

Markets Today

A daily outlook for Australia, key global economies and markets

7 September 2015

(Fed) Fright Night

In the wake Friday's US employment report that overall could be judged to be consistent with the FOMC's stated desire to see 'some further improvement in the labor market', risk markets took fresh fright. Equities, EM FX and commodity currencies were all weaker and front-end US bond yields very slightly firmer. Though the headline payroll change of 173k came in below the 217k consensus, upward revisions to June and July (totalling 44k), together with a 0.3% rise in average hourly earnings and a drop in the unemployment rate to 5.1% from 5.3% (with no change in the participation rate) provided the offset. Also relevant was widespread awareness that initial August payroll prints have tended to be revised higher.

US stocks finished with losses of 1.5% for the S&P 500 and 1.7% for the Dow. Earlier Friday, the Eurostoxx 50 lost 2.75%. The VIX added back 2.2 to 27.8.

In FX, 'bifurcation' remains the watchword, with an ongoing contrast between the performance of the Euro and Yen and Emerging Market/commodity currencies in risk-off environments. EUR/USD was +0.23% to 1.1149 and USD/JPY -0.91% to Y118.99. This meant the DXY lost 0.18% to 96.23 (having initially rallied on the payrolls report). The broader BBDXY in contrast was +0.14%, while the (Asia EM) ADXY – and which correlates strongly with the Aussie dollar – lost 0.46%. AUD and NZD were by far the worst performers in G10, AUD -1.55% to 0.6908 and closing on the lows (since exceeded in early APAC trade this morning, down to 0.6896). NZD lost 1.78% to 0.6285.

In EM, the rouble was smoked, -3.0% to 68.5, though still below the 70.89 24 August high. USD/Turkey added 1.3% to a new record high and now +22.4% YTD, by far the weakest currency in 2015. USD/Rand added 2.08% to be +19.7% YTD. AUD is not that far behind, now -15.5% in 2015. .

In US rates markets, the 2-year Treasury note ended the NY session +1.4bps at 0.7067 (so about 1bp lower on the week). The 5 year was -1.6bps to 1.4664% and 10s -3.5bps to 2.1244%.

In commodities, the LME index was down 1.96%, NYMEX WTI crude -\$0.70 to \$46.05 and Brent -\$1.07 to \$49.61. No new price for China iron ore imports given China was closed both Thursday and Friday.

Speaking just ahead of Friday's jobs report, Richmond Fed President Jeffrey Lacker (a noted hawk and current FOMC voter) said that even if the August employment report came in weak, Fed officials should view it as a "one month blip" that would not alter the strong labour market picture over the last several years.

Lacker said the case for raising rates remains strong, despite recent financial market volatility, which he said will have only a "quite limited" effect on the U.S. outlook. He reckons

inflation is not as low as the headlines suggest because it (the Fed's preferred PCE deflator) includes several months last year when inflation was negative. He said that the PCE index has grown at an average annual rate of 2.2% since January. "I am not arguing that the economy is perfect, but nor is it on the ropes, requiring zero interest rates to get it back into the ring". Lacker says he'll go into the September meeting with an open mind, though we'd guess he will be dissenter if the Fed does decide to stand pat this month.

G20 central bankers and Finance Ministers, meeting in Ankara Friday and Saturday, acknowledged that 'global growth falls short of our expectations, but said 'we are confident the global economic recovery will gain speed'. IMF managing director Christine Lagarde exuded no such confidence, saying at G20 that "Growth is too low, productivity is too low, trade numbers are too low, investment is too low, infrastructure projects are too few and the only thing that is too high is unemployment". G20 also publicly endorsed China's recent actions on its currency.

Coming Up

All eyes will be on the Chinese stock market re-open this morning, having been closed Thursday and Friday and a suspicion that the Shanghai Composite would have fared much worse last week were it not for state sponsored support in front of the WWII commemorative holidays.

Data and events wise, there will more focus on global equities than hard US data as we head toward the Sep 16-17 FOMC meeting and in what is in any event a light week for numbers.

Australia has the NAB business survey on Tuesday and labour market statistics on Thursday. We'll also hear from the RBA's Luci Ellis on housing (Tuesday) and both Guy Debelle and Phil Lowe on Wednesday.

The RBNZ hands down its latest decision on Thursday and while a further 25bps cut to the OCR is widely considered nailed on, the accompanying rhetoric will be market sensitive.

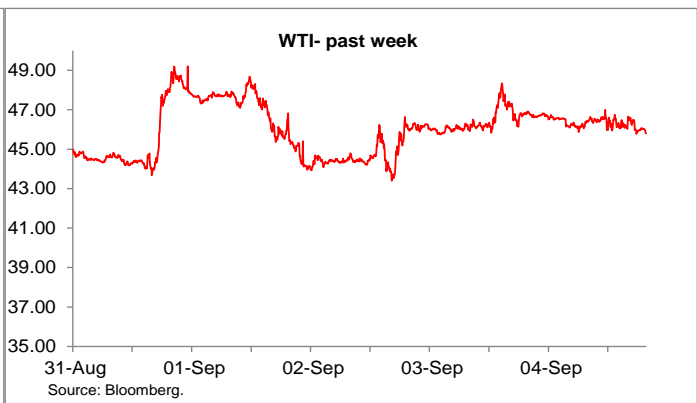
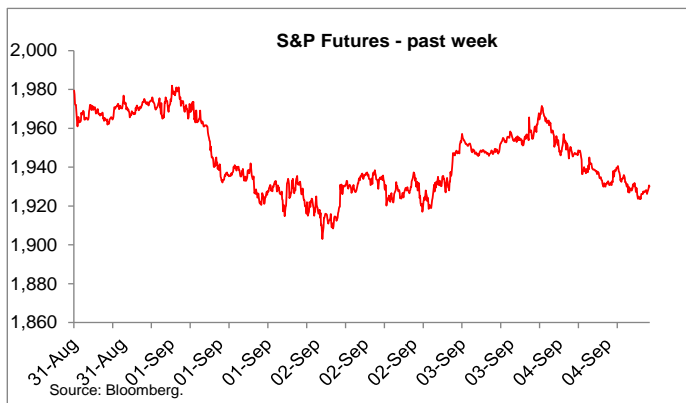
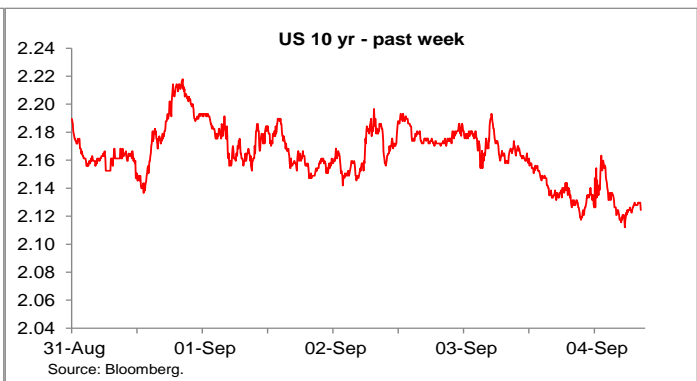
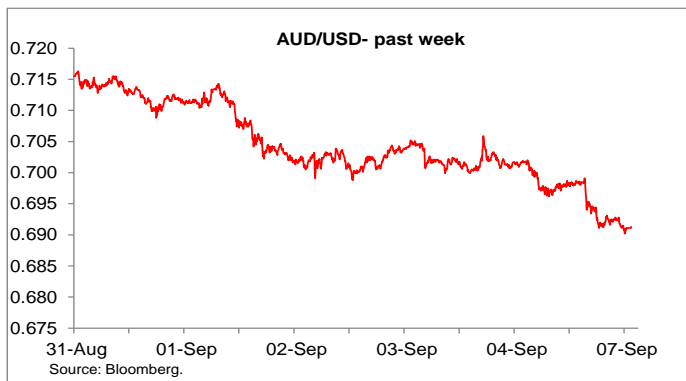
China trade numbers on Tuesday will be important and given widespread angst about declining global trade flows, while the August retail sales, production and investment numbers will come out on Sunday afternoon.

Overnight

On global stock markets, the S&P 500 was -1.50%. Bond markets saw US 10-years -3.52bp to 2.12%. On commodity markets, Brent crude oil -2.11% to \$49.61, gold-0.3% to \$1,121. AUD is at 0.6914 and the range since Friday's local close has been 0.6896 to 0.7014.

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Markets



| Foreign Exchange | | | | | | |
|-----------------------------|--------|--------|--------|----------|------|-------------|
| Indicative 24hr ranges (**) | | | | Other FX | | |
| | Last | % chge | Low | High | Last | % chge |
| AUD | 0.6914 | 0.1 | 0.6896 | 0.6925 | HKD | 7.7503 0.0 |
| NZD | 0.6302 | 0.3 | 0.6272 | 0.6306 | CNY | 6.3559 0.0 |
| EUR | 1.1164 | 0.1 | 1.1155 | 1.1166 | SGD | 1.4230 -0.1 |
| GBP | 1.5180 | 0.1 | 1.5175 | 1.5191 | IDR | 14,172 0.0 |
| JPY | 118.92 | -0.1 | 118.76 | 118.96 | THB | 35.96 0.0 |
| CAD | 1.3261 | -0.2 | 1.3256 | 1.3278 | KRW | 1,193 0.2 |
| AUD/EUR | 0.6192 | -0.1 | | | TWD | 32.69 0.6 |
| AUD/JPY | 82.20 | 0.1 | | | PHP | 46.76 -0.1 |
| AUD/GBP | 0.4554 | 0.0 | | | CHF | 0.97 0.1 |
| AUD/NZD | 1.0978 | -0.1 | | | SEK | 8.43 -0.1 |

| Equities | | | |
|---------------|--------|-------|-------|
| Major Indices | | | |
| | Last | % day | % y/y |
| Dow | 16,102 | -1.7 | -6.0 |
| S&P 500 | 1,921 | -1.5 | -4.3 |
| Nasdaq | 4,684 | -1.0 | 2.2 |
| FTSE | 6,043 | -2.4 | -11.8 |
| DAX | 10,038 | -2.7 | 3.0 |
| CAC 40 | 4,523 | -0.8 | 0.8 |
| Nikkei | 17,792 | -2.1 | 13.6 |
| Shanghai | 3,160 | -0.2 | 38.1 |
| Hang Seng | 20,841 | -0.5 | -17.4 |
| ASX 200 | 5,041 | +0.3 | -10.0 |

| Commodities* | | |
|-----------------------------------|----------|-------|
| | Last | % day |
| Oil (Brent) | 49.61 | -2.1 |
| Oil (WTI) | 46.05 | -1.5 |
| Oil (Tapis) | 51.16 | -1.8 |
| Gold | 1120.90 | -0.3 |
| CRB | 196.70 | -0.9 |
| GS Metals | 271.5 | -1.9 |
| Aluminium | 1591 | -1.4 |
| Copper | 5134 | -2.5 |
| Nickel | 9929 | -0.5 |
| Zinc | 1783 | -1.3 |
| Ch. steel | #N/A N/A | -0.1 |
| Iron ore | 56.5 | 0.0 |
| Coal | 59.1 | -0.6 |
| Wheat Chic. | 467.8 | 0.5 |
| Sugar | 11.27 | -0.6 |
| Cotton | 63.07 | -0.1 |
| Coffee | 119.2 | -0.3 |
| CO ₂ Emissions - Euros | | |
| | Last | % day |
| Jun-2015 | 8.13 | -1.0 |
| Dec-2015 | 8.10 | -1.0 |
| Dec-2016 | 8.18 | -1.0 |

| Interest Rates | | | | | | | |
|-----------------------|------|------|------|-------------------------|--------|------|-------------|
| Indicative Swap Rates | | | | Benchmark 10 Year Bonds | | | |
| | Cash | 3mth | 2Yr | 10Yr | Last | chge | Spnd |
| USD | 0.25 | 0.33 | 0.84 | 2.17 | USD 10 | 2.12 | -0.04 |
| AUD | 2.00 | 2.15 | 1.94 | 2.96 | AUD 10 | 2.63 | -0.06 0.50 |
| NZD | 3.00 | 2.89 | 2.80 | 3.60 | NZD 10 | 3.28 | 0.01 1.16 |
| EUR | 0.05 | 0.06 | 0.07 | 0.98 | CAD 10 | 1.44 | -0.02 -0.69 |
| GBP | 0.50 | 0.59 | 1.00 | 1.88 | EUR 10 | 0.67 | -0.06 -1.46 |
| JPY | 0.10 | 0.09 | 0.12 | 0.53 | GBP 10 | 1.83 | -0.08 -0.30 |
| CAD | 0.50 | 1.17 | 0.73 | 1.89 | JPY 10 | 0.36 | -0.04 -1.76 |

| Overnight Futures | | |
|-------------------|-------|-------|
| | Last | Chge |
| Australia | | |
| 3 mth bill | 97.88 | -0.01 |
| 3 Yr bond | 98.24 | -0.02 |
| 10 Yr bonc | 97.35 | 0.03 |
| 3/10 sprd | 0.89 | -0.06 |
| SPI | -28.0 | -0.6 |

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 | |
|--|---|-------------|--------------|-------------|--------|----------------|-------|-------|-------|
| Monday, 7 September 2015 | | | | | | | | | |
| NZ | Wholesale trade | Q2 | 1.50% | | | -0.80% | 22.45 | 8.45 | |
| 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 | | 105 | | 106.5 | 5.00 | 15.00 | |
| GE | Industrial Production SA MoM | Jul | | 0.90% | | -1.4% | 6.00 | 16.00 | |
| EC | Sentix Investor Confidence | Sep | | 15 | | 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 | |
| UK | BRC Sales Like-For-Like YoY | Aug | | | | 1.2% | 23.01 | 9.01 | |
| AU | RBA's Luci Ellis speaks on "Property Markets and Financial Stability: What We Know So Far" at Real Estate Symposium | | | | | | | 23.05 | 9.05 |
| AU | ANZ Roy Morgan Weekly Consumer Confidence Index | Sep-06 | | | | 113.3/+0.3% | 23.30 | 9.30 | |
| JN | BoP Current Account Balance, sa | Jul | | ¥1274B | | ¥1300.3B | 23.50 | 9.50 | |
| JN | GDP SA QoQ/Annualised QoQ | 2Q F | | -0.5%/-1.8% | | -0.4%/-1.6% | 23.50 | 9.50 | |
| AU | NAB Business Conditions/Confidence | Aug | | | | 6/4 | 1.30 | 11.30 | |
| CH | Trade Balance, \$US/CNY, bn | Aug | | \$48.9/ .. | | \$43.03B/263.0 | 1.50 | 11.50 | |
| CH | Exports/Imports YoY USD | Aug | | -6.1%/-7.7% | | -8.3%/-8.1% | 1.50 | 11.50 | |
| JN | Economy watchers' survey, Current/Outlook | Aug | | | | 51.6/51.9 | 5.00 | 15.00 | |
| GE | Trade Balance | Jul | | 23.5B | | 24.0B | 6.00 | 16.00 | |
| EC | GDP. Revision | Q2 | | 0.3%/1.2% | | 0.3%/1.2% | | | |
| US | NFIB Small Business Optimism | Aug | | 95.9 | | 95.4 | 10.00 | 20.00 | |
| JN | Eco Watchers Survey Current | Aug | | | | 51.6 | 14.00 | 0.00 | |
| US | Labor Market Conditions Index Change | Aug | | | | 1.1 | 14.00 | 0.00 | |
| US | Consumer Credit | Jul | | \$18.0B | | \$20.740B | 19.00 | 5.00 | |
| Wednesday, 9 September 2015 | | | | | | | | | |
| US | Fed's Kocherlakota (nv) speaks on Monetary Policy | | | | | | | | |
| UK | BRC Shop Price Index YoY | Aug | | | | -1.4% | 23.01 | 9.01 | |
| AU | Westpac Consumer Conf Index | Sep | | | | 99.5/7.8% | 0.30 | 10.30 | |
| CH | CPI/PPI YoY | Aug | | | | 1.6%/-5.4% | 1.30 | 11.30 | |
| AU | Home Loans MoM | Jul | 1.00% | 0.70% | | 4.4% | 1.30 | 11.30 | |
| AU | RBA's Philip Lowe, Deputy Governor, speaks at CEDA event, Melbourne (no title as yet) | | | | | | | 2.00 | 12.00 |
| JN | Consumer Confidence Index | Aug | | | | 40.3 | 5.00 | 15.00 | |
| JN | Machine Tool Orders YoY | Aug P | | | | 1.7% | 6.00 | 16.00 | |
| UK | Industrial Production MoM/YoY | Jul | | 0.2%/1.5% | | -0.4%/1.5% | 8.30 | 18.30 | |
| UK | Trade Balance | Jul | | -£1700 | | -£1601 | 8.30 | 18.30 | |
| AU | Briefing by RBA's Guy Debelle, Assistant Governor (Financial Markets), on FX Global Code of Conduct, London | | | | | | | 9.00 | 19.00 |
| US | MBA Mortgage Applications | Sep-04 | | | | | 11.00 | 21.00 | |
| CA | Housing Starts | Aug | | 193.5K | | 193.0K | 12.15 | 22.15 | |
| CA | Bank of Canada Rate Decision | Sep-09 | | 0.50% | | 0.50% | 14.00 | 0.00 | |
| US | JOLTS Job Openings | Jul | | | | 5249 | 14.00 | 0.00 | |
| Thursday, 10 September 2015 | | | | | | | | | |
| NZ | RBNZ Official Cash Rate | Sep-10 | 2.75% | 2.75% | | 3.00% | 21.00 | 7.00 | |
| NZ | Card Spending Retail MoM | Aug | -0.20% | | | 1.1% | 22.45 | 8.45 | |
| UK | RICS House Price Balance | Aug | | | | 44% | 23.01 | 9.01 | |
| JN | Machine Orders MoM | Jul | | 3.30% | | -7.9% | 23.50 | 9.50 | |
| AU | Consumer Inflation Expectation | Sep | | | | 3.7% | 1.00 | 11.00 | |
| AU | Employment Change | Aug | 6K | 5K | | 38.5K | 1.30 | 11.30 | |
| AU | Unemployment Rate | Aug | 6.20% | 6.20% | | 6.3% | 1.30 | 11.30 | |
| UK | Bank of England Bank Rate | Sep-10 | 0.50% | 0.50% | | 0.50% | 11.00 | 21.00 | |
| CA | Capacity Utilization Rate | 2Q | | | | 82.7% | 12.30 | 22.30 | |
| CA | New Housing Price Index MoM | Jul | | | | 0.3%/1.3% | 12.30 | 22.30 | |
| US | Initial Jobless Claims | Sep-05 | | | | 282K | 12.30 | 22.30 | |
| US | Wholesale Inventories MoM | Jul | | 0.30% | | 0.9% | 14.00 | 0.00 | |
| Friday, 11 September 2015 | | | | | | | | | |
| NZ | BNZ-BusinessNZ Manufacturing PMI | Aug | | | | 53.5 | 22.30 | 8.30 | |
| NZ | Food Prices MoM | Aug | flat | | | 0.6% | 22.45 | 8.45 | |
| JN | BSI Large All Industry QoQ | 3Q | | | | -1.2 | 23.50 | 9.50 | |
| NZ | Non Resident Bond Holdings | Aug | | | | 69.7% | 3.00 | 13.00 | |
| GE | CPI MoM/YoY | Aug F | | 0.0%/0.2% | | 0.0%/0.2% | 6.00 | 16.00 | |
| US | PPI Final Demand MoM | Aug | | -0.1% | | 0.2% | 12.30 | 22.30 | |
| US | U. of Mich. Sentiment | Sep P | | 91.5 | | 91.9 | 14.00 | 0.00 | |
| US | Monthly Budget Statement | Aug | | -\$83.6B | | | 18.00 | 4.00 | |
| Sunday, 13 September 2015 | | | | | | | | | |
| CH | Retail Sales YoY | Aug | | 10.60% | | 10.5% | 5.30 | 15.30 | |
| CH | Industrial Production YoY | Aug | | 6.30% | | 6.0% | 5.30 | 15.30 | |
| CH | Fixed Assets Ex Rural YTD YoY | Aug | | 11.20% | | 11.2% | 5.30 | 15.30 | |
| Upcoming Central Bank Interest Rate Announcements | | | | | | | | | |
| 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% | | | |
| Australia | RBA | 6-Oct | 2.00% | 2.00% | | 2.00% | | | |
| Europe | ECB | 22-Oct | | | | 0.05% | | | |

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

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