

Markets Today

A daily outlook for Australia, key global economies and markets

29 October 2015

Mission Accomplished – or still Mission Impossible?

If the FOMC's objective at Wednesday's meeting was to ensure that market's didn't further downgrade their expectations for Dec 2015 'lift-off', then by all accounts it was 'mission accomplished'. Yet when the comment that the risks around its economic outlook are 'nearly balanced' adds that the Fed is 'monitoring global economic and financial developments', you know we might only be one market hissy-fit away from the Fed coming into the December meeting knowing that lift-off is now 'mission impossible'.

Indeed, writing just ahead of the FOMC statement, the Financial Times' ever-thoughtful James Mackintosh penned a piece titled 'Puppet or Muppet?' asking whether the Fed (with Janet Yellen as puppet master) or the financial markets (the Muppets) were really in control of setting the price of money for the world's most important reserve currency. As our own Nick Parsons notes in his write up of the FOMC statement:

"For financial markets the guessing game continues, but as long as the Fed can maintain the illusion of an imminent but never-delivered tightening of monetary policy, this is probably the best of all worlds for risk assets. The danger near-term is that by trying to bring a December tightening back in to play, the Fed risks the very same nervousness in asset markets which prompted it to pull the planned hike back in September. In this sense, the Fed is driven by - and not in control of - global financial markets".

The key difference from this October Fed Statement compared to September is the complete omission of the September sentence that "Recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term." So global concerns and the potential negative feedback loop to the US economy and inflation have been dialled down. At the same, concerns about the strength of the labour market have been somewhat dialled up, the Fed noting that "the pace of job gains slowed and the unemployment rate held steady" – a clear change from September's "The labor market continued to improve, with solid job gains and declining unemployment". This makes the next two employment report, ahead of the 17 December FOMC, obviously very important. The other notable sentence reads "In determining whether it will be appropriate to raise the target range at its next meeting....." – phrasing clearly intended to pull markets further onto the scent of a December move than where they were going into the Fed. Job done.

The RBNZ, in just delivering its 'no change' decision, has maintained its explicit easing bias and notes that if the currency keeps moving higher it would require a lower OCR track. December therefore still look like a good bet

for another move, and NZD reaction (up then down then back to fairly flat) is reasonably consistent with this view.

Market reaction to what is appropriately view as somewhat more hawkish than expected Fed Statement, has been to see the US dollar higher across the board, the only expectation being the CAD and which has held positive territory thanks to a sharp rebound in oil prices (on an EIA reports suggesting inventory storage was down and fuel consumption up). AUD has doubled the loss recorded after yesterday's soft CPI prints, now struggling to hold a 0.71 handle. US yields are about 8bps higher at 2 years and 5bp at 10 years, with market implied odds of a December Fed move rising to just shy of 50%. Risk assets are talking the Fed statement in their stride, US indices closing with gains in excess of 1%.

Coming Up

With the dust still not settled on the RBNZ and FOMC outcome, and the BoJ and RBA still ahead of us, there's a fair smattering of events that will feed into the 'will they won't they?' debate for these latter two central banks over the course of Thursday.

On the BoJ front, source reports late last week suggested that today's Japan industrial production figures will have significant bearing on tomorrow's deliberations and finalisation of expected downward revisions to near term growth forecasts as well as the policy outcome. A relatively sharp deterioration in annual growth, to -2.6% from -0.4%, is expected. For choice (just) we are of the view the BoJ will stand pat on Friday.

Locally, NAB's latest residential property survey will be of interest in part for its latest read on the proportion of foreign buyers of both new and existing properties in Q3, following recent indications of a cooling Sydney/Melbourne market evident in falling auction clearance rates. Also today we'll get Q3 trade prices, where we look for little change in the implied terms of trade.

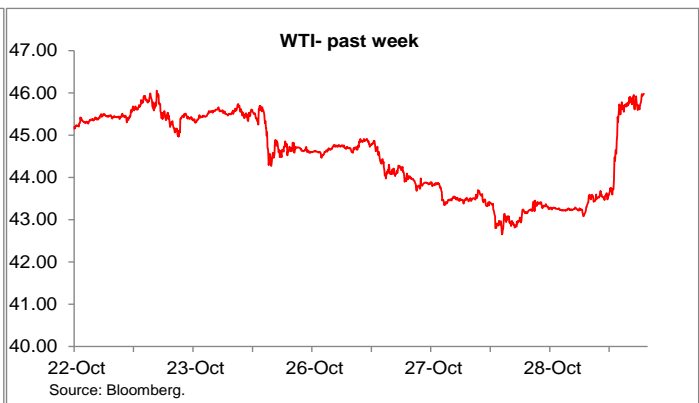
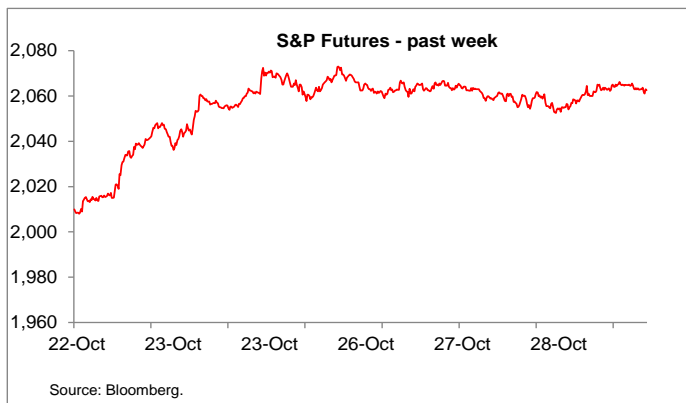
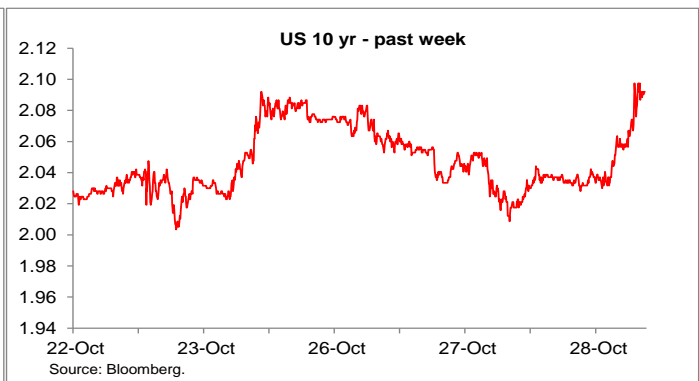
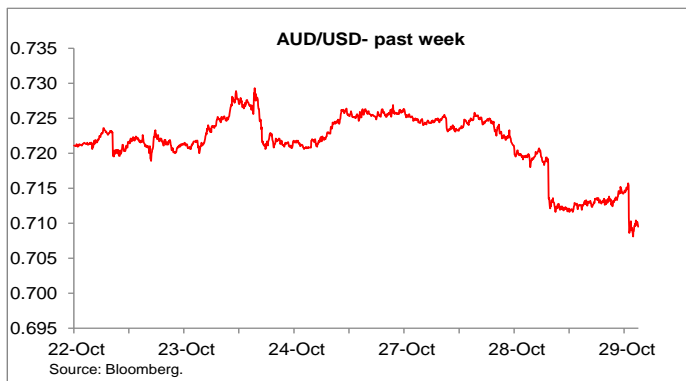
Offshore tonight, we get the Advance estimate of US Q3, and where the latest Atlanta Fed 'GDPNow' estimate has been raised to 1.1% from 0.8% following the sharp contraction in the Sep Advance Goods Trade Balance. Market consensus still sits at 1.5%, according to Bloomberg. Also due tonight are the weekly jobless claims and Pending Home Sales.

Overnight

- On global stock markets, the S&P 500 was +1.20%. Bond markets saw US 10-years +5.86bp to 2.10%. On commodity markets, Brent crude oil +4.76% to \$49.04, gold+0.9% to \$1,177, iron ore -3.0% to \$49.95. AUD is at 0.711 and the range was 0.7081 to 0.7207.

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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>0.7110</td> <td>-1.2</td> <td>0.7081</td> <td>0.7207</td> <td>HKD</td> <td>7.7501</td> <td>0.0</td> </tr> <tr> <td>NZD</td> <td>0.6710</td> <td>-0.8</td> <td>0.6623</td> <td>0.6776</td> <td>CNY</td> <td>6.3585</td> <td>0.1</td> </tr> <tr> <td>EUR</td> <td>1.0925</td> <td>-1.1</td> <td>1.0897</td> <td>1.1096</td> <td>SGD</td> <td>1.4030</td> <td>0.4</td> </tr> <tr> <td>GBP</td> <td>1.5265</td> <td>-0.2</td> <td>1.5249</td> <td>1.5347</td> <td>IDR</td> <td>13,480</td> <td>-1.0</td> </tr> <tr> <td>JPY</td> <td>120.96</td> <td>0.4</td> <td>120.07</td> <td>121.26</td> <td>THB</td> <td>35.67</td> <td>0.4</td> </tr> <tr> <td>CAD</td> <td>1.3191</td> <td>-0.6</td> <td>1.3090</td> <td>1.3280</td> <td>KRW</td> <td>1,131</td> <td>0.0</td> </tr> <tr> <td>AUD/EUR</td> <td>0.6509</td> <td>0.0</td> <td></td> <td></td> <td>TWD</td> <td>32.50</td> <td>-0.1</td> </tr> <tr> <td>AUD/JPY</td> <td>86.01</td> <td>-0.7</td> <td></td> <td></td> <td>PHP</td> <td>46.78</td> <td>0.1</td> </tr> <tr> <td>AUD/GBP</td> <td>0.4658</td> <td>-0.9</td> <td></td> <td></td> <td>CHF</td> <td>0.99</td> <td>0.8</td> </tr> <tr> <td>AUD/NZD</td> <td>1.0596</td> <td>-0.3</td> <td></td> <td></td> <td>SEK</td> <td>8.54</td> <td>0.5</td> </tr> </table>							Indicative 24hr ranges (**)				Other FX		Last	% chge	Low	High	Last	% chge	AUD	0.7110	-1.2	0.7081	0.7207	HKD	7.7501	0.0	NZD	0.6710	-0.8	0.6623	0.6776	CNY	6.3585	0.1	EUR	1.0925	-1.1	1.0897	1.1096	SGD	1.4030	0.4	GBP	1.5265	-0.2	1.5249	1.5347	IDR	13,480	-1.0	JPY	120.96	0.4	120.07	121.26	THB	35.67	0.4	CAD	1.3191	-0.6	1.3090	1.3280	KRW	1,131	0.0	AUD/EUR	0.6509	0.0			TWD	32.50	-0.1	AUD/JPY	86.01	-0.7			PHP	46.78	0.1	AUD/GBP	0.4658	-0.9			CHF	0.99	0.8	AUD/NZD	1.0596	-0.3			SEK	8.54	0.5
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 | Major Indices | | | | |---------------|--------|-------|-------| | | Last | % day | % y/y | | Dow | 17,780 | +1.1 | 4.6 | | S&P 500 | 2,090 | +1.2 | 5.3 | | Nasdaq | 5,096 | +1.3 | 11.6 | | FTSE | 6,438 | +1.1 | 0.6 | | DAX | 10,832 | +1.3 | 19.5 | | CAC 40 | 4,891 | +0.4 | 18.9 | | Nikkei | 18,903 | +0.7 | 21.5 | | Shanghai | 3,375 | -1.7 | 42.2 | | Hang Seng | 22,957 | -0.8 | -3.6 | | ASX 200 | 5,335 | -0.2 | -2.1 | | | | | | | Last | % day | |-------------|---------|-------| | Oil (Brent) | 49.04 | 4.8 | | Oil (WTI) | 45.99 | 6.5 | | Oil (Tapis) | 46.12 | -0.4 | | Gold | 1177.10 | 0.9 | | CRB | 195.07 | 2.0 | | GS Metals | 266.8 | 0.0 | | Aluminium | 1457 | 0.7 | | Copper | 5219 | -0.3 | | Nickel | 10581 | 0.3 | | Zinc | 1725 | -0.1 | | Ch. steel | 1796 | 0.2 | | Iron ore | 50.0 | -3.0 | | Coal | 52.9 | 0.2 | | Wheat Chic. | 511.8 | -0.5 | | Sugar | 14.65 | 1.6 | | Cotton | 62.67 | 0.5 | | Coffee | 119.1 | 1.5 | | | || | Interest Rates | | | | Benchmark 10 Year Bonds | | | | |-----------------------|------|------|-------|-------------------------|--------|------|-------| | Indicative Swap Rates | | | | Last | chge | Sprd | | | | Cash | 3mth | 2Yr | 10Yr | | | | | USD | 0.25 | 0.32 | 0.82 | 2.03 | USD 10 | 2.10 | 0.06 | | AUD | 2.00 | 2.14 | 1.92 | 2.87 | AUD 10 | 2.58 | -0.06 | | NZD | 2.75 | 2.93 | 2.77 | 3.52 | NZD 10 | 3.29 | 0.02 | | EUR | 0.05 | 0.06 | -0.04 | 0.85 | CAD 10 | 1.48 | 0.06 | | GBP | 0.50 | 0.58 | 0.92 | 1.83 | EUR 10 | 0.44 | -0.01 | | JPY | 0.10 | 0.08 | 0.10 | 0.47 | GBP 10 | 1.80 | 0.03 | | CAD | 0.50 | 1.17 | 0.82 | 1.87 | JPY 10 | 0.29 | -0.02 | | | | | | | | Overnight Futures | | | |-------------------|-------|-------| | | Last | Chge | | Australia | | | | 3 mth bill | 98.02 | -0.03 | | 3 Yr bond | 98.22 | -0.03 | | 10 Yr bonc | 97.36 | 0.01 | | 3/10 sprd | 0.86 | -0.04 | | SPI | 43.0 | 0.8 | | | | | CO ₂ Emissions - Euros | | | |-----------------------------------|------|-------| | | Last | % day | | Jun-2015 | 8.60 | -0.5 | | Dec-2015 | 8.57 | -0.5 | | Dec-2016 | 8.64 | -0.5 | | | |

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
Thursday, 29 October 2015								
NZ	RBNZ Official Cash Rate	Oct-29	2.5	2.75		2.75	20.00	7.00
JN	Industrial Production MoM/YoY	Sep P		-0.6/-2.6		-1.2/-0.4	23.50	10.50
AU	NAB Residential Property Survey	Q3					0.30	11.30
AU	NAB SME Business Survey	Q3					0.30	11.30
AU	Import/Export price index QoQ	3Q	1.1/0.0	1.5/0.6		1.4/-4.4	0.30	11.30
GE	Unemployment Change (000's)/ Rate	Oct		-4		2/6.4	8.55	19.55
EC	Business Climate Indicator	Oct		0.31		0.34	10.00	21.00
UK	CBI reported sales	Oct		35		49	11.00	22.00
US	GDP Annualized QoQ	3Q A		1.5		3.9	12.30	23.30
CA	Raw Materials Price Index MoM	Sep		1.1		-6.6	12.30	23.30
CA	Industrial Product Price MoM	Sep		-0.05		-0.3	12.30	23.30
US	Initial Jobless Claims	Oct-24		265		259	12.30	23.30
GE	CPI MoM/YoY	Oct P		-0.1/0.2		-0.2/0	13.00	0.00
US	Fed's Lockhart delivers opening remarks at conference						13.10	0.10
US	Pending Home Sales MoM/YoY	Sep		1/7.3		-1.4/6.7	14.00	1.00
Friday, 30 October 2015								
NZ	Building Permits MoM	Sep				-4.9	21.45	8.45
JN	Jobless rate	Sep		3.4		3.4	23.30	10.30
JN	Overall Household Spending YoY	Sep		1.1		2.9	23.30	10.30
JN	Natl CPI YoY	Sep		0		0.2	23.30	10.30
NZ	ANZ Activity Outlook	Oct				16.7	0.00	11.00
UK	GfK Consumer Confidence	Oct		4		3	0.50	11.50
AU	Private Sector Credit MoM	Sep	0.5/6.3	0.5/6.3		0.6/6.3	0.30	11.30
AU	Annual National Accounts	2014-15					0.30	11.30
AU	PPI QoQ	Q3		/		0.3/1.1	0.30	11.30
NZ	Credit aggregates, Household YoY	Sep				6.3	2.00	13.00
JN	BOJ Annual Rise in Monetary Base, ¥tn			80		80	3.00	14.00
EC	Unemployment Rate	Sep		11		11	10.00	21.00
EC	CPI Estimate YoY	Oct		0		-0.1	10.00	21.00
EC	Ahead of August month GDP late in the week.	Oct A		0.9		0.9	10.00	21.00
US	Employment Cost Index	3Q		0.6		0.2	12.30	23.30
US	Personal Income/Spending	Sep		0.2/0.2		0.3/0.4	12.30	23.30
US	PCE Deflator MoM/YoY	Sep		-0.1/0.2		0/0.3	12.30	23.30
US	PCE Core MoM/YoY	Sep		0.2/1.4		0.1/1.300004	12.30	23.30
CA	GDP MoM/YoY	Aug		0.1/1		0.3/0.8	12.30	23.30
US	Chicago Purchasing Manager	Oct		49.5		48.7	13.45	0.45
US	Fed's Williams speaks in Washington						14.00	1.00
US	U. of Mich. Sentiment	Oct F		92.5		92.1	14.00	1.00
US	Fed's George speaks on Federal Reserve Structure						15.25	2.25
Sunday, 1 November 2015								
CH	Manufacturing PMI	Oct		50		49.8	1.00	12.00
CH	Non-manufacturing PMI	Oct				53.4	1.00	12.00
Monday, 2 November 2015								
AU	AiG Perf of Mfg Index	Oct				52.1		9.30
AU	CoreLogic RP Data House Px MoM	Oct				0.9		10.00
AU	TD-MI CPI gauge MoM/YoY	Oct		/		0.3/1.9		10.30
AU	Building Approvals MoM/YoY	Sep		/		-6.9/5.1		11.30
JN	Nikkei Japan PMI Mfg	Oct F				52.5		12.35
CH	Caixin China PMI Mfg	Oct		47.6		47.2		12.45
AU	Commodity Index YoY	Oct				-21.3		16.30
GE	Markit/BME Manufacturing PMI	Oct F				51.6		19.55
EC	Markit Manufacturing PMI	Oct F				52		20.00
UK	Markit PMI Manufacturing SA	Oct				51.5		20.30
CA	RBC Canadian Manufacturing PMI	Oct				48.6		1.30
US	Markit US Manufacturing PMI	Oct F				54		1.45
US	Construction Spending MoM	Sep		0.5		0.7		2.00
US	ISM Manufacturing	Oct		49.7		50.2		2.00
US	Fed's William Gives Welcome Remarks at SF Fed Conference							4.00
Tuesday, 3 November 2015								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Nov 1				113.4		9.30
NZ	QV House Prices YoY	Oct				12.6		10.00
NZ	ANZ Commodity Price	Oct				5.5		11.00
AU	RBA Cash Rate Target	Nov 3		2		2		14.30
UK	Markit/CIPS UK Construction PMI	Oct				59.9		20.30
US	ISM New York	Oct				44.5		1.45
US	Factory Orders	Sep		-0.9		-1.7		2.00
US	Factory Orders Ex Trans	Sep				-0.8		2.00
US	IBD/TIPP Economic Optimism	Nov				0		2.00
Upcoming Central Bank Interest Rate Announcements								
US	Federal Reserve	17-Dec				0-0.25%		
	New Zealand, RBNZ	10-Dec	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%		
	Europe ECB	3-Dec				0.05%		
	Canada, BoC	3-Dec				0.50%		

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

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