

Markets Today

A daily outlook for Australia, key global economies and markets

2 September 2015

The Merry Go Round

Things aren't really getting better. The circular theme of markets continues, with equities weakening, weighing on broader risk, weighing on currencies, weighing on equities. And so it goes. While the Fed waits to decide to raise rates, this is not helping the global markets. Add the increased supply of many commodities, and the commodity complex weakens, adding to equity weakness.

We saw that circularity in the overnight session, with yesterday's down day in Chinese equities being followed by 2.5-3% declines in European and US stocks. Oil failed to hold its gains of the day before and then some and the USD was against weaker against the majors, but stronger against EM. The AUD was the underperformer.

There was surprisingly little movement in the bond market. The reason for this is a little murky but there are conflicting forces at play. While none can be wholeheartedly proven just yet it could be the case that: growth rates are yet to be proven to be weaker but the concerns are driving down yields. This is balanced against the idea that global reserve managers are selling bonds and driving up yields. It might be a question of time needed to make this clearer or see which force is the over-riding factor.

The outlook for the Fed inched back towards the "no" hike again last night, with the US ISM coming in relatively weak. It was the softest read since May 2013 and driven by new orders, export orders in particular. While the Fed speakers at Jackson Hole were pretty relaxed about global volatility, they may not be able to fully ignore this indicator of health in the US economy. The series for production, inventories and employment also declined.

The Fed's Rosengren (2016 voter, dove) is looking for a more modest tightening cycle and the long term fed funds rate will be lower than in previous cycles. He did, in Q&A, acknowledge the risks from the current period of market volatility.

Today's data may have suited Rosengren's view of the world, but not everyone's. There has been a lot invested in the Fed's move off the zero interest rate bound and it appears that the window of opportunity is getting smaller and smaller. It isn't that the US economy might not be ready, and the labour market report at the end of the week will add to that debate, but can the rest of the world?

In a world of global interconnectedness, in financial markets as much as anything else, this decision from the Fed shows how difficult it may be for even the biggest and most open economies to pursue independent monetary policy.

The present global market ructions also show how much the policy path since 2008 have encouraged that interconnectedness.

That makes deciphering expected market behaviour even more difficult than it usually is. And generates more volatility. The path ahead is definitely not going to be a straight line; for the Fed or for assets.

Other Events

China's official PMI came in lower on the month, as expected, yesterday; so showing a decline but nothing worse than expected. The equity markets remained under pressure. There was a new policy announcement to impose a 20% reserve requirement on USD/CNY forwards. This didn't add positively to sentiment.

The RBA kept policy unchanged yesterday and while there were some changes to the statement we were left with the impression that they are in no hurry to cut interest rates (to paraphrase Tapas Strickland, NAB Economist). So we are left monitoring global events and volatility. And the RBA joins the host of G10 central banks in the last week who have expressed their relatively measured commentary regarding the volatility.

Coming Up

Australia releases its GDP for Q2 today. This can often have an outsized market impact for a backward looking report. The market is looking for 0.4%qoq, NAB is at 0.5%. Given the external volatility, any AUD reaction is likely to be biased to the prevailing market mood.

We have a range of US data, but none really first tier: ADP employment, factory orders and the beige book.

Most importantly coming up, our Australian Head of FX sales, Derek Borg, is cycling to Noosa to raise funds for MindSpace. NAB readers can find details on the NAB intranet or everyone can check it out at www.cycle4life.com.au.

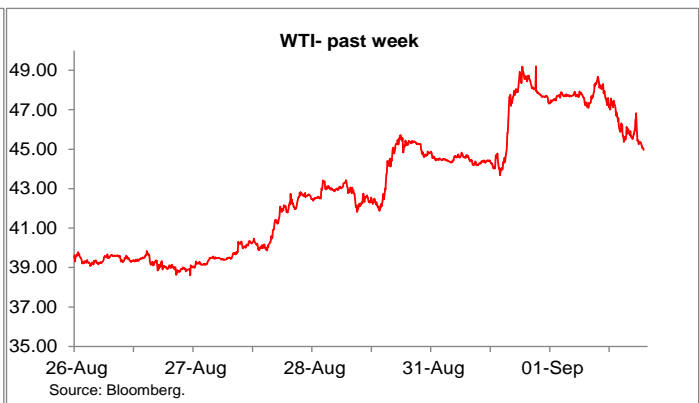
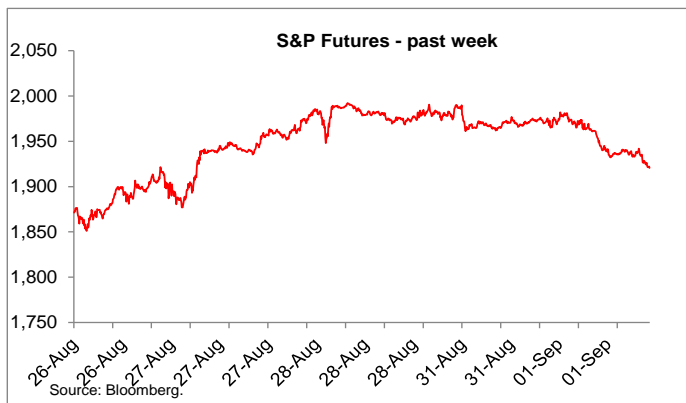
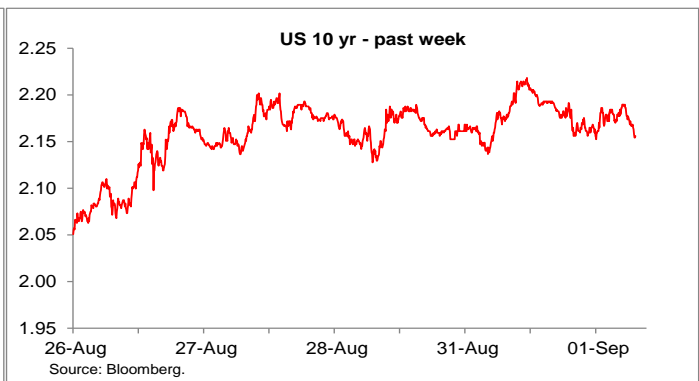
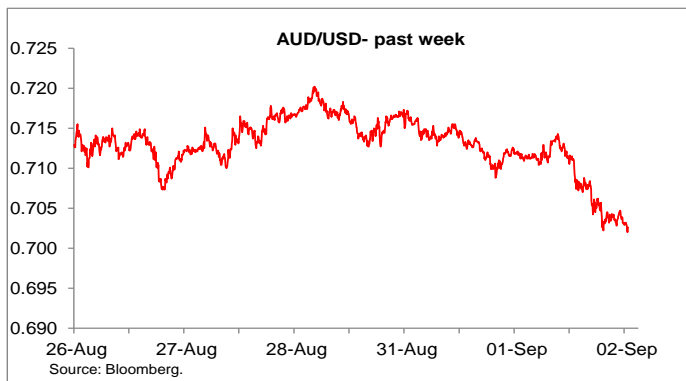
Overnight

On global stock markets, the S&P 500 was -3.00%. Bond markets saw US 10-years -6.02bp to 2.16%. On commodity markets, Brent crude oil -9.31% to \$49.11, gold+0.6% to \$1,139, iron ore +0.7% to \$56.59. AUD is at 0.702 and the range was 0.7016 to 0.7154.

- US ISM 51.1A, 52.5E, 52.7P
- EU PMI f 52.3A, 52.4E, 52.4P
- China PMI 49.7A, E 50P
- RBA unchanged
- AU BoP -19bnA, -15.9E, -13.5P

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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="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>0.7020</td> <td>-1.3</td> <td>0.7016</td> <td>0.7154</td> <td>HKD</td> <td>7.7501 0.0</td> </tr> <tr> <td>NZD</td> <td>0.6334</td> <td>-0.1</td> <td>0.6317</td> <td>0.6390</td> <td>CNY</td> <td>6.3642 -0.2</td> </tr> <tr> <td>EUR</td> <td>1.1304</td> <td>0.8</td> <td>1.1208</td> <td>1.1332</td> <td>SGD</td> <td>1.4120 0.0</td> </tr> <tr> <td>GBP</td> <td>1.5306</td> <td>-0.3</td> <td>1.5300</td> <td>1.5408</td> <td>IDR</td> <td>14,098 0.2</td> </tr> <tr> <td>JPY</td> <td>119.70</td> <td>-1.3</td> <td>119.54</td> <td>121.27</td> <td>THB</td> <td>35.72 -0.3</td> </tr> <tr> <td>CAD</td> <td>1.3208</td> <td>0.5</td> <td>1.3119</td> <td>1.3234</td> <td>KRW</td> <td>1,172 -0.9</td> </tr> <tr> <td>AUD/EUR</td> <td>0.6219</td> <td>-2.1</td> <td></td> <td></td> <td>TWD</td> <td>32.41 -0.8</td> </tr> <tr> <td>AUD/JPY</td> <td>84.14</td> <td>-2.5</td> <td></td> <td></td> <td>PHP</td> <td>46.73 -0.1</td> </tr> <tr> <td>AUD/GBP</td> <td>0.4591</td> <td>-1.1</td> <td></td> <td></td> <td>CHF</td> <td>0.96 -0.8</td> </tr> <tr> <td>AUD/NZD</td> <td>1.1084</td> <td>-1.2</td> <td></td> <td></td> <td>SEK</td> <td>8.44 -0.6</td> </tr> </table>								Indicative 24hr ranges (**)				Other FX		Last	% chge	Low	High	Last	% chge	AUD	0.7020	-1.3	0.7016	0.7154	HKD	7.7501 0.0	NZD	0.6334	-0.1	0.6317	0.6390	CNY	6.3642 -0.2	EUR	1.1304	0.8	1.1208	1.1332	SGD	1.4120 0.0	GBP	1.5306	-0.3	1.5300	1.5408	IDR	14,098 0.2	JPY	119.70	-1.3	119.54	121.27	THB	35.72 -0.3	CAD	1.3208	0.5	1.3119	1.3234	KRW	1,172 -0.9	AUD/EUR	0.6219	-2.1			TWD	32.41 -0.8	AUD/JPY	84.14	-2.5			PHP	46.73 -0.1	AUD/GBP	0.4591	-1.1			CHF	0.96 -0.8	AUD/NZD	1.1084	-1.2			SEK	8.44 -0.6
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 | Major Indices | | | | |---------------|--------|-------|-------| | | Last | % day | % y/y | | Dow | 16,068 | -2.8 | -6.0 | | S&P 500 | 1,913 | -3.0 | -4.5 | | Nasdaq | 4,640 | -2.9 | 1.3 | | FTSE | 6,059 | -3.0 | -11.2 | | DAX | 10,016 | -2.4 | 5.7 | | CAC 40 | 4,541 | -2.3 | 3.7 | | Nikkei | 18,166 | -3.8 | 15.9 | | Shanghai | 3,167 | -1.2 | 39.7 | | Hang Seng | 21,185 | -2.2 | -14.4 | | ASX 200 | 5,096 | -2.1 | -9.9 | | | | | | | Last | % day | |-------------|---------|-------| | Oil (Brent) | 49.11 | -9.3 | | Oil (WTI) | 44.95 | -8.6 | | Oil (Tapis) | 52.99 | 7.1 | | Gold | 1139.00 | 0.6 | | CRB | 196.00 | -3.0 | | GS Metals | 273.5 | 0.0 | | Aluminium | 1591 | -0.3 | | Copper | 5085 | -1.2 | | Nickel | 9736 | -3.0 | | Zinc | 1809 | -0.1 | | Ch. steel | 1957 | -0.1 | | Iron ore | 56.6 | 0.7 | | Coal | 59.7 | 2.1 | | Wheat Chic. | 486.3 | 0.3 | | Sugar | 10.71 | 0.2 | | Cotton | 63.58 | -0.3 | | Coffee | 120.8 | -2.8 | | | || | Interest Rates | | | | Benchmark 10 Year Bonds | | | Overnight Futures | | | |-----------------------|------|------|------|-------------------------|--------|------|-------------------|-------|------| | Indicative Swap Rates | | | | Last | | | Last | | | | | Cash | 3mth | 2Yr | 10Yr | | chge | Spnd | | Chge | | USD | 0.25 | 0.33 | 0.84 | 2.20 | USD 10 | 2.16 | -0.06 | | | | AUD | 2.00 | 2.13 | 1.96 | 3.03 | AUD 10 | 2.64 | -0.03 | 0.48 | | | NZD | 3.00 | 2.90 | 2.77 | 3.56 | NZD 10 | 3.20 | -0.02 | 1.04 | | | EUR | 0.05 | 0.06 | 0.09 | 1.12 | CAD 10 | 1.43 | -0.07 | -0.73 | | | GBP | 0.50 | 0.59 | 1.04 | 1.98 | EUR 10 | 0.80 | 0.00 | -1.36 | | | JPY | 0.10 | 0.09 | 0.12 | 0.55 | GBP 10 | 1.93 | -0.03 | -0.22 | | | CAD | 0.50 | 1.17 | 0.71 | 1.89 | JPY 10 | 0.36 | -0.02 | -1.80 | | | | | | | | | | Australia | | | |------------|-------|-------| | | Last | Chge | | 3 mth bill | 97.89 | 0.00 | | 3 Yr bond | 98.22 | -0.01 | | 10 Yr bonc | 97.30 | 0.02 | | 3/10 sprd | 0.92 | -0.03 | | SPI | -85.0 | -1.7 | | | | | CO ₂ Emissions - Euros | | | |-----------------------------------|------|-------| | | Last | % day | | Jun-2015 | 8.05 | -0.7 | | Dec-2015 | 8.02 | -0.7 | | Dec-2016 | 8.10 | -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 Forecast	Consensus	Actual	Previous	GMT	AEST
Wednesday, 2 September 2015								
JN	Monetary Base YoY	Aug				32.8%	23.50	9.50
NZ	ANZ Commodity Price \$NZ denominated	Aug	+1.5%			-6.7%	1.00	11.00
AU	GDP SA QoQ/YoY	2Q	0.5%/2.2%	0.4%/2.2%		0.9%/2.3%	1.30	11.30
AU	NAB Online Retail Sales Index						1.30	11.30
UK	Markit/CIPS UK Construction PMI	Aug		57.5		57.1	8.30	18.30
EC	PPI MoM/YoY	Jul		-0.1%/-2.1%		-0.1%/-2.2%	9.00	19.00
US	ADP Employment Change	Aug		200K		185K	12.15	22.15
US	Nonfarm Productivity	2Q F		2.9%		1.3%	12.30	22.30
US	ISM New York	Aug				68.8	13.45	23.45
US	Factory Orders / Ex Trans	Jul		0.9%/		1.8%/0.5%	14.00	0.00
US	U.S. Federal Reserve Releases Beige Book						18.00	4.00
Thursday, 3 September 2015								
NZ	Value of All Buildings SA QoQ	2Q	1.00%	0.5%		1.5%	22.45	8.45
AU	AiG Perf of Services Index	Aug				54.1	23.30	9.30
AU	Trade Balance	Jul	-3600M	-3160M		-2933M	1.30	11.30
AU	Retail Sales MoM	Jul	0.5%	0.4%		0.7%	1.30	11.30
JN	Nikkei Japan PMI Composite	Aug				51.5	1.35	11.35
JN	BoJ's Kiuchi speaks in Aomori						1.30	11.30
EC	Markit Eurozone Services PMI	Aug F		54.3		54.3	8.00	18.00
UK	Markit/CIPS UK Composite PMI	Aug				56.6	8.30	18.30
EC	Retail Sales MoM/YoY	Jul		0.5%/2.0%		-0.6%/1.2%	9.00	19.00
EC	ECB Main Refinancing Rate	Sep-03				0.1%	11.45	21.45
CA	Int'l Merchandise Trade	Jul		-1.20B		-0.48B	12.30	22.30
US	Initial Jobless Claims	Aug-29				271K	12.30	22.30
US	Trade Balance	Jul		-\$44.20B		-\$43.84B	12.30	22.30
US	Markit US Composite PMI	Aug F				55	13.45	23.45
US	ISM Non-Manf. Composite	Aug		58.2		60.3	14.00	0.00
Friday, 4 September 2015								
JN	Labor Cash Earnings YoY	Jul		2.0%		-2.4%	1.30	11.30
GE	Factory Orders MoM	Jul		-0.6%/0.4%		2%/7.2%	6.00	16.00
UK	BoE/GfK Inflation Next 12 Mths	Aug				2.2%	8.30	18.30
CA	Labor Productivity QoQ	2Q				-0.1%	12.30	22.30
US	Fed's Lacker Speaks "The Case Against Further Delay"						12.10	22.10
CA	Unemployment Rate	Aug		6.8%		6.8%	12.30	22.30
US	Change in Nonfarm Payrolls	Aug		218K		215K	12.30	22.30
US	Unemployment Rate	Aug		5.2%		5.3%	12.30	22.30
US	Average Hourly Earnings MoM/YoY	Aug		0.2%/2.1%		0.2%/2.1%	12.30	22.30
US	Average Weekly Hours All Employees	Aug		34.5		34.6	12.30	22.30
CA	Ivey Purchasing Managers Index SA	Aug		53.3		52.9	14.00	0.00
WD	G20 Finance Ministers Meeting in Ankara							
Monday, 7 September 2015								
AU	AiG Perf of Construction Index	Aug				47.1	23.30	9.30
AU	ANZ Job Advertisements MoM	Aug				-0.4%	1.30	11.30
JN	Leading Index CI	Jul P				106.5	5.00	15.00
JN	Coincident Index	Jul P				112.3	5.00	15.00
GE	Industrial Production SA MoM	Jul				-1.4%	6.00	16.00
GE	Industrial Production WDA YoY	Jul				0.6%	6.00	16.00
AU	Foreign Reserves	Aug				A\$68.9B	6.30	16.30
EC	Sentix Investor Confidence	Sep				18.4	8.30	18.30
Tuesday, 8 September 2015								
NZ	ANZ Truckometer Heavy MoM	Aug				-0.3%	22.00	8.00
NZ	Mfg Activity Volume QoQ	2Q				-0.3%	22.45	8.45
NZ	Mfg Activity SA QoQ	2Q				-2.8%	22.45	8.45
UK	BRC Sales Like-For-Like YoY	Aug				1.2%	23.01	9.01
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Sep-06					23.30	9.30
JN	BoP Current Account Balance/Adjusted	Jul				¥558.6B/¥1300.3B	23.50	9.50
JN	Trade Balance BoP Basis	Jul				¥102.6B	23.50	9.50
JN	GDP SA QoQ/Annualised QoQ	2Q F				-0.4%/-1.6%	23.50	9.50
AU	NAB Business Conditions/Confidence	Aug				6/4	1.30	11.30
GE	Trade Balance	Jul				24.0B	6.00	16.00
GE	Imports/Exports SA MoM	Jul				-0.5%/-1.0%	6.00	16.00
US	NFIB Small Business Optimism	Aug				95.4	10.00	20.00
CH	Trade Balance	Aug				\$43.03B	14.00	0.00
CH	Exports YoY CNY	Aug				-8.9%	14.00	0.00
CH	Imports YoY CNY	Aug				-8.6%	14.00	0.00
CH	Trade Balance CNY	Aug				263.00B	14.00	0.00
JN	Eco Watchers Survey Current	Aug				51.6	14.00	0.00
JN	Eco Watchers Survey Outlook	Aug				51.9	14.00	0.00
CA	Bloomberg Nanos Confidence	Sep-04					14.00	0.00
US	Labor Market Conditions Index Change	Aug				1.1	14.00	0.00
US	Consumer Credit	Jul				\$20.740B	19.00	5.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		6-Oct	2.00%	2.00%		2.00%		
Europe ECB		3-Sep				0.05%		
UK BOE		10-Sep				0.50%		
New Zealand, RBNZ		10-Sep	2.75%	2.75%		3.00%		
Canada, BoC		10-Sep				0.50%		
Japan, BoJ		15-Sep	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
US Federal Reserve		18-Sep				0-0.25%		

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

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