



# Markets Today

A daily outlook for Australia, key global economies and markets

4 November 2015

## Put It All On 'Scope'

A rising commodities tide lifted all boats overnight, with an improved tone in risk evident in equities, bonds, and currencies. The AUD outperformed after the RBA stood pat yesterday. It is a very busy day ahead.

A tip of the hat to our Economics colleagues, who not only rightly picked an unchanged RBA Cash Rate at yesterday's meeting, but also warned that the Board might highlight its ability to ease, given recent (soft) inflation outcomes. NAB Economics was looking for "a phrase such as 'recent inflation data points to greater scope to ease monetary policy should the need arise'" (What To Watch, 30 October). In the end, the Board wrote, "the outlook for inflation may afford scope for further easing of policy, should that be appropriate to lend support to demand".

AUD's squeeze higher did not simply come courtesy of the unchanged rate decision (markets had priced near-50% for a cut), but also the peppier language on activity data. The Board added the phrase "the prospects for an improvement in economic conditions had firmed a little over recent months". We only expect the Bank's newfound 'scope' to only be utilised should the outlook deteriorate to the point the unemployment fails to fall. NAB continues to see the RBA on hold at 2% for an extended period.

NZD underperformed the majors after another soggy dairy auction, where prices fell by 7.4%, after the 3.1% decline previously. This was within the range anticipated we'd anticipated, but some of the details are suggestive of a softer outlook for dairy prices than we'd anticipated. AUD/NZD took another leg up after the auction, capped at the moment by the 200-day moving average at 1.0770.

Across markets more broadly, there does seem to be a firmer risk tone, helped considerably by the ~4% jump in oil prices. Speculation on improved demand by refiners drove that move. Commodity producers led gains on the major equity bourses. High-yielding currencies sit atop currency leaderboards (notwithstanding NZD) and funding currencies at the bottom, reflecting a continued appetite for carry amid this volatility lull.

US factory orders were the only significant piece of data released, and fell in line with expectations (-1.0% m/m).

In comments made earlier this morning, ECB President Draghi said that "degree of monetary policy accommodation will need to be re-examined", hewing closely to the tone he took in the II Sore interview over the weekend. The market shrugged this off, still very convinced that the ECB will ease in some dimension or another come December. We'd tend to agree, but this does highlight the risk of extreme disappointment (and a nasty short squeeze) if Draghi does not deliver.

## Coming Up

It's a full day of data and events ahead. First up is NZ's Q3 employment report, where our BNZ colleagues are expecting the unemployment rate to creep higher to 6.0% (as does consensus). Note that this would come despite solid job gains, and simply a result of even stronger growth in labour supply.

At 11.30 AEDT, we get local trade balance and retail sales data. The latter will likely get more attention. NAB is picking an above-consensus 0.7% m/m gain, taking cues from our online retail sales report. We pick a slightly worse trade deficit than consensus, at \$3.24b.

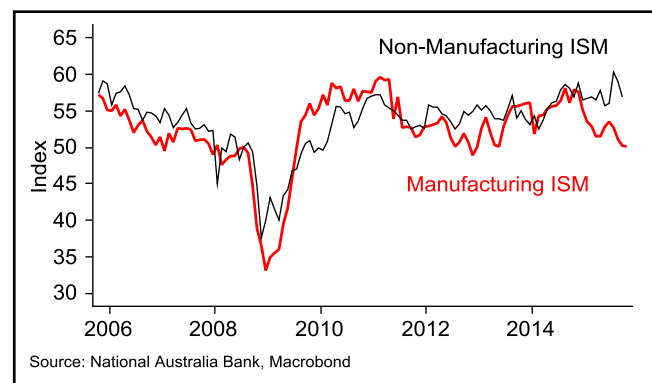
A slew of services PMIs are due, including the Caixin China services PMI at 12.45 AEDT, and the US ISM non-manufacturing survey later tonight. The latter is expected to slip slightly, but should continue to ride high, above 55. Of course, the market will also pay some attention to the ADP employment report, no matter its tattered reputation as a precursor to non-farm payrolls.

But it's the clutch of Fed speakers tonight that will hold our attention. As noted yesterday, Fed Chair Yellen's appearance on the roster is a bit of a red herring, as her testimony will focus on bank regulation. We're instead looking toward NY Fed President Dudley's comments at a Q&A session. Fed Board of Governors member Brainard will also be on the wires. Her views will be interesting, given that she weighed in on the dovish side in mid-October.

## Overnight

- On global stock markets, the S&P 500 was +0.40%. Bond markets saw US 10-years +4.68bp to 2.22%. On commodity markets, Brent crude oil +3.55% to \$50.52, gold-1.6% to \$1,117, iron ore -0.8% to \$49.11. AUD is at 0.7194 and the range was 0.7120 to 0.7219.

## Chart of the Day: US ISM Manufacturing vs Services



[raiko\\_shareef@bnz.co.nz](mailto:raiko_shareef@bnz.co.nz)



## Calendar

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
<b>Wednesday, 4 November 2015</b>								
NZ	Unemployment Rate	3Q	6	6		5.9	21.45	8.45
NZ	Employment QoQ/YoY	3Q	0.4/2.5	0.4/2.5		0.3/3	21.45	8.45
NZ	Pvt Wages Ex Overtime QoQ	3Q		0.5		0.5	21.45	8.45
AU	AiG Perf of Services Index	Oct				52.3	22.30	9.30
JN	Monetary Base End of period/YoY	Oct		/		338.4353/35.1	23.50	10.50
AU	Trade Balance	Sep	-3240	-2900		-3095	0.30	11.30
AU	Retail Sales MoM \$/QoQ real	Sep	0.7/0.7	0.4/0.7		0.4/0.8	0.30	11.30
JN	Nikkei Japan PMI Services/Composite	Oct				51.4/51.2	1.35	12.35
CH	Caixin China PMI Services/Composite	Oct				50.5/48	1.45	12.45
GE	Markit Germany Services/Composite PMI	Oct F		55.2		55.2/54.5	8.55	19.55
EC	Markit Eurozone Services/Composite PMI	Oct F		54.2		54.2/54	9.00	20.00
UK	Markit/CIPS UK Services/Composite PMI	Oct		54.5		53.3/53.3	9.30	20.30
US	Fed's Brainard Speaks on Financial Stability in Frankfurt						10.30	21.30
US	Fed's Harker Gives Welcoming Remarks in Philadelphia			42135			13.00	0.00
US	ADP Employment Change	Oct		180		200	13.15	0.15
CA	Int'l Merchandise Trade	Sep		-1.75		-2.53	13.30	0.30
US	Trade Balance	Sep		-41		-48.33	13.30	0.30
US	Markit US Services PMI	Oct F		54.5		54.4/54.5	14.45	1.45
US	Fed's Yellen Testifies on Bank Regulation Before House Panel						0.00	2.00
US	ISM Non-Manf. Composite	Oct		56.5		56.9	15.00	2.00
US	Fed's Dudley Speaks on Economy in New York						19.30	6.30
US	Wards Total Vehicle Sales	Oct		17.7		18.07	20.15	7.15
<b>Thursday, 5 November 2015</b>								
AU	RBA Governor Stevens' Speech at Conference in Melbourne						22.25	9.25
US	Fed Vice Chair Fischer Speaks to National Economists Club						0.30	11.30
AU	RBA's Lowe Appears in Panel Discussion in Sydney						1.00	12.00
GE	Factory orders MoM/YoY	Sep		1/1.9		-1.8/1.9	7.00	18.00
GE	ECB Publishes Economic Bulletin	Oct				54	9.10	20.10
EC	Retail Sales MoM/YoY	Sep		0.2/3		0/2.3	10.00	21.00
UK	Bank of England Bank Rate/Asset Purchase target			0.5/375		0.5/375	12.00	23.00
UK	Bank of England Inflation Report						12.00	23.00
US	Challenger Us Job Cut Announce	Oct				93.2	12.30	23.30
US	Fed's Harker Gives Welcoming Remarks at Energy Event						13.30	0.30
US	Dudley, Lagarde, Fischer Speak on Banking Culture in New York						13.30	0.30
US	Us Initial Jobless Claims Sa	Oct 31		262		260	13.30	0.30
US	Productivity/Unit labour costs	3Q P		-0.4/2.5		3.3/-1.4	13.30	0.30
CA	Ivey Purchasing Managers Index	Oct		54		53.7	15.00	2.00
US	Fed's Tarullo Addresses International Banking Conference						17.45	4.45
US	Fed's Lockhart Speaks on Central Banking in Switzerland						18.30	5.30
<b>Friday, 6 November 2015</b>								
NZ	Crown Financial Statements	Sep qtr					21.45	8.45
AU	AiG PCI Construction	Oct				51.9	22.30	9.30
AU	RBA Statement on Monetary Policy						0.30	11.30
AU	RBA's Edey Speech at Conference on Gold Coast						1.00	12.00
JN	Leading index	Sep P		101.8		103.5	5.00	16.00
GE	Industrial production MoM/YoY	Sep		0.5/1.3		-1.2/2.3	7.00	18.00
UK	Industrial production MoM	Sep		-0.1		1	9.30	20.30
UK	Trade Balance	Sep		-3100		-3765	9.30	20.30
US	Non-farm payrolls/Unemployment	Oct		184/5		142/5.1	13.30	0.30
US	Average hourly earnings MoM/YoY	Oct		0.2/2.3		0/2.2	13.30	0.30
CA	Employment/Unemployment	Oct		10/7.1		12.1/7.1	13.30	0.30
US	Fed's Bullard Speaks on Economy and Policy in St. Louis						14.00	1.00
US	Consumer Credit	Sep		18		16.018	20.00	7.00
US	Fed's Brainard Takes Part in IMF Panel on Monetary Policy						21.15	8.15
<b>Saturday, 7 November 2015</b>								
CH	China Monthly Foreign Exchange	Oct		3456.5		3514.12		
<b>Sunday, 8 November 2015</b>								
CH	China Imports & Exports Trade	Oct		61.49		60.34		
CH	China Export Trade Usd Yoy	Oct		-3.3		-3.7		
CH	China Import Trade Usd Yoy	Oct		-15		-20.4		
CH	China Export Trade Cny Yoy	Oct		-2		-1.1		
CH	China Import Trade Cny Yoy	Oct		-12.5		-17.7		
CH	China Trade Balance Cny	Oct		376.65		376.2		
CH	China Fdi Foreign Capital Act	Oct				7.1		
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Australia, RBA		3-Nov	2.00%	2.00%		2.00%		
UK BOE		5-Nov				0.50%		
Japan, BoJ		19-Nov	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
Europe ECB		3-Dec				0.05%		
Canada, BoC		3-Dec				0.50%		
New Zealand, RBNZ		10-Dec	2.50%	2.50%		2.75%		
US Federal Reserve		17-Dec				0-0.25%		

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

## Global Markets Research

Peter Jolly  
Global Head of Research  
+61 2 9237 1406

### Australia

#### Economics

Ivan Colhoun  
Chief Economist, Markets  
+61 2 9237 1836

David de Garis  
Senior Economist  
+61 3 8641 3045

Tapas Strickland  
Economist  
+61 2 9237 1980

#### FX Strategy

Ray Attrill  
Global Co-Head of FX Strategy  
+61 2 9237 1848

Emma Lawson  
Senior Currency Strategist  
+61 2 9237 8154

#### Interest Rate Strategy

Skye Masters  
Head of Interest Rate Strategy  
+61 2 9295 1196

Rodrigo Catril  
Interest Rate Strategist  
+61 2 9293 7109

#### Credit Research

Michael Bush  
Head of Credit Research  
+61 3 8641 0575

Simon Fletcher  
Senior Credit Analyst – FI  
+61 2 9237 1076

#### Distribution

Barbara Leong  
Research Production Manager  
+61 2 9237 8151

### New Zealand

Stephen Toplis  
Head of Research, NZ  
+64 4 474 6905

Craig Ebert  
Senior Economist  
+64 4 474 6799

Doug Steel  
Senior Economist  
+64 4 474 6923

Kymerly Martin  
Senior Market Strategist  
+64 4 924 7654

Raiko Shareef  
Currency Strategist  
+64 4 924 7652

Yvonne Liew  
Publications & Web Administrator  
+64 4 474 9771

### Asia

Christy Tan  
Head of Markets Strategy/Research, Asia  
+852 2822 5350

### UK/Europe

Nick Parsons  
Head of Research, UK/Europe,  
and Global Co-Head of FX Strategy  
+44 207 710 2993

Gavin Friend  
Senior Markets Strategist  
+44 207 710 1588

Derek Allassani  
Research Production Manager  
+44 207 710 1532

## Group Economics

Alan Oster  
Group Chief Economist  
+61 3 8634 2927

Riki Polygenis  
Head of Australian Economics  
+61 3 8697 9534

James Glenn  
Senior Economist – Australia  
+61 3 9208 8129

Vyanne Lai  
Economist – Australia  
+61 3 8634 0198

Phin Ziebell  
Economist – Agribusiness  
+61 475 940 662

Amy Li  
Economist – Australia  
+61 3 8634 1563

Dean Pearson  
Head of Industry Analysis  
+61 3 8634 2331

Robert De lure  
Senior Economist – Industry Analysis  
+61 3 8634 4611

Brien McDonald  
Senior Economist – Industry Analysis  
+61 3 8634 3837

Karla Bulauan  
Economist – Industry Analysis  
+61 3 8641 4028

Tom Taylor  
Head of Economics, International  
+61 3 8634 1883

Tony Kelly  
Senior Economist – International  
+61 3 9208 5049

Gerard Burg  
Senior Economist – Asia  
+61 3 8634 2788

John Sharma  
Economist – Sovereign Risk  
+61 3 8634 4514

Jacqui Brand  
Personal Assistant  
+61 3 8634 2181

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