31 August 2016

Markets Today

National Australia Bank

Make a new plan, Stan….

As we went home yesterday evening, there was pretty keen anticipation of a forthcoming Bloomberg TV interview with Fed vice-chair Stanley Fischer, after his suggestion to rival business TV broadcaster CNBC at Jackson hole last Friday that Fed chair Yellen's just-delivered speech was consistent with potentially two Fed rate rises this year (a script no-one in truth really believed then, or now).

In the event, it was less what Fischer said than the unexpected surge in the Conference Board's US consumer confidence reading – 101.1 up from 96.7 and the 97.0 expected and in contrast to the less stellar University of Michigan version last Friday - that looks to have been responsible for the fresh across-the-board gains in the US dollar. In contrast, US yields are actually lower than where they were trading ahead of either Fischer or the confidence data.

We seem to be back in a situation where FX is marching to a somewhat different drum than interest rate markets, the FX market seemingly more confident about Fed intentions to lift rates this year than the latter. Déjà vu. Or perhaps it's that these clever bond market folks are surmising that if the dollar is going to start leaping ahead again, this in itself will play to Fed inaction as financial conditions tighten through the currency. Déjà vu all over again.

As for Stan Fischer, he wasn't asked directly to clarify Friday's remarks, but quizzed on whether the Fed is in a 'one and done' or 'two and done' situation or needs to deliver a measured series of hikes. He replied "I don't think you can say one and done". This might be more a rebuttal of St. Louis Fed president James Bullard's now well-known views that the Fed should indeed be one and done from here, than a reference to the possibility of more than one rate hike this year alone. At a minimum though, Fischer appears keen to have markets price in more hikes down the road.

US consumer confidence aside, the other economic news of note overnight was a downside surprises on German CPI (down to 0.3% from 0.4% YoY on the HICP measure, not the expected rise to 0.5%). This suggests a similar downside surprise in the pan-Eurozone version due later today.

Looking across the G10 currency spectrum, the yen continues to be the favoured punch bag in G10, USD/JPY up 1.1% to ¥103 in the last 24-houers. Comments from Japan PM Abe's adviser Honda that buying foreign bonds was an option for the BoJ if G7 peers consider FX intervention to be manipulation, might have helped here (as too month-end related demand for dollars). However, since buying foreign bonds is tantamount to intervention on a large scale - and in a world of unconventional monetary policy, direct interference with other countries' monetary policy - we doubt this is a serious starter.

The Australian dollar is also near the bottom of the FX leader board, a fairly typical occurrence during episodes of broad-based US dollar strength. It's down over half a cent from where we left it yesterday to a low of 0.7501. The NZD has also come within kissing distance of 0.7200.

Commodities were lower across the board, seemingly re-establishing their (negative) correlation with the dollar, including oil and which failed to find support on noises from Iraq about supporting an oil production freeze when OPEC meets in Algeria next month.

Coming Up

There's a fair smattering of data and events both locally and internationally today, though it's questionable whether any of them will have a profound market impact as the clock ticks down to Friday's US payrolls data and then (hopefully) the return of fuller northern hemisphere market participation from next week.

Here we have private sector credit data at 11:30am but this rarely springs much of a surprise or moves either currency or rates market – today's numbers shouldn't prove an exception. We also have RBA assistant Governor Guy Debelle speaking at the FX Week Asia conference in Singapore but he has of late been trawling the world talking about the plumbing and code of conduct in the rates and FX market and today's speech is unlikely to be an exception or veer onto the topic of RBA policy or currency values in any subsequent Q&A.

NZ has the ANZ business survey (11:00 AEST) and Japan July industrial production data (the latter following better than expected household spending and retail spending figures yesterday). Also in our time zone, Boston Fed president Rosengren (considered dovish) and Chicago Fed president Charles Evans (an uber dove) both speak in Beijing, though not until 17:15 AEST. US data includes ADP employment, pending home sales and the Chicago PMI. ADP will grab the headlines, as unreliable a guide to US payrolls as it can be.

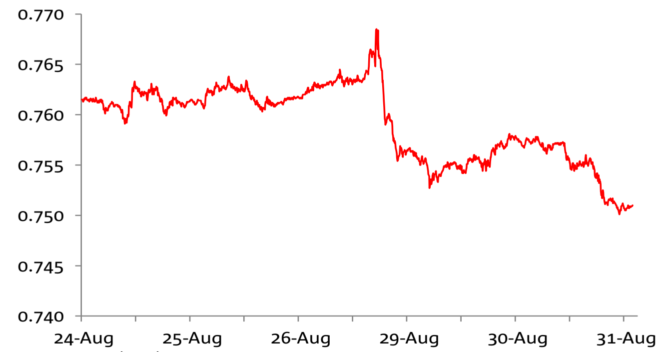
Overnight

On global stock markets, the S&P 500 was -0.20%. Bond markets saw US 10-years +0.68bp to 1.57%. In commodities, Brent crude oil -1.91% to $48.32, gold-1.0% to $1,310, iron ore +0.3% to $59.31. AUD is at 0.751 and the range since yesterday 5pm Sydney time is 0.7501 to 0.7560.

Author:
Ray Attrill – Co-head of FX Strategy

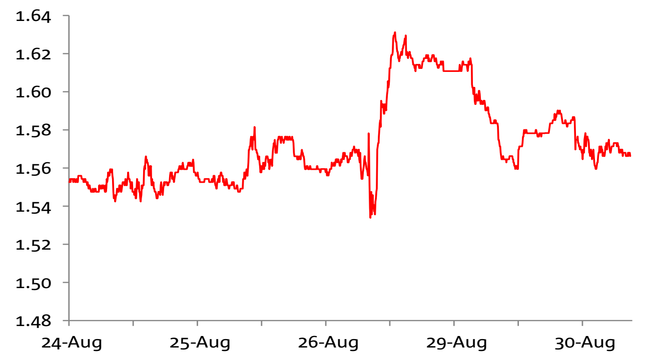
Markets

AUD/USD - past week



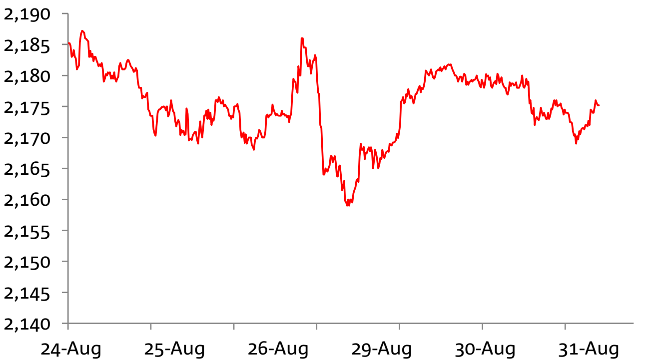
Source: Bloomberg.

US 10 yr - past week



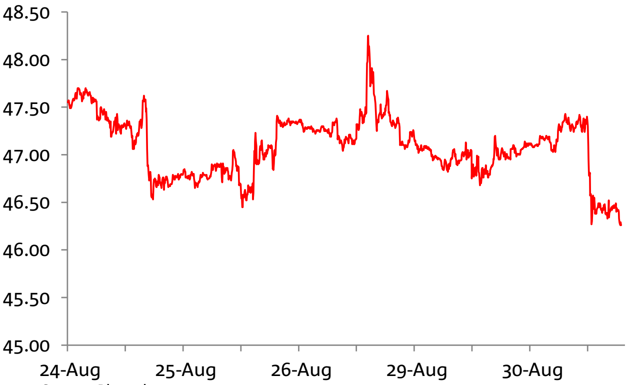
Source: Bloomberg.

S&P Futures - past week



Source: Bloomberg.

WTI - past week



Source: Bloomberg.

Foreign Exchange

			Indicative 24hr ranges (**)	
	Last	% chge	Low	High
AUD	0.7515	-0.7	0.7501	0.7580
NZD	0.7226	-0.3	0.7205	0.7265
EUR	1.1146	-0.4	1.1132	1.1192
GBP	1.3082	-0.2	1.3060	1.3120
JPY	102.92	1.0	101.76	103.14
CAD	1.3095	0.6	1.3010	1.3103
AUD/EUR	0.6742	-0.4	0.6735	0.6782
AUD/JPY	77.34	0.3	77.08	77.47
AUD/GBP	0.5744	-0.5	0.5730	0.5792
AUD/NZD	1.0399	-0.4	1.0398	1.0454
AUD/CNH	5.0178	-0.8	5.0224	5.0702

Other FX		
	Last	% chge
HKD	7.7577	0.0
CNY	6.6807	0.0
SGD	1.3637	0.2
IDR	13,268	0.0
THB	34.59	0.0
KRW	1,120	-0.5
TWD	31.72	-0.1
PHP	46.45	0.0
CHF	0.98	0.5
SEK	8.54	0.8

Equities

Major Indices			
	Last	% day	% y/y
Dow	18,454	-0.3	10.9
S&P 500	2,176	-0.2	9.4
Nasdaq	5,223	-0.2	8.2
VIX	13	1.4	-49.6
FTSE	6,821	-0.3	9.2
DAX	10,658	1.1	3.5
CAC 40	4,457	0.8	-4.7
Nikkei	16,725	-0.1	-11.5
Shanghai	3,075	0.2	-4.1
Hang Seng	23,016	0.9	6.2
ASX 200	5,478	0.2	5.2

Commodities*

	Last	% day
Oil (Brent)	48.37	-1.8
Oil (WTI)	46.10	-1.9
Oil (Tapis)	49.55	1.0
Gold	1311.40	-0.9
CRB	182.82	-0.9
GS Metals	270.2	-0.4
Aluminium	1618.0	-0.9
Copper	4596.0	-0.2
Nickel	9789.3	0.2
Zinc	2308.8	-0.2
Ch. steel	2439.0	-1.5
Iron ore	59.3	0.3
Coal	68.0	1.6
Wheat Chic.	392.3	-1.2
Sugar	20.5	-0.7
Cotton	66.0	-1.1
Coffee	146.1	0.7

CO_2 Emissions - Euros

	Last	% day
Dec-2016	4.52	-3.6
Jun-2017	4.54	-3.6
Dec-2017	4.58	-3.2

* clsd = market holiday

Interest Rates

Indicative Swap Rates				
	Cash	3mth	2Yr	10Yr
USD	0.50	0.83	1.04	1.42
AUD	1.50	1.73	1.60	2.03
NZD	2.00	2.29	1.98	2.39
EUR	0.00	-0.30	-0.21	0.26
GBP	0.25	0.39	0.44	0.69
JPY	-0.04	-0.02	-0.08	0.08
CAD	0.50	0.89	0.93	1.23

Benchmark 10 Year Bonds			
	Last	chge	Sprd
USD 10	1.57	0.68	
AUD 10	1.84	-4.10	0.27
NZD 10	2.24	-3.70	0.68
CAD 10	1.02	-0.50	-0.55
EUR 10	-0.09	-0.80	-1.66
GBP 10	0.64	7.40	-0.93
JPY 10	-0.08	-1.20	-1.64

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.26	1.00
3 Yr bond	97.8	3.00
10 Yr bond	98.16	7.50
3/10 sprd	-0.36	-4.50
SPI	5465.0	-14.0

*Change in bps

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
Wednesday, 31 August 2016								
UK	Lloyds Business Barometer	Aug				29.0	23.10	9.10
UK	GfK Consumer Confidence	Aug		-8		-12.0	23.10	9.10
JN	Industrial Production MoM	Jul P		0.8		2.3	23.50	9.50
NZ	ANZ Activity Outlook/Business Confidence	Aug				31.4/16.0	1.00	11.00
AU	RBA's Debelle Gives Speech at FX Week Asia, Singapore						1.00	11.00
AU	Private Sector Credit MoM	Jul	0.4/6.1	0.4/6.1		0.2/6.2	1.30	11.30
CH	Westpac-MNI Consumer Sentiment	Aug				114.0	1.45	11.45
NZ	Credit aggregates, household YoY	Jul				8.3	3.00	13.00
JN	Small Business Confidence	Aug				47.8	5.00	15.00
US	Fed's Rosengren speaking in Beijing						7.15	17.15
GE	Unemployment Change (000's)	Aug		-4		-7.0	7.55	17.55
EC	Unemployment Rate	Jul		10		10.1	9.00	19.00
EC	CPI Estimate YoY/Core YoY	Aug		0.3/0.9		0.2/0.9	9.00	19.00
US	Fed's Kashkari Speaks on Fed Structure in St. Paul						12.00	22.00
US	ADP Employment Change	Aug		175		179.0	12.15	22.15
CA	GDP MoM/YoY	Jun		0.5/1		-0.6/1.0	12.30	22.30
CA	Quarterly GDP Annualized	2Q		-1.5		2.4	12.30	22.30
EC	ECB's Vileroy speaks in Frankfurt						12.45	22.45
US	Chicago Purchasing Manager	Aug		54		55.8	13.45	23.45
US	Pending Home Sales MoM/YoY	Jul		0.7/2.15		0.2/0.3	14.00	0.00
Thursday, 1 September 2016								
NZ	Terms of Trade Index QoQ	2Q	0.8	-1.5		4.4	22.45	8.45
AU	AiG Perf of Mfg Index	Aug				56.4	23.30	9.30
JN	Capital Spending Ex Software	2Q		5.5		4.3	23.50	9.50
JN	Company Profits/Sales	2Q				-9.3/-3.3	23.50	9.50
AU	CoreLogic House Px MoM	Aug	0.6			0.5	0.00	10.00
CH	Manufacturing/Non-manufacturing PMI	Aug		49.8/		49.9/53.9	1.00	11.00
AU	Private Capital Expenditure	2Q	-8.0	-4		-5.2	1.30	11.30
AU	Private Capex, 3rd estimate 2016-17, $Abn		97.6	97.0		89.2	1.30	11.30
AU	Retail Sales MoM	Jul	0.0	0.3		0.1	1.30	11.30
CH	Caixin China PMI Mfg	Aug		50.1		50.6	1.45	11.45
JN	Nikkei Japan PMI Mfg	Aug F				49.6	0.30	10.30
AU	Commodity Index AUD/YoY	Aug				90.5/-2.0	6.30	16.30
GE	Markit/BME Germany Manufacturing PMI	Aug F		53.6		53.6	7.55	17.55
EC	Markit Eurozone Manufacturing PMI	Aug F		51.8		51.8	8.00	18.00
UK	Markit UK PMI Manufacturing SA	Aug		49		48.2	8.30	18.30
US	Challenger Job Cuts YoY	Aug				-57.1	11.30	21.30
US	Nonfarm Productivity/Unit labour costs	2Q F		-0.6/2.1		-0.5/2.0	12.30	22.30
US	Initial Jobless Claims	Aug 27		265		261	12.30	22.30
CA	RBC Canadian Manufacturing PMI	Aug				51.9	13.30	23.30
US	Markit US Manufacturing PMI	Aug F		52.1		52.1	13.45	23.45
US	Wards Total Vehicle Sales	Aug		17.2		17.8		
US	Construction Spending MoM	Jul		0.5		-0.6	14.00	0.00
US	ISM Manufacturing	Aug		52		52.6	14.00	0.00
EC	ECB's Nowotny speaks in Austria						16.00	2.00
US	Fed's Mester speaks to Kentucky Philanthropy Initiative						16.25	2.25
Friday, 2 September 2016								
NZ	Value of All Buildings SA QoQ	2Q	1.0	2		5.3	22.45	8.45
JN	Consumer Confidence Index	Aug		41.8		41.3	5.00	15.00
UK	Markit/CIPS UK Construction PMI	Aug		46.3		45.9	8.30	18.30
US	Trade Balance	Jul		-41.7		-44.5	12.30	22.30
CA	Labor Productivity QoQ	2Q		-0.4		0.4	12.30	22.30
CA	Int'l Merchandise Trade	Jul		-3.275		-3.6	12.30	22.30
US	Change in Nonfarm Payrolls/Unemployment rate	Aug		180/4.8		255.0/4.9	12.30	22.30
US	Average Hourly Earnings MoM/YoY	Aug		0.2/2.5		0.3/2.6	12.30	22.30
US	ISM New York	Aug				60.7	13.45	23.45
US	Factory Orders	Jul		2		-1.5	14.00	0.00
US	Cap Goods Orders Nondef Ex Air (revised)	Jul F				1.6	14.00	0.00
US	Fed's Lacker speaks on Interest Rate Benchmarks in Richmond						17.00	3.00
Monday, 5 September 2016								
AU	AiG Perf of Services Index	Aug				53.9	23.30	9.30
JN	Labor Cash Earnings/Real Cash Earnings YoY	Jul				1.3/1.8	0.00	10.00
AU	Melbourne Institute Inflation MoM/YoY	Aug				-0.3/1.0	1.00	11.00
NZ	ANZ Commodity Price	Aug				2.0	1.00	11.00
AU	ANZ Job Advertisements MoM	Aug				-0.8	1.30	11.30
AU	Inventories SA QoQ	2Q				0.4	1.30	11.30
AU	Company Operating Profit QoQ	2Q				-4.7	1.30	11.30
CH	Caixin China PMI Services/Composite	Aug				51.7/51.9	1.45	11.45
JN	Nikkei Japan PMI Services/Composite	Aug				50.4/50.1	0.30	10.30
GE	Markit Germany Services/Composite PMI	Aug F				53.3/54.4	7.55	17.55
EC	Markit Eurozone Services/Composite PMI	Aug F				53.1/53.3	8.00	18.00
UK	Markit/CIPS UK Services/Composite PMI	Aug				47.4/47.5	8.30	18.30
EC	Sentix Investor Confidence	Sep				4.2	8.30	18.30
EC	Retail Sales MoM/YoY	Jul				0.0/1.6	9.00	19.00
UK	Bank of England Bond-Buying Operation Results							
Tuesday, 6 September 2016								
UK	BRC Sales Like-For-Like YoY	Aug				1.1	23.10	9.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Aug 28				121.8	23.30	9.30
NZ	QV House Prices YoY	Aug				14.1	0.00	10.00
AU	Net Exports of GDP	2Q				1.1	1.30	11.30
AU	BoP Current Account Balance	2Q				-21.0	1.30	11.30
AU	RBA Cash Rate Target	Sep 6		1.5		1.5	4.30	14.30
GE	Factory Orders MoM/YoY	Jul				-0.4/-3.1	6.00	16.00
GE	Markit Germany Construction PMI	Aug				51.6	7.30	17.30
UK	New Car Registrations YoY	Aug				0.1	8.00	18.00
EC	GDP SA QoQ/YoY	2Q F				0.3/1.6	9.00	19.00
UK	BOE Indexed Long-Term Repo Operation Results							
US	Markit US Services/Composite PMI	Aug F		/		50.9/51.5	13.45	23.45
UK	Bank of England Bond-Buying Operation Results							
CA	Bloomberg Nanos Confidence	Sep 2				59.3	14.00	0.00
US	Labor Market Conditions Index Change	Aug				1.0	14.00	0.00
US	ISM Non-Manf. Composite	Aug		55.5		55.5	14.00	0.00
US	IBD/TIPP Economic Optimism	Sep				0.0	14.00	0.00
Upcoming Central Bank Interest Rate Announcements								
Canada, BoC		7-Sep				0.50%		
Australia, RBA		6-Sep	1.50%			1.50%		
Europe ECB		8-Sep				0.00%		
UK BOE		15-Sep				0.25%		
Japan, BoJ		21-Sep				-0.1% to +0.1%		
US Federal Reserve		22-Sep				0.25-0.50%		
New Zealand, RBNZ		22-Sep	2.00%	2.00%		2.00%		

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

Contact Details

Authors

David de Garis
Senior Economist
+61 3 8641 3045
david.degaris@nab.com.au

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848
ray.attrill@nab.com.au

Rodrigo Catril
Currency Strategist
+61 2 9293 7109
rodrigo.h.catril@nab.com.au

Tapas Strickland
Economist
+61 2 9237 1980
tapas.strickland@nab.com.au

Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406
peter.jolly@nab.com.au

Group Economics

Alan Oster
Chief Economist
+61 3 8634 2927
alan_oster@national.com.au