



# Markets Today

A daily outlook for Australia, key global economies and markets

15 October 2015

## No Quarter

Led Zeppelin (1973) for the benefit of a generation younger than this scribe (i.e. most of you).

Yesterday and now overnight, the prospect of the RBNZ 'only' cutting rates by a further quarter point, of the RBA potentially cutting rates by another quarter point sooner rather than later in response to Westpac's 20bps lift to mortgage rates, and a string of US data that makes a quarter point rate hike from the Fed before the end of 2015 an ever-diminishing prospect, have been the proximate causes of much of the latest market price action.

Several respect commentators, including the SMH's Peter Martin, have followed our own Peter Jolly in downplaying the snap judgment of some in the market that the rising mortgage rates from one – and possibly more - lenders will necessarily draw a response from the RBA in an effort to prevent retail lending rates from rising. The decisions of other major lenders are now awaited before this theme develops further. In the meantime AUD/USD has clawed its way back on to a 0.73 handle having dipped briefly below 0.72 soon after the Westpac news hit. But this is really a broader US dollar story, where last night's economic and corporate earnings news has taken a significant toll on the greenback (the dollar is currently about 1% lower in index terms since Tuesday).

US retail sales and producer prices both came in significantly weaker than expected (core PPI -0.3% on the month against +0.1% expected, with headline -0.5% vs. -0.2% expected). Retail sales were anywhere between 0.1% and 0.4% lower than expected in relation to headline (0.1%), ex-auto (-0.3%), ex autos and gas (0.0%) and the so called 'control group' (-0.1%). The numbers are nominal not real so some attempt is being made to highlight stronger real spending, though the counterpoint is that this further highlights the fact inflation is moving away from, not towards, the Fed's targets.

The US retail sector has been pummelled after Wal-Mart issued a profits warning, blaming recent wage increases (and which have already been met with job-cuts) and an expected \$15bn hit from the stronger dollar. The shares fell 10% with other retail stocks suffering similarly. This was after Wells Fargo and BofA both just beat their earnings and revenue estimates. The Fed's Beige Book meanwhile notes that while most districts report modest or moderate expansion, manufacturing was generally down since the last survey and wages growth mostly subdued. Post-retail sales, the Atlanta Fed has lowered its Q3 GDP estimate to just 0.9% from 1% (well below the Wall Street consensus). All this comes after Fed governor Daniel Tarullo yesterday joined his fellow Governor Lael Brainard in arguing what policy makers should be doing at present, i.e. sitting firmly on their hands.

The US dollar looks like remaining under pressure near term, with US 10 year Treasury yields back below 2% (1.98%) on

what is the one year anniversary of the bond yield 'flash crash' – also the day of weak retail sales data and when 10s went from 2.23% to 1.86% before bouncing). US equities have just closed firmly in the red.

The New Zealand dollar sits loud and proud atop the FX leader board, up 2.3% on the past 24 hours versus less than 1% for the AUD and meaning NAB's FX strategy team was stopped out of its long AUD/NZD trade recommendation from 5 October. The British Pound is the other very stronger performer overnight, after the UK unemployment rate unexpectedly dropped from 5.5% to 5.4%.

## Coming Up

The Australian labour market release at 11.30am AEDT is traditionally a significant market mover for both the AUD and short dated yields. Better than expected employment outcomes (and business conditions) of late have driven the RBA's more favourable assessment of the economy and hence economists' (consensus) expectations for the RBA being on hold for an extended period.

Since yesterday's move on mortgage rates by Westpac saw market pricing for the RBA move to price one rate cut before March next year (from April previously) and in total over 42bps of cuts (from 35bps) then a weaker than expected employment outcome would doubtless play with the grain of this view, though with so much now priced into the rates market, it will like to take a particularly weak report to produce much by way of fresh AUD downside or still-lower yields.

On the contrary, a strong report should set these expectations back somewhat, so perhaps there's more upside on a strong report than vice versa. The consensus expectation for employment growth this month is +9.6k m/m for the headline employment change and with the unemployment rate expected to remain at 6.2%, as does NAB. We forecast +11k for headline employment.

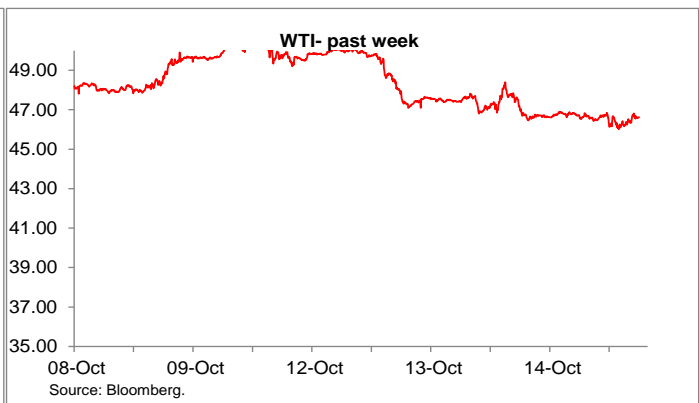
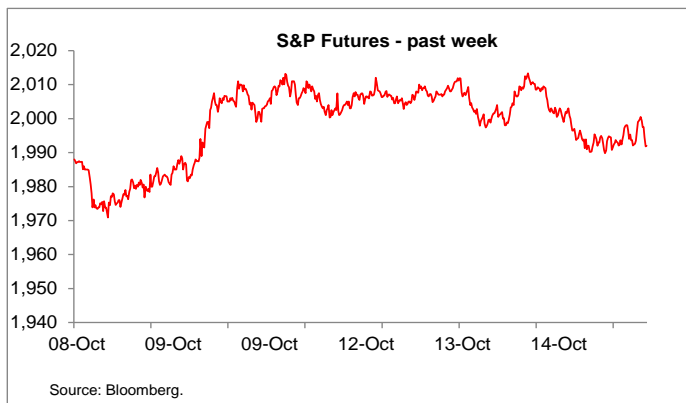
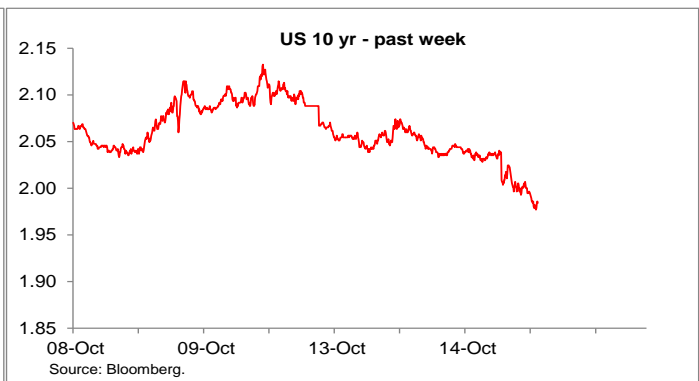
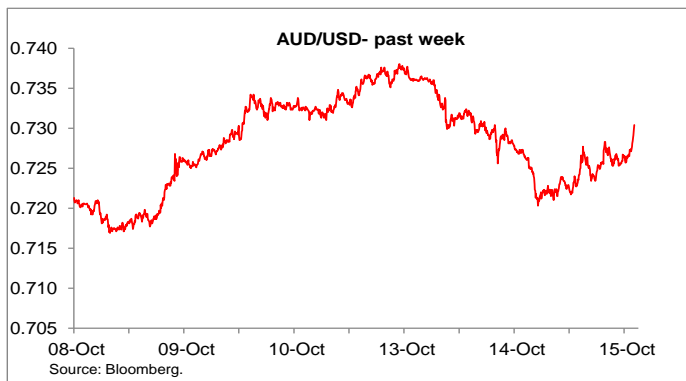
Before the employment report, we'll get the BNZ/Business NZ manufacturing PMI (08:30 AEDT). Tonight, attention will be on US CPI (where the core rate is seen remaining steady at 1.8% but with some obvious downside risk after PPI) and the Philly Fed and Empire State surveys. Dudley and Bullard are the rostered Fed speakers.

## Overnight

- On global stock markets, the S&P 500 is -0.60%. Bond markets saw US 10-years -5.98bp to 1.98%. On commodity markets, Brent crude oil +0.00% to \$49.24, gold+1.9% to \$1,188, iron ore +0.3% to \$55.12. AUD is at 0.7304 and the range was 0.7199 to 0.7308.

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Markets



Foreign Exchange						
Indicative 24hr ranges (**)				Other FX		
	Last	% chge	Low	High	Last	% chge
AUD	0.7301	0.8	0.7199	0.7308	HKD	7.7501 0.0
NZD	0.6799	2.4	0.6619	0.6801	CNY	6.3482 0.1
EUR	1.1478	0.9	1.1378	1.1480	SGD	1.3806 -1.5
GBP	1.5485	1.6	1.5248	1.5487	IDR	13,616 -0.2
JPY	118.81	-0.8	118.79	119.81	THB	35.28 -1.1
CAD	1.2921	-0.9	1.2920	1.3039	KRW	1,147 -0.2
AUD/EUR	0.6364	-0.1			TWD	32.49 -0.3
AUD/JPY	86.79	0.0			PHP	46.00 -0.2
AUD/GBP	0.4717	-0.8			CHF	0.95 -0.9
AUD/NZD	1.0739	-1.6			SEK	8.11 -0.4

Equities			
Major Indices			
	Last	% day	% y/y
Dow	16,929	-0.9	3.8
S&P 500	1,991	-0.6	6.1
Nasdaq	4,786	-0.2	13.2
FTSE	6,270	-1.1	-1.9
DAX	9,916	-1.2	12.4
CAC 40	4,609	-0.3	12.7
Nikkei	17,891	-1.9	18.7
Shanghai	3,262	-0.9	37.4
Hang Seng	22,440	-0.7	-3.0
ASX 200	5,197	-0.1	-0.9

Commodities*		
	Last	% day
Oil (Brent)	49.24	0.0
Oil (WTI)	46.63	-0.1
Oil (Tapis)	48.67	-2.4
Gold	1188.00	1.9
CRB	199.83	0.2
GS Metals	276.0	-0.7
Aluminium	1576	-0.2
Copper	5320	0.6
Nickel	10445	0.0
Zinc	1794	-0.3
Ch. steel	1831	-0.1
Iron ore	55.1	0.3
Coal	53.1	-0.3
Wheat Chic.	516.3	-2.0
Sugar	14.09	1.9
Cotton	63.76	-0.2
Coffee	134.7	0.2
CO <sub>2</sub> Emissions - Euros		
	Last	% day
Jun-2015	8.46	1.3
Dec-2015	8.44	1.3
Dec-2016	8.51	1.3

Interest Rates								
Indicative Swap Rates				Benchmark 10 Year Bonds				
	Cash	3mth	2Yr	10Yr	Last	chge	Spnd	
USD	0.25	0.32	0.67	1.93	USD 10	1.98	-0.06	
AUD	2.00	2.15	1.91	2.84	AUD 10	2.59	-0.07	0.61
NZD	2.75	2.86	2.71	3.52	NZD 10	3.39	-0.01	1.41
EUR	0.05	0.06	0.04	0.92	CAD 10	1.40	-0.05	-0.59
GBP	0.50	0.58	0.90	1.80	EUR 10	0.54	-0.05	-1.44
JPY	0.08	0.09	0.11	0.48	GBP 10	1.76	-0.07	-0.23
CAD	0.50	1.17	0.80	1.84	JPY 10	0.31	-0.01	-1.67

Overnight Futures		
	Last	Chge
<b>Australia</b>		
3 mth bill	97.98	0.00
3 Yr bond	98.24	0.01
10 Yr bonc	97.42	0.13
3/10 sprd	0.82	-0.12
SPI	3.0	0.1

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	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
<b>Thursday, 15 October 2015</b>								
NZ	Brnz-Business NZ Performance Of Mfg PMI	Sep				55	21.30	8.30
NZ	Anz Roy Morgan Consumer Confidence	Oct				110.8/0.9	0.00	11.00
AU	W-MI Consumer Inflationary expectations	Oct				3.2	0.00	11.00
AU	Employment/Unemployment	Sep	11/6.2	9.6/6.2		17.4/6.2	0.30	11.30
AU	Participation Rate	Sep	65	65		65	0.30	11.30
AU	Motor vehicle sales MoM/YoY	Sep				-1.6/2.1	0.30	11.30
AU	FX Transactions Market	Sep				336	0.30	11.30
JN	Industrial production MoM/YoY	Aug F		/		-0.5/0.2	4.30	15.30
EC	ECB's Nowotny speaks at Conference in Warsaw						7.00	18.00
EC	ECB's Hansson speaks at Conference in Warsaw						9.30	20.30
CA	Teranet/National Bank HPI MoM/YoY	Sep				1/5.4	12.30	23.30
US	Us Initial Jobless Claims Sa	Oct 10		270		263	12.30	23.30
US	CPI MoM/YoY	Sep		-0.2/-0.1		-0.1/0.2	12.30	23.30
US	Core CPI MoM/YoY	Sep		0.1/1.8		0.1/1.8	12.30	23.30
US	Us Empire State Manufacturing	Oct		-8		-14.6/7	12.30	23.30
CA	Canadian Existing Home Sales M	Sep				0.3	13.00	0.00
US	Philadelphia Fed Business Outl	Oct		-2		-6	14.00	1.00
US	Fed's Bullard makes opening remarks at conference							1.30
US	Fed's Dudley speaks at Brookings Institute							1.30
EC	ECB's Nowotny speaks at Conference in Warsaw						17.00	4.00
<b>Friday, 16 October 2015</b>								
US	Cleveland Fed's Mester Delivers Remarks at Event in New York						20.30	7.30
NZ	CPI MoM/YoY	3Q	0.2/0.3	0.2/0.3		0.4/0.3	21.45	8.45
AU	RBA releases half yearly Financial Stability Review						0.30	11.30
AU	NAB Australian Wellbeing Index	3Q					0.30	11.30
EC	Trade balance	Aug		22.1		22.4	9.00	20.00
EC	CPI MoM/YoY	Sep		0.2/-0.1		0/0.1	9.00	20.00
EC	Core CPI YoY	Sep F		0.9		0.9	9.00	20.00
EC	ECB's Jazbec speaks at Conference in Warsaw						9.45	20.45
CA	Manufacturing Sales MoM	Aug		-1		1.7	12.30	23.30
CA	International transactions	Aug		/-0.2		-10.12	12.30	23.30
US	Industrial production MoM	Sep		-0.2		-0.4	13.15	0.15
US	JOLTs Job Openings	Aug		5600		5753	14.00	1.00
US	UoM Consumer Sentiment	Oct P		89		87.2	14.00	1.00
US	Net long term TIC flows	Aug				7.7	20.00	7.00
<b>Monday, 19 October 2015</b>								
NZ	Performance Services Index	Sep				58.2	21.30	8.30
UK	Rightmove House Prices MoM/YoY	Oct				0.9/6.4	23.10	10.10
CH	Retail Sales YoY	Sep		10.8		10.8	2.00	13.00
CH	Retail Sales YTD YoY	Sep		10.5		10.5	2.00	13.00
CH	Industrial Production YoY	Sep		6		6.1	2.00	13.00
CH	Industrial Production YTD YoY	Sep		6.3		6.3	2.00	13.00
CH	Fixed Assets Ex Rural YTD YoY	Sep		10.8		10.9	2.00	13.00
CH	GDP SA QoQ/YoY	3Q		1.75/6.8		1.7/7	2.00	13.00
CH	GDP YoY	3Q		6.8		7	2.00	13.00
CH	GDP YTD YoY	3Q		6.9		7	2.00	13.00
CH	Bloomberg GDP Monthly Estimate YoY	Sep				6.64	2.30	13.30
EC	Construction Output MoM	Aug				1/1.8	9.00	20.00
CA	Bloomberg Nanos Confidence	Oct-16				55.6	14.00	1.00
US	NAHB Housing Market Index	Oct		62		62	14.00	1.00
<b>Tuesday, 20 October 2015</b>								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct-18				110	22.30	9.30
AU	RBA Oct. Meeting Minutes							
JN	Machine Tool Orders YoY	Sep F				-16.5	6.00	17.00
JN	Convenience Store Sales YoY	Sep				1.7	7.00	18.00
EC	ECB Current Account SA	Aug				22.6	8.00	19.00
CA	Wholesale Trade Sales MoM	Aug				0	12.30	23.30
US	Housing Starts	Sep		1138/1.1		1126/-3	12.30	23.30
US	Building Permits	Sep		1155/-1.3		1170/3.5	12.30	23.30
<b>Wednesday, 21 October 2015</b>								
NZ	Net Migration SA	Sep				5470	21.45	8.45
AU	Conf. Board Leading Index MoM	Aug					23.00	10.00
AU	Westpac Leading Index MoM	Sep				-0.3	23.30	10.30
JN	Trade Balance Adjusted	Sep				-358.778	23.50	10.50
AU	Skilled Vacancies MoM	Sep				0.2	0.00	11.00
NZ	Credit Card Spending MoM	Sep				1.1/10.5	2.00	13.00
JN	All Industry Activity Index MoM	Aug				0.2	4.30	15.30
UK	Public Finances (PSNCR)	Sep				-0.200004	8.30	19.30
CA	Bank of Canada Rate Decision	Oct-21		0.5		0.5	14.00	1.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Europe	ECB	22-Oct				0.05%		
Canada	BoC	22-Oct				0.50%		
US	Federal Reserve	29-Oct				0-0.25%		
New Zealand	RBNZ	29-Oct	2.50%	2.50%		2.75%		
Japan	BoJ	30-Oct	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
Australia	RBA	3-Nov	2.00%	2.00%		2.00%		
UK	BOE	5-Nov				0.50%		

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Saving Time

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