

# Australian Markets Weekly

## Weather vagaries playing out in farming and resources

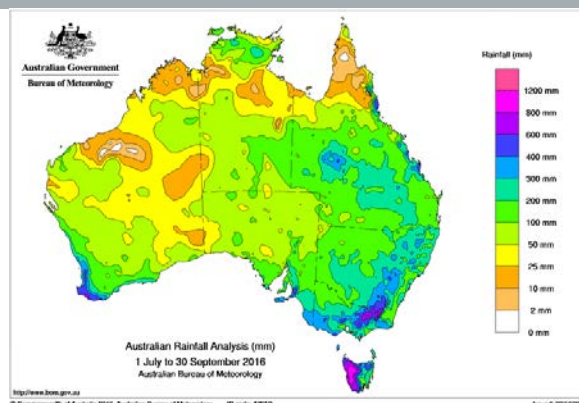
- This week, we focus on the weather that stands to have different short and medium term impacts on the farm sector. It's a big positive for farmers that are now looking to re-stock herds as well as providing a good start for this year's grain crops, but the (continuation of) especially wet weather is now at risk of becoming an impediment to this year's looming grain production and possibly delaying the planned planting of crops such as cotton over coming weeks.
- All that said, from a recent trip through the Riverina, most wheat crops look very encouraging – even excellent to the naked eye of a non-specialist - not showing marked signs of being adversely affected. For those areas with good drainage, crops look like they are ones “out of the box”.
- The weather may also be playing a part in affecting Australian coal production and thus being price-supportive in a market where both coking and steaming coal prices having been strong recently – especially coking coal - mostly it seems from Chinese mandated industry reform coal production cutbacks.
- This week, with China out for Golden Week celebrations, the offshore focus will be even more intense on the US with the ISM Manufacturing release tonight, the US ISM Non-manufacturing report on Wednesday and then payrolls on Friday. Both ISM releases are expected to improve somewhat with the employment components from each on watch into Friday's payrolls report. A solid 170k is expected with a steady unemployment rate of 4.9% along with average weekly earnings growth of 0.3%/2.6%, up from 0.1%/2.4%, a reading that will figure in importance alongside headline payrolls growth.
- The RBA is expected to leave rates unchanged tomorrow (and by NAB until mid-2017). The RBA expects that the diminishing drag from the resource sector investment and supportive commodity price should underpin employment and growth. With no change in RBA monetary policy priced in this month, the market will be interested in tomorrow's post-Board Media Release wording on the economy, housing, and the AUD.
- There are three important local data releases this week, the most market sensitive being Wednesday's Retail Sales, with NAB expecting sales to rise from higher Department Store Sales that were very weak in July. Also on the local economic agenda are Building Approvals (tomorrow) and International Trade on Thursday.

### Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7655	0.2	RBA cash	1.50	0
AUD/CNY	5.10	0.4	3y swap	1.68	-2
AUD/JPY	77.6	1.4	ASX 200	5,482	0.9
AUD/EUR	0.682	0.5	Iron ore	55.9	-1.6
AUD/NZD	1.053	0.2	WTI oil	48.0	4.6

Source: Bloomberg

### Chart 1: A very wet winter-early spring



### Authors:

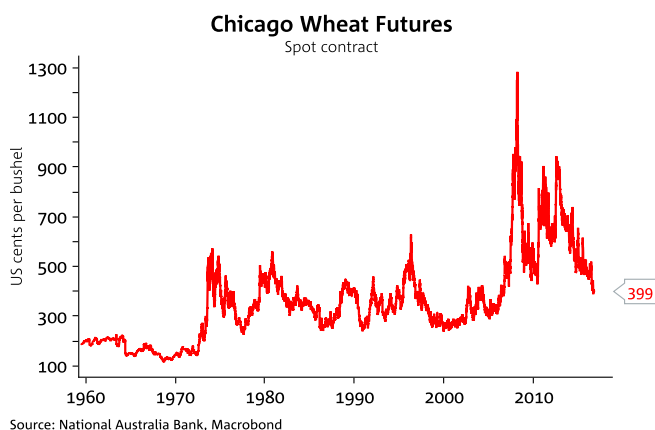
David de Garis, Senior Economist, Markets

## The vagaries of weather and farm production

One press article reported this morning that rain in September in vast areas of NSW, Queensland, South Australia and the Northern Territory was more than 400% of the average rainfall in September. Having just returned from a client tour this past week in the Riverina in southern NSW, there was also one topic that is currently front and centre for local farmers, and that was “rain”.

And with good reason. While the growing season for wheat and allied crops has had an excellent start, you can have too much of a good thing as the crop progresses and growing not could do with drier conditions for a time. For those growing crops with better drainage on top of a good start, prospects remain very good to outstanding. It may be the case that where some crop yields may be adversely affected – and it is too early to put any figures around that – others could well enjoy bumper yields where international prices remain very subdued (see Chart 2 below). US wheat prices are among the lowest in a decade in a market that is priced for higher closing stocks at the end of the 2016-17 year from abundant global production.

Chart 2: US wheat prices



Phin Ziebell, NAB’s Australian agriculture commodities analyst, forecasts that this year’s wheat crop nationally will be up 13.9% with sugar and cotton production also likely to be higher, the latter a beneficiary of more water, but subject to still some uncertainty around planting times, at least in the Riverina. Against those prospective rises, re-stocking of national herds will likely see red meat production lower. (NAB’s Rural Commodities Wrap for September provides a full update for the rural sector across the various commodity groups, production and prices. Please let us know if you do not receive this report and would like to be placed on the email distribution list.)

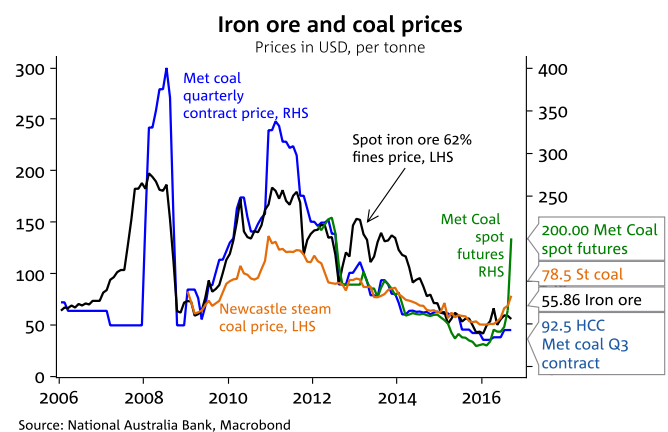
### Coal prices also possibly being supported by weather

One of the largest stories to emerge from the resources sector over recent months has been the emergence of higher coal prices, both for coking coal (used in steel production) and thermal coal (primarily for electricity generation). From a low of less than \$US70/t earlier this year, high quality coking coal prices have accelerated over recent weeks to \$200/t mark that earlier this year seemed like a distant memory for Australian coal producers.

Several factors have conspired to lift prices, some shorter term such as bad weather in China disrupting coal availability and wet weather in Australia that may have also affected production in recent months. “Reform” of the Chinese coal industry through production cuts this year has also played a part, as has the uplift in Chinese steel production from higher construction and infrastructure demand. Together with the net increase in iron ore prices this year, this is acting to support the terms of trade.

NAB’s forecast calls for the terms of trade this quarter to notch up a sizeable gain, though to then likely retrace to some extent as temporary supply-side price-supportive factors are unwound, factors that appear to be at play given the stratospheric rise in met coal prices recently.

Chart 3: Australia’s bulk resource commodity prices



### The week ahead

This week, with China out for Golden Week celebrations, the offshore focus will be even more intense on the US with the ISM Manufacturing release tonight, the US ISM Non-manufacturing release on Wednesday and then payrolls on Friday. Both ISM releases are expected to improve somewhat with the employment components under close watch into Friday’s payrolls report. Payrolls is expected to print at a solid 170k with an unemployment rate steady at 4.9% and average weekly earnings growth of 0.3%/2.6%, up from 0.1%/2.4%. As a key driver of the inflation outlook, this measure of labour earnings growth will figure in importance for policy and the markets alongside headline payrolls growth.

The RBA is expected to leave rates unchanged this month (and by NAB until mid-2017). The RBA expects that the diminishing drag from the resource sector investment and supportive commodity price should underpin employment and growth. No change in RBA monetary policy is expected this month with the market interested in tomorrow’s post-Board Media Release wording on the economy, housing, and the AUD. There are three important local data releases this week, the most market sensitive being Wednesday’s Retail Sales, NAB expecting sales to rise from a better month for Department Store Sales that were very weak in July. Also on the local economic agenda are Building Approvals (tomorrow) and International Trade on Thursday.

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# Calendar of Economic Releases

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
<b>Monday, 3 October 2016</b>								
AU	AiG Perf of Mfg Index	Sep				46.9	23.30	9.30
AU	CoreLogic House Px MoM	Sep				1.1	0.00	10.00
JN	Loans & Discounts Corp YoY	Aug				2.3	0.50	10.50
JN	Tankan Large Mfg Index/Outlook	3Q		7/8		6.0/6.0	0.50	10.50
JN	Tankan Large All Industry Capex	3Q		6.5		6.2/19.0	0.50	10.50
AU	Melbourne Institute Inflation MoM/YoY	Sep				0.2/1.2	1.00	11.00
JN	Nikkei Japan PMI Mfg	Sep F				50.3	1.30	11.30
GE	Markit/BME Germany Manufacturing PMI	Sep F		54.3		54.3	8.55	18.55
EC	Markit Eurozone Manufacturing PMI	Sep F		52.6		52.6	9.00	19.00
UK	Markit UK PMI Manufacturing SA	Sep		52.1		53.3	9.30	19.30
CA	MLI Leading Indicator MoM	Aug				0.6	12.00	22.00
CA	RBC Canadian Manufacturing PMI	Sep				51.1	14.30	0.30
US	Bloomberg Consumer Comfort	Oct 2				41.6	14.45	0.45
US	Markit US Manufacturing PMI	Sep F		51.4		51.4	14.45	0.45
CA	Bloomberg Nanos Confidence	Sep 30				56.5	15.00	1.00
US	Construction Spending MoM	Aug		0.3		0.0	15.00	1.00
US	ISM Manufacturing	Sep		50.3		49.4	15.00	1.00
<b>Tuesday, 4 October 2016</b>								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct 2				120.6	23.30	9.30
NZ	QV House Prices YoY	Sep				14.6	0.00	10.00
JN	Monetary Base YoY/End of Period	Sep				24.2/404.5	0.50	10.50
AU	ANZ Job Advertisements MoM	Sep				1.8	1.30	11.30
AU	Building Approvals MoM	Aug	5.5	-6/5.1		11.3/3.1	1.30	11.30
NZ	RBNZ Governor Wheeler Speaks in Whangarei (Not Public)						2.30	12.30
AU	RBA Cash Rate Target	Oct 4	1.5	1.5		1.5	4.30	14.30
JN	Consumer Confidence Index	Sep		41.8		42.0	6.00	16.00
AU	Commodity Index AUD/YoY	Sep				90.5/0.8	6.30	16.30
UK	Markit/CIPS UK Construction PMI	Sep		49		49.2	9.30	19.30
US	Wards Total Vehicle Sales	Sep		17.45		16.9		
US	ISM New York	Sep				47.5	14.45	0.45
US	IBD/TIPP Economic Optimism	Oct		47.5		0.0	15.00	1.00
<b>Wednesday, 5 October 2016</b>								
AU	AiG Perf of Services Index	Sep				45.0	23.30	9.30
UK	BRC Shop Price Index YoY	Sep				-2.0	0.10	10.10
NZ	ANZ Commodity Price	Sep				3.2	1.00	11.00
JN	Nikkei Japan PMI Services/Composite	Sep		/		49.6/49.8	1.30	11.30
AU	Retail Sales MoM	Aug	0.4%	0.2		0.0	1.30	11.30
US/NZ	Fed's Evans Speaks on Economy and Policy in Auckland, NZ						1.40	11.40
GE	Markit Germany Services/Composite PMI	Sep F		50.6/52.7		50.6/52.7	8.55	18.55
EC	Markit Eurozone Services/Composite PMI	Sep F		52.1/52.6		52.1/52.6	9.00	19.00
UK	Markit/CIPS UK Services/Composite PMI	Sep		52/52.3		52.9/53.6	9.30	19.30
EC	Retail Sales MoM/YoY	Aug		-0.3/1.5		1.1/2.9	10.00	20.00
US	MBA Mortgage Applications	Sep 30				-0.7	12.00	22.00
US	ADP Employment Change	Sep		162.5		177.0	13.15	23.15
US	Trade Balance	Aug		-39.2		-39.5	13.30	23.30
CA	Int'l Merchandise Trade	Aug		-2.45		-2.5	13.30	23.30
US	Markit US Services/Composite PMI	Sep F		52/		51.9/52.0	14.45	0.45
US	ISM Non-Manf. Composite	Sep		53		51.4	15.00	1.00
US	Factory Orders	Aug		-0.2		1.9	15.00	1.00
<b>Thursday, 6 October 2016</b>								
NZ	ANZ Truckometer Heavy MoM	Sep				6.7	22.00	8.00
AU	Trade Balance	Aug	-2100	-2300		-2410.0	1.30	11.30
GE	Factory Orders MoM/YoY	Aug		0.3		0.2	7.00	17.00
GE	Markit Germany Construction PMI	Sep				51.6	8.30	18.30
UK	New Car Registrations YoY	Sep				0.1	9.00	19.00
UK	Unit Labor Costs YoY	2Q				1.9	9.30	19.30
US	Challenger Job Cuts YoY	Sep				-21.8	12.30	22.30
EC	ECB account of the monetary policy meeting						12.30	22.30
CA	Building Permits MoM	Aug		1		0.8	13.30	23.30
US	Initial Jobless Claims	Oct 1		255		254.0	13.30	23.30
US	Bloomberg Consumer Comfort	Oct 2				41.6	14.45	0.45
<b>Friday, 7 October 2016</b>								
AU	AiG Perf of Construction Index	Sep				46.6	23.30	9.30
JN	Labor Cash/Real Earnings YoY	Aug		0.4		1.4/2.0	1.00	11.00
JN	Leading Index CI	Aug P		101.6		100.0	6.00	16.00
GE	Industrial Production SA MoM/YoY	Aug		1/0.4		-1.5/-1.2	7.00	17.00
CH	Foreign Reserves	Sep		3182.5		3185	8.00	18.00
UK	Halifax House Prices MoM/YoY	Sep		0		-0.2/6.9	8.30	18.30
UK	Industrial Production MoM/YoY	Aug		0.2/1.3		0.1/2.1	9.30	19.30
UK	Trade Balance	Aug		-4000		-4502.0	9.30	19.30
US	Change in Nonfarm Payrolls/Unemployment rate	Sep		170/4.9		151/4.9	13.30	23.30
US	Average Hourly Earnings MoM/YoY	Sep		0.3/2.6		0.1/2.4	13.30	23.30
CA	Net Change in Employment/Unemployment rate	Sep		7.5/7		26.2/7.0	13.30	23.30
UK	NIESR GDP Estimate	Sep				0.3	15.00	1.00
CA	Ivey Purchasing Managers Index SA	Sep		53.5		52.3	15.00	1.00
US	Wholesale Inventories MoM	Aug F		-0.1		-0.1	15.00	1.00
US	Wholesale Trade Sales MoM	Aug		0		-0.4	15.00	1.00
CA	Business Outlook Future Sales	3Q				5.0	15.30	1.30
CA	BoC Senior Loan Officer Survey	3Q				23.9	15.30	1.30
US	Fed's Fischer Speaks in Washington						15.30	1.30
US	Fed's Mester Speaks in New York						17.45	3.45
US	Consumer Credit	Aug		16.5		17.7	20.00	6.00
US	Fed's George speaks in Washington						20.00	6.00
US	Fed's Brainard speaks in Washington						21.00	7.00
CA	BoC's Wilkins Speaks on Panel in Washington						21.00	7.00
<b>Saturday, 8 October 2016</b>								
CH	Caixin China PMI Services/Composite	Sep				52.1/51.8	2.45	12.45
CH	Foreign Direct Investment YoY CNY	Sep		4.1		5.7		
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Australia, RBA		4-Oct	1.50%	1.50%		1.50%		
Europe ECB		20-Oct				0.00%		
Canada, BoC		20-Oct				0.50%		
Japan, BoJ		1-Nov				-0.1% to +0.1%		
US Federal Reserve		3-Nov				0.25-0.50%		
UK BOE		3-Nov				0.25%		
New Zealand, RBNZ		10-Nov				2.00%		

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



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