

## Don't dream it's over

---

A rather measured night again in the lead up to the FOMC tomorrow morning and the BoJ meeting today where the Bank has been honing its thinking on policy to lift inflation. The NZD has had an up and down 24 hours, rallying yesterday ahead of last night's Global Dairy Auction where prices rose 1.7%, under our expectations of a 5-8% uplift, the essence of which seems to have been priced into the Kiwi that overnight gave back yesterday's gains. It's still trading this morning above 0.73 at 0.7316 ahead of the RBNZ announcement. In the past hour, Fonterra has materially lifted its 2016/17 milk price to NZ\$5.25 (close to BNZ's \$5.30) and up from their last forecast at \$4.75, so a not inconsequential increase in dairy industry farm income. The Kiwi remains steady.

The USD has been relatively subdued with US equities almost flat again and US Treasury yields off by ½-2 bps across the curve. US housing starts fell a larger than expected 5.8% (misses and overshoots are usual) and the Atlanta Fed's *GDPNow* for Q3 was shaved to 2.9% from 3.0% overnight, not from housing starts but the somewhat stronger CPI last week that saw consumption lowered a touch (higher prices, less "real" growth).

Elsewhere, Sterling has continued to drift lower, below 1.30, trading at 1.2985 this morning. The AUD has continued to trade in the mid 0.75s amid a further lift in bulk export commodity prices, especially met coal that pushed up another 4.52% to \$196.50! Coking coal exports are 1.1% of GDP so a more than doubling in prices is at least for now supporting the terms of trade and nominal GDP.

## Coming up

---

The main market interest in our time zone today is the outcome of the BoJ meeting. Doing nothing risks a knee-jerk yen-positive response. The market will also be interested in the outcome of an internal staff review of Japan's growth and inflation under the Bank's move to adopt and re-jig its Quantitative and Qualitative Easing (QQE) and "QQE with a Negative Interest Rate" monetary policies. This review was commissioned at the Bank's July 29 Monetary Policy Meeting. At that meeting, the Bank decided to increase its purchases of Exchange Traded Funds (ETFs), roughly doubling from ¥3.3tr annually to ¥6tr, increases US\$ funding for FIs, but not change the projected annual increase in the money base from ¥80tr nor the -0.1% policy rate; there were two dissenters to increasing ETF purchases on financial stability/moral hazard grounds.

There is market speculation whether the BoJ will push its policy rate into deeper negative territory to weaken the yen (forecasts range to -0.4%), and perhaps coupling this with measures to protect bank net interest margins through the likes of a negative bond market "twist" operation by purchasing shorter-to medium dated JGBs and selling the super long dated JGBs to increase the yield curve slope.

Governor Kuroda's press conference starts at 4.30pm; there's no pre-determined time for the outcome of the meeting to be made public. It could be any time from around 1pm AEST. Completing the diary for today we have Japanese trade figures for August this morning, while locally, the RBA's Alex Heath is speaking at a CEDA labour market/education, skills and training conference at midday. NZ also has credit card spending data this afternoon.

Then the FOMC beckons, followed by the RBNZ (at 7.00 AEST). NAB expects no change from the RBNZ. As for the FOMC, there'll be the immediate interest in the Statement (look for the number of dissenters here too; up to three is likely with George very likely, Mester, likely, Rosengren, possible). With the Statement comes the accompanying "Projection Materials" (updated forecasts). Of specific interest will be the range of FOMC member Fed Funds end year forecasts (this years will likely be cut ¼%) and for the longer run (neutral) rate. That was 3% when last published in June, having been downgraded over time from 4.25% back in January 2012 when these Fed funds forecasts were first released. Then it'll be deciphering the tone and outlook from Fed Chair Yellen's press conference 30 mins later (4.30 am AEST).

The market is more priced to a "no change" and only gradual rate rise expectations outcome. It's going to take something toward hawkishness from the Fed Chair's presser to have the market even thinking whether its pricing that the Fed will only increase rates by 1-2 times between now and the end of 2017 is too thin. It's hard to see Fed Chair Yellen, the Statement and the forecasts pointing to a more dovish outcome than that.

## Overnight

---

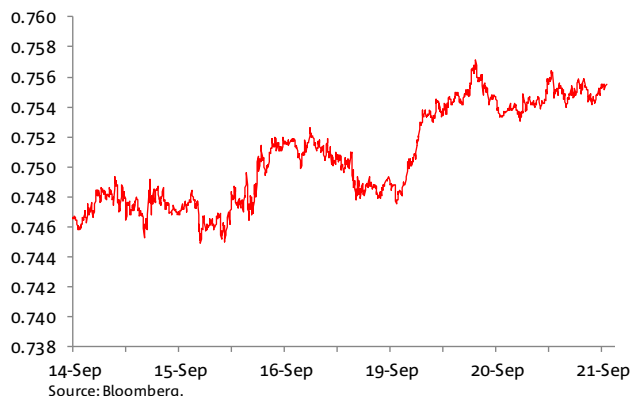
On global stock markets, the S&P 500 was +0.03%. Bond markets saw US 10-years -2.26bp to 1.69%. In commodities, Brent crude oil +0.37% to \$46.12, gold+0.0% to \$1,318, iron ore +0.2% to \$55.77. AUD is at 0.7555 and the range since yesterday 5pm Sydney time is 0.754 to 0.7564.

Good luck.

## Author:

David de Garis, Senior Economist

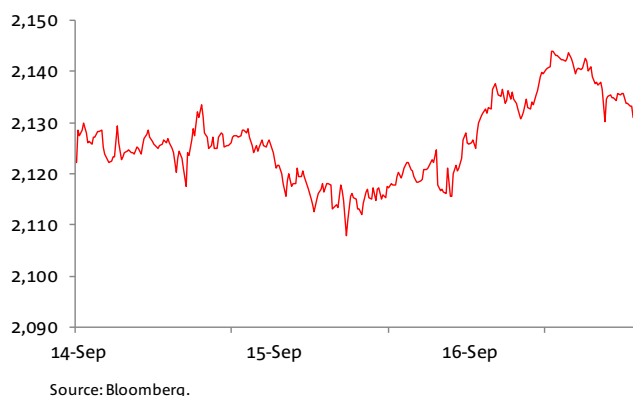
AUD/USD - past week



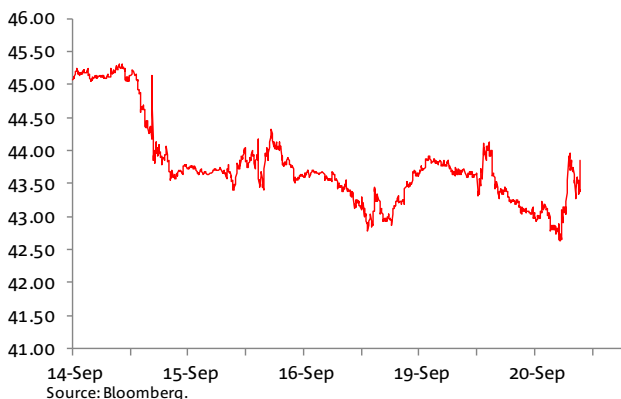
US 10 yr - past week



S&P Futures - past week



WTI - past week



Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7555	0.3	0.7531	0.7565	HKD	7.7575 0.0
NZD	0.7313	0.1	0.7286	0.7361	CNY	6.6698 0.0
EUR	1.1154	-0.1	1.1145	1.1215	SGD	1.3622 -0.1
GBP	1.2989	-0.5	1.2946	1.3095	IDR	13,120 -0.4
JPY	101.71	-0.1	101.54	102.07	THB	34.77 -0.2
CAD	1.3193	0.2	1.3150	1.3244	KRW	1,117 -0.3
AUD/EUR	0.6775	0.2	0.6738	0.6778	TWD	31.30 -0.4
AUD/JPY	76.84	0.0	76.67	77.01	PHP	47.74 -0.5
AUD/GBP	0.5817	0.6	0.5770	0.5839	CHF	0.98 -0.2
AUD/NZD	1.0332	0.1	1.0267	1.0342	SEK	8.60 0.3
AUD/CNH	5.0398	0.1	5.0204	5.0499		

Equities

Major Indices	Last	% day	% y/y
	Dow	18,130	0.1
S&P 500	2,140	0.0	9.3
Nasdaq	5,241	0.1	8.6
VIX	16	2.5	-28.5
FTSE	6,831	0.3	11.9
DAX	10,394	0.2	4.8
CAC 40	4,389	-0.1	-3.2
Nikkei	16,492	-0.2	-8.7
Shanghai	3,023	-0.1	-4.2
Hang Seng	23,531	-0.1	8.2
ASX 200	5,304	0.2	4.7

Commodities\*

	Last	% day
Oil (Brent)	46.12	0.4
Oil (WTI)	44.43	1.3
Oil (Tapis)	45.43	-1.3
Gold	1318.00	0.0
CRB	182.97	0.7
GS Metals	273.4	0.5
Aluminium	1567.5	-0.1
Copper	4779.8	0.6
Nickel	10277.0	1.7
Zinc	2292.8	2.5
Ch. steel	2265.0	1.3
Iron ore	55.8	0.2
St. Coal	72.2	0.3
Wheat Chic.	426.8	0.5
Sugar	22.7	-0.2
Cotton	70.8	3.4
Coffee	156.8	2.6

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spred
USD	0.50	0.86	1.04	1.53	USD 10	1.69	-2.26
AUD	1.50	1.74	1.68	2.25	AUD 10	2.12	-0.20 0.43
NZD	2.00	2.24	2.10	2.62	NZD 10	2.60	2.20 0.91
EUR	0.00	-0.30	-0.23	0.34	CAD 10	1.16	-3.00 -0.53
GBP	0.25	0.38	0.43	0.82	EUR 10	-0.02	-3.40 -1.71
JPY	-0.06	-0.04	-0.10	0.06	GBP 10	0.81	-7.10 -0.88
CAD	0.50	0.90	0.91	1.36	JPY 10	-0.06	-2.40 -1.75

Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.25	-3.00
3 Yr bond	97.8	3.00
10 Yr bond	97.90	1.50
3/10 sprd	-0.10	1.50
SPI	5280.0	-11.0

\*Change in bps

CO<sub>2</sub> Emissions - Euros

	Last	% day
Dec-2016	4.17	-5.0
Jun-2017	4.18	-5.2
Dec-2017	4.18	-5.4

\* clsd = market holiday

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	
<b>Wednesday, 21 September 2016</b>									
NZ	Net Migration SA	Aug				5600	22.45	8.45	
JN	Trade Balance Adjusted	Aug		500		317.6	23.50	9.50	
JN	Exports/Imports YoY	Aug		-4.5/-16.5		-14.0/-24.7	23.50	9.50	
AU	Westpac Leading Index MoM	Aug				0.1	0.30	10.30	
AU	Skilled Vacancies MoM	Aug				-0.6	1.00	11.00	
AU	RBA's Alexandra Heath, Head of Economic Analysis speaks at CEDA Conference - Future Skills: The Education and Training Pipeline, Brisbane							2.00	12.00
JN	BOJ Policy Rate	Sep		-0.1		-0.1	3.00	13.00	
NZ	Credit Card Spending MoM/YoY	Aug				2.3/5.6	3.00	13.00	
JN	Machine Tool Orders YoY	Aug F				-8.4	6.00	16.00	
UK	PSNB ex Banking Groups	Aug		10.05		-1.0	8.30	18.30	
CA	Wholesale Trade Sales MoM	Jul		0.2		0.7	12.30	22.30	
CH	Conference Board Leading Economic Index	Aug					13.00	23.00	
US	FOMC Rate Decision (Lower/Upper Bound)	Sep 21		0.25/0.5		0.25/0.50	18.00	4.00	
US	Fed Summary of Economic Projections and Yellen Press Conference							18.00	4.00
<b>Thursday, 22 September 2016</b>									
NZ	Fonterra 2015/16 results announcement (likely before the OCR)								
NZ	RBNZ Official Cash Rate	Sep 22		2		2.0	21.00	7.00	
AU	RBA Parliament Testimony - first by new Governor Lowe								
EC	ECB Publishes Economic Bulletin						8.00	18.00	
UK	CBI Trends Total Orders/Selling Prices	Sep		-5		-5.0/8.0	10.00	20.00	
US	Chicago Fed Nat Activity Index	Aug		0.125		0.3	12.30	22.30	
US	Initial Jobless Claims	Sep 17		261		260.0	12.30	22.30	
US	FHFA House Price Index MoM	Jul		0.3		0.2	13.00	23.00	
EC	ECB's Dragi Speaks at ESRB Conference in Frankfurt								
US	Bloomberg Consumer Comfort	Sep 18				42.2	13.45	23.45	
EC	Consumer Confidence	Sep A		-8.2		-8.5	14.00	0.00	
US	Existing Home Sales, #/MoM	Aug		5.45/1.11		5.4/-3.2	14.00	0.00	
US	Leading Index	Aug		0		0.4	14.00	0.00	
US	Kansas City Fed Manf. Activity	Sep				-4.0	15.00	1.00	
UK	BOE's Carney Speaks in Berlin - giving a lecture								
<b>Friday, 23 September 2016</b>									
JN	Nikkei Japan PMI Mfg	Sep P				49.5	0.30	10.30	
CH	MNI September Business Indicator						1.45	11.45	
JN	All Industry Activity Index MoM	Jul		0.2		1.0	4.30	14.30	
GE	Markit/BME Manufacturing PMI	Sep P		53.1		53.6	7.30	17.30	
GE	Markit Services/Composite PMI	Sep P		52.2/53.6		51.7/53.3	7.30	17.30	
EC	Markit Manufacturing PMI	Sep P		51.5		51.7	8.00	18.00	
EC	Markit Eurozone Services/Composite PMI	Sep P		52.8/52.8		52.8/52.9	8.00	18.00	
CA	Retail Sales MoM	Jul		0.2		-0.1	12.30	22.30	
CA	CPI NSA MoM/YoY	Aug		0.1/1.4		-0.2/1.3	12.30	22.30	
CA	CPI Core MoM/YoY	Aug		0.2/2		0.0/2.1	12.30	22.30	
US	Markit US Manufacturing PMI	Sep P		52		52.0	13.45	23.45	
GE	German, French Finance Chiefs Meet for Regular Talks, Berlin								
US	Fed's Harker, Mester, Lockhart on Panel at Philly Fed Conf								
<b>Saturday, 24 September 2016</b>									
NZ	Trade Balance	Aug				-433.0	21.45	7.45	
NZ	Exports/Imports	Aug				4.0/4.4	21.45	7.45	
JN	BOJ Flow of Funds						23.50	9.50	
JN	Leading Index CI	Jul F				100.0	5.00	15.00	
JN	Coincident Index	Jul F				112.8	5.00	15.00	
GE	IFO Business Climate	Sep				106.2	8.00	18.00	
GE	IFO Current Assessment	Sep				112.8	8.00	18.00	
GE	IFO Expectations	Sep				100.1	8.00	18.00	
UK	BBA Loans for House Purchase	Aug				37662.0	8.30	18.30	
UK	CBI Total Dist. Reported Sales	Sep				17.0	10.00	20.00	
CA	Bloomberg Nanos Confidence	Sep 16				57.7	14.00	0.00	
US	New Home Sales	Aug		580		654.0	14.00	0.00	
US	New Home Sales MoM	Aug		-11.3		12.4	14.00	0.00	
US	Dallas Fed Manf. Activity	Sep		-3		-6.2	14.30	0.30	
<b>Tuesday, 27 September 2016</b>									
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Sep 18				118.1	23.30	9.30	
JN	PPI Services YoY	Aug				0.4	23.50	9.50	
CH	Industrial Profits YoY	Aug				5.1	1.30	11.30	
EC	M3 Money Supply YoY	Aug				4.8	8.00	18.00	
UK	CBI Retailing Reported Sales	Sep				9.0	10.00	20.00	
US	S&P CoreLogic CS 20-City MoM/YoY	Jul		/		-0.1/5.1	13.00	23.00	
US	Markit US Services/Composite PMI	Sep P		/		51.0/51.5	13.45	23.45	
US	Consumer Confidence Index	Sep		98.5		101.1	14.00	0.00	
US	Richmond Fed Manf. Index	Sep				-11.0	14.00	0.00	
<b>Wednesday, 28 September 2016</b>									
AU	RBA's Edey (Assistant Governor, Financial System) speaks at AFR Retail Summit in Melbourne								
CH	Westpac-MNI Consumer Sentiment	Sep				111.5	1.45	11.45	
JN	Small Business Confidence	Sep				46.3	5.00	15.00	
GE	GfK Consumer Confidence	Oct				10.2	6.00	16.00	
US	MBA Mortgage Applications	Sep 16				4.2	11.00	21.00	
US	Durable Goods Orders/Core Orders	Aug P		-0.2/		4.4/1.5	12.30	22.30	
EC	Draghi Attends Meeting of German Parliament's EU Committee								
UK	Nationwide House PX MoM/YoY	Sep				0.6/5.6	28 Sep-4 Oct	release	
US	Fed's Bullard Makes Introductory Remarks on Community Banking								
US	Fed's Evans Speaks on Community Banking in St. Louis								
US	Fed's Mester Speaks on Economic Outlook and Policy								
US	Fed's George Speaks to Minority Bankers in Kansas City								
<b>Upcoming Central Bank Interest Rate Announcements</b>									
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%			
Australia, RBA		4-Oct	1.50%	1.50%		1.50%			
Europe ECB		20-Oct				0.00%			
Canada, BoC		20-Oct				0.50%			
UK BOE		3-Nov				0.25%			

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

### Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.