

Markets Today

A daily outlook for Australia, key global economies and markets

8 October 2015

Fix Fixation (redux)

The rapid reversal in post-August 11 Emerging Market and commodity currency weakness continued with a vengeance overnight. The Malaysian Ringgit is 3.6% up on this time yesterday and the Indonesian Rupiah 3% higher. At 0.7211, AUD/USD is now 4.1% above its recent (Sep 24) lows, and NZD at 0.6612 some 6% higher over the same period. Our FX Strategy team decided to run for cover last night and exited a short NZD trade recommendation from 21 July at break-even.

Much of this rally is predicated on a view that China will now maintain a relatively stable CNY through the rest of this year at least and following strong verbal commitments by President Xi during his recent U.S. visit. And, we'd also note, ahead of a likely IMF decision on China SDR inclusion (likely next month). See 'Coming Up' below for our expectations on today's fixing.

Elsewhere in currencies Sterling recouped some of its recent (post services PMI) underperformance following stronger than expected production data, in particular versus the Euro where Germany reported an unexpected fall in its industrial output. The Canadian dollar continues to underperform other commodity currencies after another fall in oil prices, this time generated by US Department of Energy data showing a 3 million barrel addition to inventories last week as well as a 0.8% jump in production.

Into the US close, equities are in sea of green with gains averaging 0.75%. Bond yield are mostly higher, representing a loss of some of their recent safe-haven demand.

Coming Up

All eyes on the return of the daily CNY fix following an 8-day holiday moratorium. Recall that PBoC (or policy bank) intervention on Sep29 pushed USD/CNH 120pips lower to 6.3575. Christy Tan, our head of Asia Strategy, expects a 50-100 point fall in the fix in USD/CNY to around 6.3560-6.3510, which would bring the fix to the lowest since Aug 13 (two days post the August 11 step-depreciation). We'd suggest a fall to at least this level is required to validate the moves we have seen in EM currencies as well as AUD and NZD, since the 29th.

Tonight, the main point of interest today will be the September FOMC minutes, which the likes of San Francisco Fed President John Williams have told us produced a 'very close call' regarding the decision to hold fire on 'lift-off'. But it may be the case that the minutes yet again prove to be 'something for everyone'. We are also due to hear (again) from Fed Presidents Bullard, Kocherlakota and Williams, but all have spoken since the payrolls report and their views are now well known (Bullard and Williams in favour of early rates action, Kocherlakota in favour of further easing).

The BoE meets, with minutes and voting records due alongside. No change can be confidently expected. One point of interest will be whether Ian McCafferty again votes for a 25bps hike, or indeed whether anyone else joins him in this call - highly unlikely given recent indications of softening growth. Overnight the respected NIESR estimated GDP growth in the 3-months to September at 0.5%, down from an actual 0.7% in Q2.

The ECB is also meeting and while there will be no change in policy today, the post-meeting press conference with President Draghi will be of usual keen interest and where we might expect him to suggest that any additions to current QE policy settings will at least have to await the next staff economic forecasting round in early December.

Locally, at 11:30 AEDT, the RBA will publish a Research Discussion Paper: "Modelling the Australian Dollar". We expect this will be in similar vein to the papers the RBA has previously released under Freedom of Information requests, which reviewed some of their methodologies for assessing currency valuation, focusing on the Real Trade Weighted Index (RTWI). Our most recent efforts to mimic this form of AUD modelling, using the Q2 national account data, suggests that the RTWI may have been a couple of percent overvalued at mid-year, but that the valuation gap is likely to have since closed given the more than 6% decline in the (nominal) TWI during Q3.

In any event the RBA made clear in Tuesday's post Board meeting statement that it is happy to see the AUD 'adjusting' to past declines in commodity prices' and since it notes that 'the terms of trade are falling' it is probably fair to say that further softening in the currency from here will be more welcome than concerning. That said, any sound bites from the publication that opines on current valuations could prove market moving.

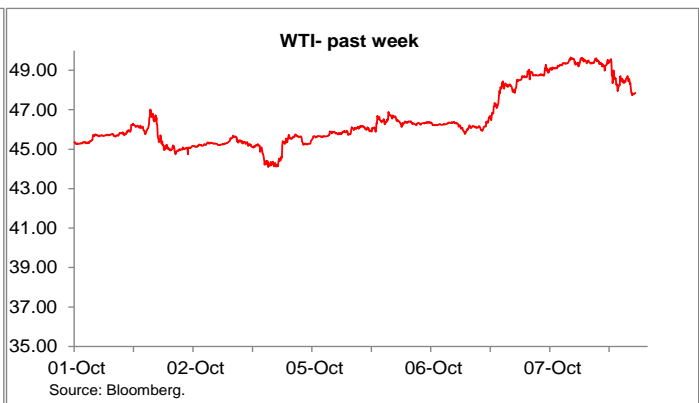
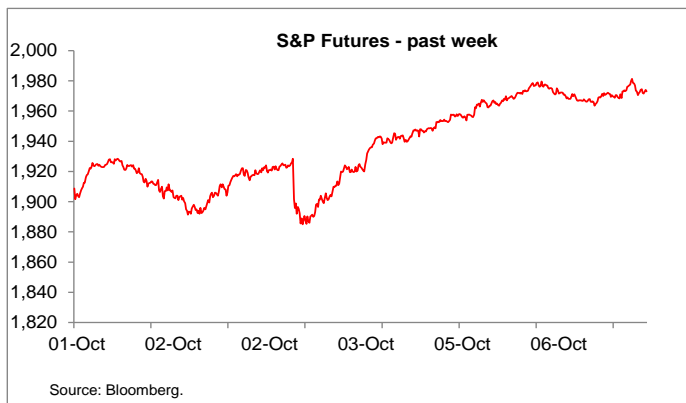
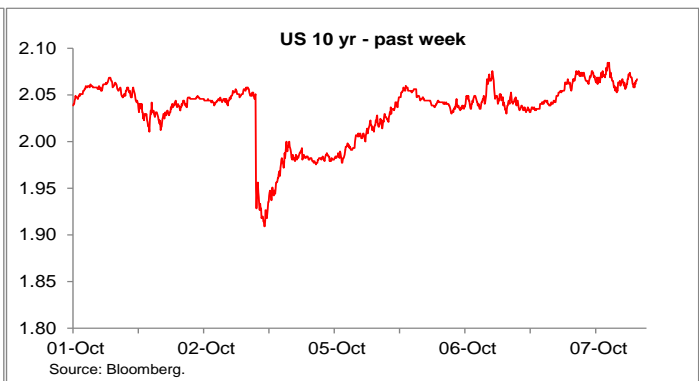
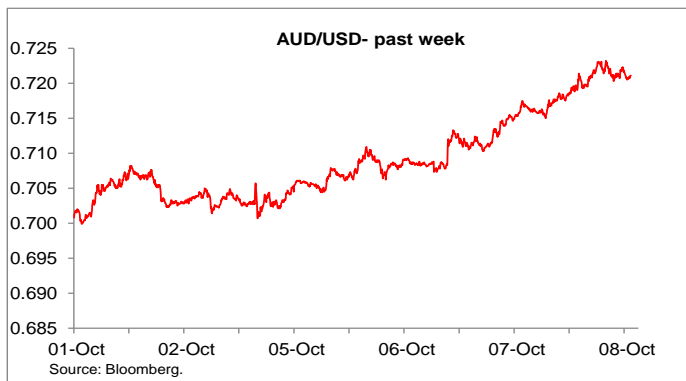
At the same time as this, we have a speech due from John Simon, Head of Economic Research at the RBA, at the Paul Woolley Centre for the study of Capital Market Dysfunctionality Conference in Sydney. We'd be very surprised if this proves market moving.

Overnight

- On global stock markets, the S&P 500 was +0.60%. Bond markets saw US 10-years +3.71bp to 2.07%. On commodity markets, Brent crude oil -0.44% to \$51.69, gold+0.2% to \$1,149, iron ore +0.0% to \$53.14. AUD is at 0.7211 and the range was 0.715 to 0.7235.
- German Aug industrial production -1.2%/m/m (0.2% E)
- UK Aug industrial production 1.0% (0.3%E, -0.4%P); manufacturing production +0.5% (0.3% E, -0.8%).

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Markets



Foreign Exchange						
Indicative 24hr ranges (**)				Other FX		
	Last	% chge	Low	High	Last	% chge
AUD	0.7210	0.6	0.7150	0.7235	HKD	7.7501 0.0
NZD	0.6610	1.0	0.6536	0.6648	CNY	6.3561 0.0
EUR	1.1252	-0.2	1.1212	1.1284	SGD	1.4106 -0.6
GBP	1.5324	0.6	1.5223	1.5340	IDR	13,821 -2.9
JPY	119.92	-0.3	119.75	120.36	THB	35.90 -1.0
CAD	1.3066	0.2	1.2972	1.3072	KRW	1,162 -0.4
AUD/EUR	0.6409	0.8			TWD	32.43 -1.3
AUD/JPY	86.48	0.4			PHP	46.23 -0.5
AUD/GBP	0.4706	0.0			CHF	0.97 0.6
AUD/NZD	1.0907	-0.4			SEK	8.24 0.0

Equities			
Major Indices			
	Last	% day	% y/y
Dow	16,863	+0.4	0.9
S&P 500	1,988	+0.4	2.7
Nasdaq	4,778	+0.6	8.9
FTSE	6,336	+0.2	-2.5
DAX	9,970	+0.7	9.7
CAC 40	4,667	+0.1	10.9
Nikkei	18,323	+0.8	17.5
Shanghai	3,053	+0.5	29.1
Hang Seng	22,516	+3.1	-3.2
ASX 200	5,198	+0.6	-0.8

Commodities*		
	Last	% day
Oil (Brent)	51.43	-0.9
Oil (WTI)	47.84	-1.4
Oil (Tapis)	53.15	7.4
Gold	1149.00	0.2
CRB	199.59	-0.3
GS Metals	266.3	-0.2
Aluminium	1568	1.4
Copper	5201	0.0
Nickel	10139	2.1
Zinc	1677	2.1
Ch. steel	#N/A	#N/A
Iron ore	53.1	0.0
Coal	53.9	0.4
Wheat Chic.	523.8	-1.7
Sugar	13.98	2.6
Cotton	61.94	1.3
Coffee	126.1	-1.6
CO ₂ Emissions - Euros		
	Last	% day
Jun-2015	8.13	-1.3
Dec-2015	8.11	-1.3
Dec-2016	8.18	-1.3

Interest Rates							
Indicative Swap Rates				Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr	Last	chge	Spnd
USD	0.25	0.32	0.75	2.05	USD 10	2.07	0.04
AUD	2.00	2.17	1.99	2.96	AUD 10	2.63	0.03 0.56
NZD	2.75	2.84	2.71	3.52	NZD 10	3.38	0.02 1.32
EUR	0.05	0.06	0.06	0.97	CAD 10	1.45	0.03 -0.61
GBP	0.50	0.58	0.97	1.87	EUR 10	0.59	0.00 -1.47
JPY	0.10	0.08	0.11	0.51	GBP 10	1.83	0.03 -0.24
CAD	0.50	1.17	0.82	1.91	JPY 10	0.34	0.01 -1.73

Overnight Futures		
	Last	Chge
Australia		
3 mth bill	97.92	-0.01
3 Yr bond	98.16	-0.02
10 Yr bonc	97.31	-0.05
3/10 sprd	0.85	0.03
SPI	24.0	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	AEST
Thursday, 8 October 2015								
NZ	Anz Truckometer Heavy Traffic	Sep				-0.6	22.00	8.00
UK	Rics England & Wales Housing M	Sep		55		53	0.10	10.10
JN	Machinery orders MoM/YoY	Aug		2.3		-3.6/2.8	0.50	10.50
JN	Japan Balance Of Payments Curr	Aug		1226		1808.6	0.50	10.50
JN	Balance of Payments Current account, sa ¥bn	Aug		1291.1		1321.8	0.50	10.50
AU	RBA's Simon Gives Speech in Sydney						4.05	14.05
JN	Japan Bankruptcies Cases With	Sep				-13.06	5.30	15.30
AU	Australia Official Reserve Ass	Sep				71.2	6.30	16.30
UK	BoE Bank rate	Oct 8				0.5	12.00	22.00
EC	ECB's Praet Speaks in Mannheim, Germany						14.00	0.00
EC	ECB account of the monetary policy meeting						14.00	0.00
CA	Canada Mortgage And Housing Co	Sep		202		216.924	13.15	23.15
US	Us Initial Jobless Claims Sa	Oct 3		274		277	13.30	23.30
CA	New Housing prices MoM/YoY	Aug		0.2		0.1/1.3	13.30	23.30
US	Fed's Bullard to Give Welcome at Symposium on Savings						14.30	0.30
US	Fed's Kocherlakota Gives Welcoming Remarks in Mankato, MN						18.00	4.00
US	U.S. Fed Releases Minutes from Sept. 16-17 FOMC Meeting						19.00	5.00
US	Fed's Williams Gives Outlook Speech in Spokane						20.30	6.30
Friday, 9 October 2015								
NZ	Credit card spending MoM/YoY	Sep				0.5/0.1	22.45	8.45
NZ	Nz Debit Credit Card Total Spe	Sep				0.1	22.45	8.45
AU	Owner-occupied loans, MoM #	Aug	6	4.7		0.3	1.30	11.30
UK	Trade balance	Aug		-2150		-3371	9.30	19.30
CA	Unemployment rate	Sep		7		7	13.30	23.30
CA	Employment Change	Sep		10		12	13.30	23.30
US	Import prices, MoM/YoY	Sep		-0.5		-1.8/-11.4	13.30	23.30
US	Us Import Price Index By End U	Sep		-11.2		-11.4	13.30	23.30
US	Fed's Lockhart Speaks on Economy in New York						14.10	0.10
US	Wholesale Inventories MoM	Aug				-0.1	15.00	1.00
CA	Business Outlook Future Sales	3Q				8	15.30	1.30
CA	BoC Senior Loan Officer Survey	3Q				1.4	15.30	1.30
US	Fed's Evans Speaks on Monetary Policy	0				0	18.30	4.30
CH	China Cny Monthly New Loan	Sep		875		809.6	8.00	18.00
CH	China All-System Financing Agg	Sep				1080	8.00	18.00
CH	China Monthly Money Supply M1	Sep		9.4		9.3	8.00	18.00
CH	China Monthly Money Supply M0	Sep				1.8	8.00	18.00
CH	China Monthly Money Supply M2	Sep				13.3	8.00	18.00
Monday, 12 October 2015								
AU	Australia Credit Card Purchase	Aug				24.73	0.30	11.30
AU	Australia Credit Card Total Ou	Aug				50.51	0.30	11.30
NZ	REINZ House Sales YoY	Sep				41.7		
US	Fed's Lockhart speaks on US economic outlook						12.10	23.10
US	Fed's Evans speaks on economy and policy						14.30	1.30
US	Fed's Brainard gives outlook and policy speech						20.30	7.30
Tuesday, 13 October 2015								
NZ	Food Prices MoM	Sep				-0.5	21.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct 4				110.6	22.30	9.30
UK	Brc Kpmg Retail Sales Monitor	Sep				-1	23.10	10.10
JN	BoJ minutes for Sep 14-15 meeting			0			23.50	10.50
AU	NAB Business Conditions, Confidence	Sep				11/1	0.30	11.30
CH	Trade balance CNY	Sep		292.42		368.03	1.30	12.30
CH	Exports/Imports YoY CNY	Sep		-7.4/-16.5		-6.1/-14.3	1.30	12.30
CH	Trade balance USD	Sep		46.4		60.24	2.00	13.00
CH	Exports/Imports YoY USD	Sep		-7.2/-15.6		-5.5/-13.8	2.00	13.00
JN	Japan Consumer Confidence Hou	Sep				41.7	5.00	16.00
JN	Japan Machine Tool Orders Yoy	Sep P				-16.5	6.00	17.00
GE	German CPI MoM/YoY	Sep F				-0.2/0	6.00	17.00
UK	Bank of England Credit Conditions & Bank Liabilities Surveys						8.30	19.30
UK	CPI MoM/YoY	Sep				0.2/0	8.30	19.30
UK	PPI Output Core NSA MoM/YoY	Sep				0/0.1	8.30	19.30
UK	Uk Ppi Output Prices Ex Food B	Sep				0.1	8.30	19.30
UK	ONS House Price YoY	Aug				5.2	8.30	19.30
GE	ZEW Current assessment/Expectations	Oct				67.5/12.1	9.00	20.00
GE	Zew Eurozone Expectation Of Ec	Oct				33.3	9.00	20.00
US	Nfib Small Business Optimism I	Sep				95.9	10.00	21.00
US	Fed's Bullard speaks to NABE in Washington						12.00	23.00
US	Monthly Budget Statement	Sep		95		-64.4	18.00	5.00
Upcoming Central Bank Interest Rate Announcements								
Japan, BoJ		7-Oct	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
UK BOE		8-Oct				0.50%		
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%		
Australia, RBA		3-Nov	2.00%	2.00%		2.00%		

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

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