

# Australian Markets Weekly

## The RBA, the Fed and a Postcard from Japan

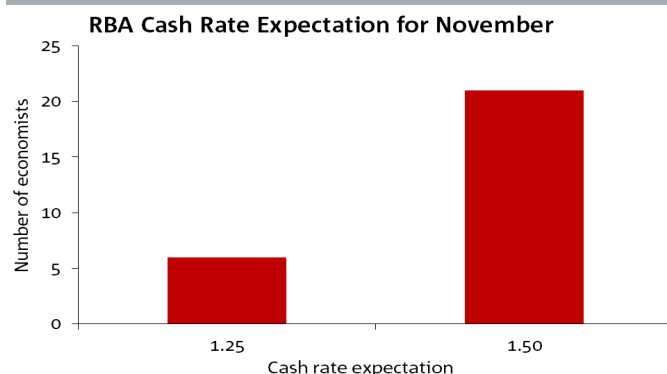
- This week we report on the views of Japanese clients of Australia following a recent marketing trip there. The main points were: (i) most Japanese investors retain a favourable view on the outlook for the Australian economy; (ii) there remains considerable interest in Australian bonds and other interest-bearing instruments – including in the newly-issued 30-year bond – given Australia’s relatively high (and positive); (iii) Japanese investors also appear mostly favourably disposed towards the \$A on account of both their optimistic view on the Australian economy and the belief that the RBA will not cut rates again anytime soon; (iv) the global bear steepening trend for the yield curve is expected to continue; and (v) Australian house prices and the sustainability of Chinese growth were the key questions asked. There was little awareness of the apartment settlement and oversupply risks that we are closely focused on at the present time.
- In terms of our economics presentation, we focused on increasing signs that the mining sector may have reached bottom and the continuing support for the Australian economy from many elements of Chinese growth – reflected in strong growth in tourism and foreign students on the services side – and in strongly rising exports of gold, wood, wool, wheat, meat, beverages and confidential items.
- Domestically our concerns at the present time centre on signs that momentum has slowed both in NSW and in retail spending. Both are important obviously by virtue of their size – and in NSW’s case (along with Victoria) has been important in offsetting much of the weakness emanating from the mining sector/regions. While we expect the recency of the past two interest rate cuts, the higher headline CPI and recent reacceleration of house prices in Sydney and Melbourne to be sufficient to see the RBA hold fire in November, it would not surprise to see a dovish statement in light of these economic trends, which are likely to be closely studied over coming months by the RBA.
- Offshore, it is also a very big week with the Bank of Japan, the Fed and the Bank of England all meeting. No rate changes are expected however there will be strong focus on whether there is any further progress toward or stronger hints of a Fed move in December, which is widely expected. There is also important US data – the ISMs (Tuesday and Thursday) and non-farm payrolls on Friday – and China publishes its PMIs on Tuesday.
- In markets, the main trends over the past week were gains in the \$A on the crosses as the \$US broadly gained and the \$A held its ground versus the \$US. Bond yields also continued to edge higher.

### Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7597	-0.2	RBA cash	1.50	0
AUD/CNY	5.14	0.0	3y swap	1.84	2
AUD/JPY	79.4	0.2	ASX 200	5,284	-2.7
AUD/EUR	0.691	-1.1	Iron ore	64.0	8.9
AUD/NZD	1.061	-0.5	WTI oil	48.7	-4.2

Source: Bloomberg

### Chart 1: Markets do not expect an RBA rate cut tomorrow



#### Author:

Ivan Colhoun, Chief Economist, Markets

## Japanese investors' views of Australia

---

- We recently met with local and foreign life insurers and funds management firms on a trip marketing the Australian economy in Japan. There is still very keen interest in Australian fixed income securities given negative interest rates in Europe and Japan and very low interest rates generally around the world.
- There were a lot of questions about the new 30-year Australian government bond (both before and after the issue), with the 3% yield again standing out on a global comparison. A number of investors were very interested in the issue but needed the amount on issue to build as internal guidelines prevent owning too large a proportion of any single issue.
- The main questions Japanese investors had on the Australian economy were the perennial favourites of house prices and the sustainability of China's economic growth. There was also a good deal of interest in Australia's new central bank governor (would he be more hawkish than Governor Stevens – we thought not noticeably) and also some discussion of the negative political environment. For the most part, there was not that much focus on the apartment oversupply/settlement risk situation, which is a reasonably significant issue for investors to follow over the next 12-18 months in NAB's opinion.
- Japanese investors for the most part remain optimistic on the outlook for the Australian economy, with some noting the recent strength in state government spending and that the capex outlook was no longer as weak as expected. [We noted also potential strength in defence spending in coming years]. Most did not expect the RBA to cut rates further in the near term, though nor did they expect an interest rate increase for an extended period, which inclined them to a constructive view of the \$A and to be overweight Australian bonds versus US Treasuries. That said one investor was quite worried about the potential for China to be in a bubble and so was bearish on Australia and the \$A. In general, Australia's high yields were the main attraction and this was also seeing more money flowing into spread product and into longer-dated securities.
- One investor voiced his concern about the volatility of the Australian employment data (unsurprisingly). We agreed and suggested that the unemployment rate and full-time male employment had generally been less volatile indicators, though now even these series were impacted by substantial volatility on a monthly basis. The best one can do is to look at the trends in each of these sub-series.
- Most investors thought the trend to global yield curve steepening would continue, encouraged by the BoJ's new policy, higher oil prices, the perceived backing away of central banks from even more negative interest rates, expected further tightening by the Fed and increased requests from central banks for greater use of fiscal policy. One client was worried that the BoJ would not have quite as much control over the yield curve as it might hope, while another thought the steepening trend would have a negative influence on REIT markets, which have been correlated with long bond yields.
- A number of insurers that sell \$A-denominated life insurance products had recently started selling 20-year life insurance products, which was generating demand for longer-dated Australian assets. The proportion of these products denominated in \$A outweighed those sold in US\$ by a factor of around 3:1. This made me wonder about the impact on the \$A and flows into Australia from Japan if Australian yields did fall below those in the US over the next year or so as the Fed tightened and the RBA continued cutting rates.
- In terms of some of the different views expressed:
  - An improving trend for the trade balance excluding iron ore was noted (higher coal prices are likely to accentuate this trend in the near term at least);
  - One client did not expect much further Fed tightening as they were looking for a US recession next year;
  - Demand for Australian apartments out of China may wane somewhat in the near term given the significant cheapening in London apartments after the recent sharp drop in the GBP post Brexit. That said, Australian property prices were still seen as relatively attractive in RMB terms given the big drop in the \$A against that currency over the past three years.
- I gave two interviews to the Japanese press. The topic they were most interested in was my view of Japan's negative interest rate policy, which – as many of you would know – I am not a fan of, believing that central banks did not do sufficient due diligence on the substantial costs associated with negative interest rates.
- There was growing appreciation of NAB's increased focus on the Japanese market. Clients were grateful for our translated research – any Japanese clients that would like to be added to our Japanese-language research please email [ivan.colhoun@nab.com.au](mailto:ivan.colhoun@nab.com.au).
- Apart from the issue of apartments, I also covered growing signs that the mining economy had bottomed and continuing support from the Chinese economy for many aspects of Australian growth, as represented by strength in exports of wood, gold, wheat, wool, meat, beverages and confidential items among others. What's worrying us most on the Australian economy in the short term is the slowing that seems to be going on in NSW and in the Retail Sector, both large parts of the economy.

[Ivan.Colhoun@nab.com.au](mailto:Ivan.Colhoun@nab.com.au)

# Calendar of Economic Releases

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
<b>Monday, 31 October 2016</b>								
UK	Nationwide House PX MoM/YoY	Oct		0.2/4.9		0.3/5.3	29 Oct-4 Nov	release
NZ	Building Permits MoM	Sep				-1.0	22.45	8.45
JN	Industrial Production MoM/YoY	Sep P		0.9/1.9		1.3/4.5	0.50	10.50
JN	Retail Sales MoM/YoY	Sep		0.2/-1.8		-1.1/-2.1	0.50	10.50
JN	Dept. Store, Supermarket Sales	Sep		-2.7		-3.6	0.50	10.50
AU	Melbourne Institute Inflation MoM/YoY	Oct		/		0.4/1.3	1.00	11.00
NZ	ANZ Activity Outlook/Business Confidence	Oct		/		42.4/27.9	1.00	11.00
UK	GfK Consumer Confidence	Nov				-3.0	1.10	11.10
UK	Lloyds Business Barometer	Oct				24.0	1.10	11.10
AU	Private Sector Credit MoM/YoY	Sep		0.4/5.5		0.4/5.8	1.30	11.30
NZ	Money Supply M3 YoY	Sep				5.3	3.00	13.00
UK	Net Consumer Credit	Sep		1.5		1.6	10.30	20.30
UK	Mortgage Approvals	Sep		61.5		60.1	10.30	20.30
EC	CPI Estimate/Core YoY	Oct		0.5/0.8		0.4/0.8	11.00	21.00
EC	GDP SA QoQ/YoY	3Q A		0.3/1.6		0.3/1.6	11.00	21.00
US	Personal Income/Spending	Sep		0.4/0.4		0.2/0.0	13.30	23.30
US	PCE Deflator MoM/YoY	Sep		0.2/1.2		0.1/1.0	13.30	23.30
US	PCE Core MoM/YoY	Sep		0.1/1.7		0.2/1.7	13.30	23.30
CA	Industrial Product Price MoM	Sep		0.35		-0.5	13.30	23.30
CA	Raw Materials Price Index MoM	Sep		0.5		-0.7	13.30	23.30
US	Chicago Purchasing Manager	Oct		54		54.2	14.45	0.45
CA	Bloomberg Nanos Confidence	Oct 28				56.4	15.00	1.00
US	Dallas Fed Manf. Activity	Oct		2		-3.7	15.30	1.30
<b>Tuesday, 1 November 2016</b>								
AU	AiG Perf of Mfg Index	Oct				49.8	23.30	9.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct 30				113.6	23.30	9.30
AU	CoreLogic House Px MoM	Oct				1.1	0.00	10.00
NZ	QV House Prices YoY	Oct				14.3	0.00	10.00
JN	Nikkei Japan PMI Mfg	Oct F				51.7	1.30	11.30
CH	Manufacturing/Non-manufacturing PMI	Oct		50.3		50.4	2.00	12.00
CH	Caixin China PMI Mfg	Oct		50.1		50.1	2.45	12.45
JN	BOJ Monetary Policy Statement						4.00	14.00
JN	BOJ Policy Rate	Nov 1		-0.1		-0.1	4.00	14.00
AU	RBA Cash Rate Target	Nov 1		1.5		1.5	4.30	14.30
AU	Commodity Index AUD/YoY	Jul				92.1	6.30	16.30
UK	Markit UK PMI Manufacturing SA	Oct		54.5		55.4	10.30	20.30
CA	GDP MoM/YoY	Aug		0.2		0.5	13.30	23.30
CA	RBC Canadian Manufacturing PMI	Oct				50.3	14.30	0.30
US	Markit US Manufacturing PMI	Oct F		53.2		53.2	14.45	0.45
US	Construction Spending MoM	Sep		0.5		-0.7	15.00	1.00
US	ISM Manufacturing	Oct		51.7		51.5	15.00	1.00
CA	Canada Government Budget Update							TBA
CA	BoC's Poloz speaks in Vancouver						16.45	2.45
<b>Wednesday, 2 November 2016</b>								
NZ	Employment Change QoQ/YoY	3Q		0.5		2.4	22.45	8.45
NZ	Unemployment Rate	3Q		5.1		5.1	22.45	8.45
NZ	Pvt Wages Ex/Inc Overtime QoQ	3Q		0.4		0.4	22.45	8.45
NZ	Average Hourly Earnings QoQ	3Q		1		0.8	22.45	8.45
UK	BRC Shop Price Index YoY	Oct				-1.8	1.10	11.10
AU	Building Approvals MoM/YoY	Sep		-3		-1.8	1.30	11.30
NZ	2Yr Inflation Expectation	4Q				1.7	3.00	13.00
JN	Consumer Confidence Index	Oct		42.6		43.0	6.00	16.00
GE	Unemployment Change (000's)	Oct		-0.5		1.0	9.55	19.55
GE	Markit/BME Germany Manufacturing PMI	Oct F		55.1		55.1	9.55	19.55
EC	Markit Eurozone Manufacturing PMI	Oct F		53.3		53.3	10.00	20.00
UK	Markit/CIPS UK Construction PMI	Oct		51.8		52.3	10.30	20.30
CA	MLI Leading Indicator MoM	Sep				0.1	12.00	22.00
US	ADP Employment Change	Oct		165		154.0	13.15	23.15
US	Wards Total Vehicle Sales	Oct		17.5		17.7		
EC	European Commission Economic Forecasts						10-11 Nov	release
US	ISM New York	Oct				49.6	14.45	0.45
US	FOMC Rate Decision (Lower/Upper Bounds)	Nov 2		0.25/0.5		0.25/0.5	19.00	5.00
<b>Thursday, 3 November 2016</b>								
AU	AiG Perf of Services Index	Oct				48.9	23.30	9.30
NZ	ANZ Commodity Price	Oct				5.1	1.00	11.00
AU	Trade Balance	Sep		-1700		-2010.0	1.30	11.30
CH	Caixin China PMI Services	Oct				52.1	2.45	12.45
CH	Caixin China PMI Composite	Oct				51.8	2.45	12.45
UK	New Car Registrations YoY	Oct				1.6	10.00	20.00
EC	ECB Publishes Economic Bulletin						10.00	20.00
UK	Markit/CIPS UK Services/Composite PMI	Oct		52.5		52.6	10.30	20.30
EC	Unemployment Rate	Sep		10		10.1	11.00	21.00
US	Challenger Job Cuts YoY	Oct				-24.7	12.30	22.30
UK	Bank of England Bank Rate/Asset Purchase Target	Nov 3		0.25		0.3	13.00	23.00
UK	Bank of England Inflation Report						13.00	23.00
US	Nonfarm Productivity/Unit Labour costs	3Q P		2		-0.6	13.30	23.30
US	Initial Jobless Claims	Oct 29		255		258.0	13.30	23.30
US	Markit US Services PMI	Oct F		54.8		54.8	14.45	0.45
US	Markit US Composite PMI	Oct F				54.9	14.45	0.45
US	Bloomberg Consumer Comfort	Oct 30				43.9	14.45	0.45
US	ISM Non-Manf. Composite	Oct		56		57.1	15.00	1.00
US	Factory Orders	Sep		0.2		0.2	15.00	1.00
UK	BoE's Deputy Cunliffe speaks in London						21.55	7.55
<b>Friday, 4 November 2016</b>								
AU	RBA Statement on Monetary Policy						1.30	11.30
JN	Nikkei Japan PMI Services/Composite	Oct				48.2	1.30	11.30
AU	Retail Sales MoM/Real QoQ	Sep		0.4		0.4	1.30	11.30
GE	Markit Germany Services/Composite PMI	Oct F		54.1		54.1	9.55	19.55
CH	BoP Current Account Balance	3Q P				64.1	8.50	18.50
EC	Markit Eurozone Services/Composite PMI	Oct F		53.5		53.5	10.00	20.00
EC	PPI MoM/YoY	Sep		0		-0.2	11.00	21.00
US	Trade Balance	Sep		-38.5		-40.7	13.30	23.30
US	Change in Nonfarm Payrolls/Unemployment Rate	Oct		175		156.0	13.30	23.30
US	Average Hourly Earnings MoM/YoY	Oct		0.3		0.2	13.30	23.30
CA	Net Change in Employment/Unemployment rate	Oct		-15		67.2	13.30	23.30
CA	Int'l Merchandise Trade	Sep		-1.7		-1.9	13.30	23.30
CA	Ivey Purchasing Managers Index SA	Oct				58.4	15.00	1.00
UK	BoE Forbes speaks in US						15.45	1.45
US	Fed's Fischer speaks at an IMF Research Event						21.00	7.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Australia, RBA		1-Nov	1.50%	1.50%		1.50%		
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	1.75%	1.75%		2.00%		
Canada, BoC		7-Dec				0.50%		
Europe ECB		8-Dec				0.00%		

GMT: Greenwich Mean Time; AEDT: Australian Daylight Savings Time



## Contact Details

### Market Economics

Ivan Colhoun  
Chief Economist, Markets  
+61 2 9237 1836  
ivan.colhoun@nab.com.au

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

Riki Polygenis  
Head of Australian Economics  
+61 3 8697 9534  
riki.polygenis@nab.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.