tonight, its housing data courtesy of New Home sales (expected to rebound 5.8% after June's 6.8% fall) and Case-Shiller house price indices, plus the Conference Board's version of consumer confidence (see at 93.4 up from 90.9 in July).

Overnight

On global stock markets, the S&P 500 was -3.90%. Bond markets saw US 10-years -3.13bp to 2.01%. On commodity markets, Brent crude oil -6.82% to \$42.36, gold-0.5% to \$1,153, iron ore -5.0% to \$53.28. AUD is at 0.7159 and the range was 0.705 to 0.7318. Ray.attrill@nab.com.au

Markets



Foreign Exchange							Equities				Commodities*																																																																																								
<table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="4">Indicative 24hr ranges (**)</th> <th colspan="2">Other FX</th> </tr> <tr> <th>Last</th> <th>% chge</th> <th>Low</th> <th>High</th> <th>Last</th> <th>% chge</th> </tr> </thead> <tr> <td>AUD</td> <td>0.7159</td> <td>-2.1</td> <td>0.7050</td> <td>0.7318</td> <td>HKD</td> <td>7.7516</td> <td>0.0</td> </tr> <tr> <td>NZD</td> <td>0.6480</td> <td>-3.1</td> <td>0.6130</td> <td>0.6692</td> <td>CNY</td> <td>6.4041</td> <td>0.2</td> </tr> <tr> <td>EUR</td> <td>1.1606</td> <td>1.9</td> <td>1.1365</td> <td>1.1714</td> <td>SGD</td> <td>1.4103</td> <td>0.1</td> </tr> <tr> <td>GBP</td> <td>1.5765</td> <td>0.5</td> <td>1.5631</td> <td>1.5803</td> <td>IDR</td> <td>14,050</td> <td>0.8</td> </tr> <tr> <td>JPY</td> <td>118.59</td> <td>-2.8</td> <td>116.18</td> <td>122.13</td> <td>THB</td> <td>35.67</td> <td>-0.1</td> </tr> <tr> <td>CAD</td> <td>1.3279</td> <td>0.7</td> <td>1.3147</td> <td>1.3289</td> <td>KRW</td> <td>1,199</td> <td>0.3</td> </tr> <tr> <td>AUD/EUR</td> <td>0.6169</td> <td>-4.0</td> <td></td> <td></td> <td>TWD</td> <td>32.82</td> <td>0.5</td> </tr> <tr> <td>AUD/JPY</td> <td>84.89</td> <td>-4.9</td> <td></td> <td></td> <td>PHP</td> <td>46.81</td> <td>0.3</td> </tr> <tr> <td>AUD/GBP</td> <td>0.4541</td> <td>-2.5</td> <td></td> <td></td> <td>CHF</td> <td>0.93</td> <td>-1.6</td> </tr> <tr> <td>AUD/NZD</td> <td>1.1047</td> <td>1.0</td> <td></td> <td></td> <td>SEK</td> <td>8.26</td> <td>-1.1</td> </tr> </table>								Indicative 24hr ranges (**)				Other FX		Last	% chge	Low	High	Last	% chge	AUD	0.7159	-2.1	0.7050	0.7318	HKD	7.7516	0.0	NZD	0.6480	-3.1	0.6130	0.6692	CNY	6.4041	0.2	EUR	1.1606	1.9	1.1365	1.1714	SGD	1.4103	0.1	GBP	1.5765	0.5	1.5631	1.5803	IDR	14,050	0.8	JPY	118.59	-2.8	116.18	122.13	THB	35.67	-0.1	CAD	1.3279	0.7	1.3147	1.3289	KRW	1,199	0.3	AUD/EUR	0.6169	-4.0			TWD	32.82	0.5	AUD/JPY	84.89	-4.9			PHP	46.81	0.3	AUD/GBP	0.4541	-2.5			CHF	0.93	-1.6	AUD/NZD	1.1047	1.0			SEK	8.26	-1.1
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 | Major Indices | | | | |---------------|--------|-------|-------| | | Last | % day | % y/y | | Dow | 15,871 | -3.6 | -6.6 | | S&P 500 | 1,893 | -3.9 | -4.8 | | Nasdaq | 4,526 | -3.8 | -0.3 | | FTSE | 5,899 | -4.7 | -12.9 | | DAX | 9,648 | -4.7 | 3.3 | | CAC 40 | 4,383 | -4.2 | 3.1 | | Nikkei | 18,541 | -4.6 | 18.7 | | Shanghai | 3,210 | -8.5 | 44.0 | | Hang Seng | 21,252 | -5.2 | -15.6 | | ASX 200 | 5,001 | -4.1 | -11.2 | | | | | | | Last | % day | |-------------|---------|-------| | Oil (Brent) | 42.36 | -6.8 | | Oil (WTI) | 37.97 | -6.1 | | Oil (Tapis) | 44.17 | -7.6 | | Gold | 1153.40 | -0.5 | | CRB | 186.22 | -2.7 | | GS Metals | 261.0 | -2.4 | | Aluminium | 1508 | -1.8 | | Copper | 4966 | -1.9 | | Nickel | 9486 | -6.8 | | Zinc | 1702 | -3.5 | | Ch. steel | 1940 | -1.5 | | Iron ore | 53.3 | -5.0 | | Coal | 58.5 | -0.5 | | Wheat Chic. | 508.0 | 0.8 | | Sugar | 10.39 | -0.5 | | Cotton | 64.64 | -4.4 | | Coffee | 121.7 | -3.8 | | | || | Interest Rates | | | | Benchmark 10 Year Bonds | | | | |-----------------------|------|------|------|-------------------------|--------|------|-------| | Indicative Swap Rates | | | | Last | chge | Sprd | | | Cash | 3mth | 2Yr | 10Yr | | | | | | USD | 0.25 | 0.33 | 0.79 | 2.08 | USD 10 | 2.01 | -0.03 | | AUD | 2.00 | 2.12 | 1.91 | 2.90 | AUD 10 | 2.50 | -0.09 | | NZD | 3.00 | 2.93 | 2.81 | 3.47 | NZD 10 | 3.14 | -0.02 | | EUR | 0.05 | 0.06 | 0.09 | 0.95 | CAD 10 | 1.26 | -0.01 | | GBP | 0.50 | 0.58 | 1.01 | 1.90 | EUR 10 | 0.59 | 0.03 | | JPY | 0.10 | 0.09 | 0.13 | 0.54 | GBP 10 | 1.82 | 0.13 | | CAD | 0.50 | 1.17 | 0.64 | 1.79 | JPY 10 | 0.35 | -0.02 | | | | | | | | | Overnight Futures | | | |-------------------|--------|-------| | | Last | Chge | | Australia | | | | 3 mth bill | 97.96 | 0.01 | | 3 Yr bond | 98.31 | 0.02 | | 10 Yr bonc | 97.46 | 0.03 | | 3/10 sprd | 0.86 | -0.01 | | SPI | -207.0 | -4.2 | | | | | | CO ₂ Emissions - Euros | | | |-----------------------------------|------|-------| | | Last | % day | | Jun-2015 | 8.21 | -0.4 | | Dec-2015 | 8.18 | -0.4 | | Dec-2016 | 8.26 | -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
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		0.4%		0.4%	6.00	16.00
GE	GDP NSA YoY	2Q F		1.6%		1.6%	6.00	16.00
GE	IFO Business Climate	Aug		107.5		108	8.00	18.00
GE	IFO Current Assessment	Aug		113.9		113.9	8.00	18.00
GE	IFO Expectations	Aug		101.9		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/Services PMI	Aug P		/54.0		55.7/55.7	13.45	23.45
US	New Home Sales / MoM	Jul		511K/6.0%		482K/-6.8%	14.00	0.00
US	Consumer Confidence Index	Aug		93.0			14.00	0.00
US	Richmond Fed Manufact. Index	Aug		9			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	-785m	-600m		-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	-1.7%			-2.4%	1.30	11.30
AU Remarks by RBA Governor Glenn Stevens at a National Reform Summit								
CH	Westpac-MNI Consumer Sentiment	Aug				114.5	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		-0.40%		3.4%	12.30	22.30
US	Durables Ex Transportation	Jul		0.20%		0.8%	12.30	22.30
US	Cap Goods Orders Nondef Ex Air	Jul		0.50%		0.9%	12.30	22.30
US	Cap Goods Ship Nondef Ex Air	Jul				-0.1%	12.30	22.30
US	Fed's Dudley speaks at Press Briefing on Local Economy						14.00	0.00
Thursday, 27 August 2015								
JN	Japan Buying Foreign Bonds and Stocks	Aug-21					23.50	9.50
AU	Private Capital Expenditure	2Q	-4.0%			-4.4%	1.30	11.30
EC	M3 Money Supply YoY	Jul				5.0%	8.00	18.00
EC	M3 3-month average	Jul				5.1%	8.00	18.00
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					12.30	22.30
US	Continuing Claims	Aug-15					12.30	22.30
US	Bloomberg Consumer Comfort	Aug-23					13.45	23.45
US Kansas City Fed Hosts Symposium in Jackson Hole, Wyoming								
GE	Retail Sales MoM	Jul		1.5%		-2.3%	42062.00	09/03
GE	Retail Sales YoY	Jul		1.5%		5.1%	42062.00	09/03
US	Pending Home Sales MoM	Jul		1.5%		-1.8%	14.00	0.00
US	Pending Home Sales NSA YoY	Jul		9.0%		11.1%	14.00	0.00
US	Kansas City Fed Manf. Activity	Aug				-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	Job-To-Applicant Ratio	Jul		1.19		1.19	23.30	9.30
JN	Overall Household Spending YoY	Jul		0.5%		-2.0%	23.30	9.30
JN	Natl CPI YoY	Jul		0.2%		0.4%	23.30	9.30
JN	Natl CPI Ex Fresh Food YoY	Jul		-0.2%		0.10%	23.30	9.30
JN	Natl CPI Ex Food, Energy YoY	Jul		0.6%		0.6%	23.30	9.30
JN	Retail Trade MoM/YoY	Jul		1.10%		0.9%	23.50	9.50
CH	Industrial Profits YoY	Jul				-0.3%	1.30	11.30
UK	Nationwide House Px NSA YoY	Aug		3.10%		3.50%	6.00	16.00
UK	GDP QoQ/YoY	2Q P		0.7%/2.6%		0.7%/2.6%	8.30	18.30
EC	Economic Confidence	Aug					9.00	19.00
GE	CPI MoM/YoY	Aug P		0.0%/0.2%		0.2%/0.2%	12.00	22.00
US	Personal Income	Jul					12.30	22.30
US	Personal Spending	Jul		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						08/31
US	U. of Mich. Sentiment	Aug F		93.2		92.9	14.00	0.00
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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