

And then there were three

The recent ramp up in Fed rhetoric aimed at putting the market on the scent of an imminent Fed funds rate hike took another blow last night following a sharp drop in the August ISM non-manufacturing index. The index fell over 4 points to 51.4, way below the small pullback to 54.9 from 55.5 expected by consensus. Details in the report were also disappointing with business activity falling 7.5 points to a 6½ year low while new order tumbled 9 points to 51.4, its lowest reading since February 2010. This was the third consecutive key US data release to disappoint in less than five days, following the softer than expected employment report and ISM manufacturing survey last week. Ten days ago, the OIS market was pricing a probability of September hike at 45% while December was at 81%. Today September is priced at 24% while December is at 61%. Recent data releases reinforce our view that the Fed will stand pat in September and hike December assuming data and financial condition remain supportive.

Ahead of the ISM data release markets were relatively quiet and reaction to the data was consistent with what you would normally expect. The USD was sold across the board, core global yields rallied and while US equities initially traded softer, the prospect of fed hikes been kicked further than the road eventually helped all three major US equity indices close the day in positive territory. Meanwhile, European equities ended in the red, unable to benefit from the rebound in US equities.

Looking at currencies in more detail, the NOK (1.66%) and NZD (1.52%) are at the top of the leader board. Notably, the NZD has made new highs for the year and while a softer USD was one factor, the Kiwi was also boosted by another solid GDT auction with the average price index rising 7.7% from the previous event. Incidentally our NZD FX strategist also notes that the NZD TWI is trading at its highest level since April 2015 and it is now close to levels where RBNZ intervention has previously come onto the radar.

Not to be outdone the AUD has also been one of the top performers against the USD. While much of the gains triggered after yesterday's better than expected government spending contribution to Q2 GDP growth (0.5% vs 0.2%) were reversed in the early part of the overnight session, reaction to the ISM number has helped the AUD move past yesterday's high of 0.7654 and now a 77 handle looks well within reach with the currency currently trading at 0.7688.

Looking at other data releases, the Fed labor market index showed a drop of 0.7% in August, partly reversing the rise in July and remains consistent with the unchanged US unemployment rate.

Coming Up

Australia's Q2 GDP numbers are due out today at 11:30am (AEST). Yesterday's better than expected Q2 government spending figures were only partially offset by the softer than expected net export numbers. Overall government spending is now set to contribute around 0.5% points to GDP growth, compared to NAB's previous expectation of 0.2%. In contrast net exports are now seen to detract 0.2% points to GDP growth compared to an estimated flat contribution previously.

As a result of yesterday's GDP partial releases, NAB and the market upgraded their forecast for today's Q2 GDP growth print. In line with Bloomberg's survey, our economists now expect Q2 GDP to come at 0.6% q/q. That said, our economists also note that there is potential for an upward surprise given a probable downward revision to Q1 GDP (likely to be 0.9% q/q from the originally released stellar 1.1% print). If so, a better than expected Q2 GDP print could well be the trigger for the AUD to trade back with a 77 handle, a feat not achieved since 18 August.

Later in the day we should also get an update on China's FX reserves. The consensus is for reserves to decline to \$3.194trn in August from \$3.201trn in July. The decline in CNY in August and the expected trade surplus of \$58.5bn suggest capital outflows remain a prevailing theme in China.

Moving onto Europe, Germany releases its July industrial production figures and the market is looking for a pullback to 0.1% from 0.8%. UK industrial production (July) is also due out (-0.2% exp) and they should serve to confirm or deny the pullback suggested in the July PMI numbers. That said and perhaps importantly for the GBP, BoE Carney along with other BoE officials are scheduled to speak in Westminster and no doubt the market will be looking to see if the Governor will maintain its strong easing bias, particularly given the better than expected data of late.

The July Jolts report and the Fed Beige book are due for release in the US and the Bank of Canada also meets tonight. While a no change by the Bank is broadly expected, the market will be eyeing if the bank is more concerned about the recent low inflation print or relaxed given reasonable activity and labour market data.

Overnight

On global stock markets, the S&P 500 was +0.30%. Bond markets saw US 10-years -6.16bp to 1.53%. In commodities, Brent crude oil -0.08% to \$47.36, gold+1.9% to \$1,351, iron ore -0.1% to \$59.16. AUD is at 0.7687 and the range since yesterday 5pm Sydney time is 0.7616 to 0.7684.

Author:

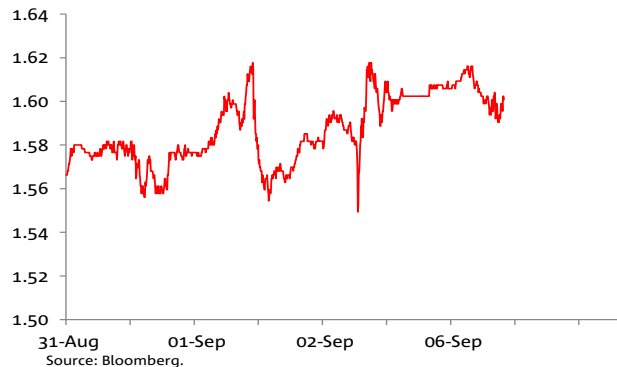
Rodrigo Catril FX Strategist

Markets

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	0.7687	1.4	0.7687	0.7688	HKD	7.7553 0.0
NZD	0.7418	1.5	0.7416	0.7419	CNY	6.6700 -0.1
EUR	1.1255	1.0	1.1255	1.1256	SGD	1.3465 -0.7
GBP	1.3438	1.0	1.3437	1.3441	IDR	13,127 -0.2
JPY	102.03	-1.4	102.01	102.04	THB	34.61 -0.4
CAD	1.2844	-0.6	1.2843	1.2850	KRW	1,105 0.0
AUD/EUR	0.683	0.4	0.6829	0.6831	TWD	31.42 0.1
AUD/JPY	78.43	0.0	78.42	78.45	PHP	46.59 0.2
AUD/GBP	0.5720	0.4	0.5720	0.5722	CHF	0.97 -1.1
AUD/NZD	1.0362	-0.2	1.0361	1.0365	SEK	8.46 -1.2
AUD/CNH	5.1153	1.0	5.1303	5.1318		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spred
USD	0.50	0.83	0.98	1.39	USD 10	1.53	-6.84
AUD	1.50	1.72	1.62	2.05	AUD 10	1.90	1.00 0.37
NZD	2.00	2.24	1.99	2.42	NZD 10	2.32	2.90 0.79
EUR	0.00	-0.30	-0.24	0.25	CAD 10	1.03	-3.60 -0.51
GBP	0.25	0.38	0.44	0.73	EUR 10	-0.11	-6.30 -1.65
JPY	-0.04	-0.03	-0.08	0.11	GBP 10	0.66	-5.70 -0.87
CAD	0.50	0.90	0.93	1.26	JPY 10	-0.02	1.50 -1.55

Equities

Major Indices

	Last	% day	% y/y
Dow	18,538	0.2	15.1
S&P 500	2,186	0.3	13.8
Nasdaq	5,276	0.5	12.6
VIX	12	0.3	-56.8
FTSE	6,826	-0.8	13.0
DAX	10,687	0.1	6.5
CAC 40	4,530	-0.2	0.2
Nikkei	17,082	0.3	-4.4
Shanghai	3,091	0.6	0.3
Hang Seng	23,788	0.6	15.6
ASX 200	5,414	-0.3	7.6

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.24	-1.00
3 Yr bond	97.8	3.00
10 Yr bond	98.14	3.00
3/10 sprd	-0.34	0.00
SPI	5401.0	16.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	47.36	-0.1
Oil (WTI)	44.88	1.5
Oil (Tapis)	47.32	-3.8
Gold	1350.60	1.9
CRB	180.90	0.5
GS Metals	269.4	-0.4
Aluminium	1577.0	0.8
Copper	4609.0	-0.1
Nickel	10063.8	0.4
Zinc	2315.0	-2.0
Ch. steel	2412.0	-1.0
Iron ore	59.2	-0.1
Coal	70.8	1.3
Wheat Chic.	398.0	-0.3
Sugar	20.2	0.0
Cotton	68.8	2.5
Coffee	153.5	1.4

CO₂ Emissions - Euros

	Last	% day
Dec-2016	4.13	4.8
Jun-2017	4.14	4.5
Dec-2017	4.15	5.1

* 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
Wednesday, 7 September 2016								
NZ	Mfg Activity Volume QoQ	2Q				-1.2	22.45	8.45
UK	BRC Shop Price Index YoY	Sep				-2.0	0.10	10.10
AU	AIg Perf of Construction Index	Aug				51.6	23.30	9.30
US	Fed's Williams Speaks on Outlook in Reno, Nevada							
AU	GDP SA QoQ	2Q	0.3/3.1%	0.6/3.3		1.1/3.1	1.30	11.30
JN	Leading Index CI	Jul P		98.6		99.2	5.00	15.00
GE	Industrial Production SA MoM/YoY	Jul		0.1		0.8/0.5	6.00	16.00
UK	Halifax House Prices MoM/YoY	Aug		-0.1		-1.0/8.4	7.30	17.30
UK	Industrial Production MoM/YoY	Jul		-0.2		0.1/1.6	8.30	18.30
UK	BOE's Cunliffe on Panel at Bruegel Think Tank in Brussels							
UK	BOE's Carney, Cunliffe, Forbes, McCafferty Speak in London							
UK	Bank of England Bond-Buying Operation Results							
CH	Foreign Reserves	Aug		3190		3201.1		
CA	Bank of Canada Rate Decision	Sep 7		0.5		0.5	14.00	0.00
UK	NIESR GDP Estimate	Aug				0.3	14.00	0.00
CA	Ivey Purchasing Managers Index SA	Aug		57.5		57.0	14.00	0.00
US	JOLTS Job Openings	Jul		5635		5624.0	14.00	0.00
US	U.S. Federal Reserve Releases Beige Book							
Thursday, 8 September 2016								
AU	RBA's Lowe Introductory Remarks at Sydney Conference							
UK	RICS House Price Balance	Aug		2		5.0	23.10	9.10
JN	BoP Current Account Adjusted	Jul		1573.7		1648.4	23.50	9.50
JN	GDP SA QoQ	2Q F		0		0.0	23.50	9.50
AU	Trade Balance	Jul	-2900	-2700		-3195	1.30	11.30
CH	Trade Balance	Aug		58.85		52.3	3.00	13.00
CH	Exports/Imports YoY	Aug		-4/-5.4		-4.4/-12.5	3.00	13.00
CH	Trade Balance CNY	Aug		373		342.8	3.00	13.00
CH	Exports/Imports YoY	Aug		2.85/0.7		2.9/-5.7	3.00	13.00
GE	Labor Costs SA QoQ/YoY	2Q				1.7	6.00	16.00
EC	ECB Main Refinancing Rate	Sep 8		0		0.0	11.45	21.45
EC	ECB Deposit Facility Rate	Sep 8		-0.4		-0.4	11.45	21.45
EC	ECB Marginal Lending Facility	Sep 8		0.25		0.3	11.45	21.45
EC	ECB Asset Purchase Target	Sep		80		80.0	11.45	21.45
CA	New Housing Price Index MoM	Jul		0.1		0.1	12.30	22.30
US	Initial Jobless Claims	Sep 3		264.5		263.0	12.30	22.30
CA	Capacity Utilization Rate	2Q		79.6		81.4	12.30	22.30
CA	New Housing Price Index YoY	Jul		2.5		2.5	12.30	22.30
CA	Building Permits MoM	Jul		2.5		-5.5	12.30	22.30
CH	Foreign Direct Investment YoY CNY	Aug		4.5		-1.6		
US	Consumer Credit	Jul		16		12.3	19.00	5.00
Friday, 9 September 2016								
NZ	Card Spending Retail MoM/YoY	Aug	-0.2%	0.3		0.3/0.4	22.45	8.45
CH	CPI/PPI YoY	Aug		1.7/-0.9		1.8/-1.7	1.30	11.30
AU	Home Loans MoM	Jul	-2.4%	-1.5		1.2	1.30	11.30
AU	Investment Lending	Jul				3.2	1.30	11.30
JN	Tertiary Industry Index MoM	Jul		0.4		0.8	4.30	14.30
GE	Current Account Balance	Jul		24.5		26.3	6.00	16.00
UK	Trade Balance	Jul		-4200		-5084	8.30	18.30
UK	Construction Output SA MoM/YoY	Jul		-0.5		-0.9/-2.2	8.30	18.30
UK	BoE/TNS Inflation Next 12 Mths	Aug				2.0	8.30	18.30
US	Fed's Rosengren to Deliver Economic Forecast						11.45	21.45
CA	Housing Starts	Aug		190		198.4	12.15	22.15
CA	Net Change in Employment/Unemployment rate	Aug				-31.2/6.9	12.30	22.30
NZ	REINZ House Sales YoY	Aug				-10.1		
US	Wholesale Inventories/Sales MoM	Jul F		0.1/0.2		0.0/1.9	14.00	0.00
EC	EU Finance Chiefs, Central Bankers in Bratislava Sept. 10-11							
CH	Aggregate Financing CNY	Aug		914.35		487.9		
Monday, 12 September 2016								
JN	Machine Orders MoM	Jul				8.3	23.50	9.50
JN	Machine Orders YoY	Jul				-0.9	23.50	9.50
JN	PPI MoM	Aug				0.0	23.50	9.50
JN	PPI YoY	Aug				-3.9	23.50	9.50
AU	Credit Card Purchases	Jul				25.5	1.30	11.30
AU	Credit Card Balances	Jul				52.2	1.30	11.30
JN	Machine Tool Orders YoY	Aug P				-19.7	6.00	16.00
US	Fed's Lockhart Speaks to Business Economists in Atlanta						12.05	22.05
CA	Bloomberg Nanos Confidence	Sep 2				59.3	14.00	0.00
US	Fed's Kashkari Speaks on Economy and TBTF						17.00	3.00
Tuesday, 13 September 2016								
AU	RBA's Kent Speech at Bloomberg Sydney						22.30	8.30
NZ	Food Prices MoM	Aug				-0.2	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Sep 4				118.4	23.30	9.30
JN	BSI Large All Industry QoQ	3Q				-7.9	23.50	9.50
JN	BSI Large Manufacturing QoQ	3Q				-11.1	23.50	9.50
AU	NAB Business Conditions/Confidence	Aug				8/4	1.30	11.30
CH	Industrial Production YoY/YTD YoY	Aug		6.2/6		6.0/6.0	2.00	12.00
CH	Retail Sales YoY/YTD YoY	Aug		10.2/10.3		10.2/10.3	2.00	12.00
CH	Fixed Assets Ex Rural YTD YoY	Aug		7.9		8.1	2.00	12.00
GE	CPI EU Harmonized MoM/YoY	Aug F		/		-0.1/0.3	6.00	16.00
UK	CPI MoM/YoY	Aug		/		-0.1/0.6	8.30	18.30
UK	CPI Core YoY	Aug				1.3	8.30	18.30
UK	PPI Input NSA MoM/YoY	Aug				3.3/4.3	8.30	18.30
UK	PPI Output Core NSA MoM/YoY	Aug				0.4/1.0	8.30	18.30
UK	House Price Index YoY	Jul				8.7	8.30	18.30
EC	Employment QoQ/YoY	2Q				0.3/1.4	9.00	19.00
GE	ZEW Survey Current Situation/Expectations	Sep				57.6/0.5	9.00	19.00
EC	ZEW Survey Expectations	Sep				4.6	9.00	19.00
US	NFIB Small Business Optimism	Aug		94.8		94.6	10.00	20.00
US	Monthly Budget Statement	Aug		-98		-112.8	18.00	4.00
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

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