

Chain Reaction

Coming into work this morning I couldn't help but think of Diana Ross' Chain Reaction. It certainly was where US markets were concerned, with markets playing catch-up following the Columbus Day holiday to developments since the weekend – namely the higher oil price and the US Presidential election campaign.

The likelihood of Clinton winning the US Presidential election (RealClearPolitics has Clinton leading Trump by 6 in its average of polls) along with a higher oil price have seen the probability of a US rate hike by December edge up to 79%. With that background, US Treasury yields ended the session 4.2 bps higher at 1.76%. A softer NFIB survey and LMCI did little to move the market (the NFIB fell to 94.1 against expectations of 95.0 while the LMCI also dipped to -2.2).

The oil price gave up some of its gains overnight, down 1.3% to \$US50.70 (WTI measure). Russia's largest oil producer Rosneft stated it wouldn't cut output, contrasting to Russian President Putin's earlier comments about being willing to freeze or cut output. A higher oil price has started to boost market-based measures of inflation expectations, with 10-year breakeven inflation rates hovering around 1.65%, well up from the 1.47% level in early September - that should be somewhat reassuring to some Fed officials.

In the FX space, it was a story of broad US dollar strength (US dollar index is up 0.6-0.8% for the day) with all G10 currencies lower against the dollar except the Yen. The Pound had the sharpest fall, down 1.9% and while there was not an immediate catalyst, two BoE officials were out overnight citing downside risks. Chief among those was Saunders who stating "Given the scale and persistence of the UK's current account deficit, I would not be surprised if sterling falls further..." and as for the flash crash earlier in the week BoE officials are none the wiser.

Other currency moves were broadly as expected given US dollar strength, with the Aussie down 0.9% and the Euro down 0.7%. The Kiwi fell further, down 1.1%, helped lower by dovish comments by the RBNZ's McDermott yesterday who reinforced the case of a near-term easing: "our current projections and assumptions indicate that further policy easing will be required to ensure that future inflation settles near the middle of the target range." Our NZ colleagues think a 25bps cut in November remains likely.

Equities were mostly lower overnight, with a disappointing earnings result from Alcoa and Illumina helping to drag the S&P 500 down 1.3%. European equities were also lower with the Dax and FTSE each down 0.4%. The fall in German

equities came despite a strengthening in German investor confidence, where the ZEW Survey was better than expected at 59.5 against expectations of 55.5, and suggestive that concerns over Deutsche Bank and Brexit are abating.

Coming Up

This morning in Australia we get the W-MI Monthly measure of Consumer Confidence which is unlikely to be market moving. The weekly ANZ-Roy Morgan measure has remained slightly above average for the past four weeks and so we expect the monthly measure to also tick slightly higher. The statistician also releases detailed Building Activity data, and while not usually observed by the market, will be of interest to economists in judging the pipeline of residential building activity.

As for the international data, the pick will be the US FOMC September Meeting Minutes along with a speech by the Fed's Dudley. Vice-chair Fischer said the September decision "was a close call" and market attention will be paid to how close the Fed was to hiking rates in September – recall three out of four rotating regional feds dissented at the meeting. In reality a number of Fed speakers have hit the airways between September and now and the odds are on of a December rate hike. In terms of the trajectory for rates, it looks like it is going to be a slow cycle with Fischer also on record as stating he wants to see wages growth pick up to 3% a year to have inflation consistent with target. Dudley's words tonight will also be watched for his views, being seen as one of the big-three FOMC members (along with Yellen and Fischer).

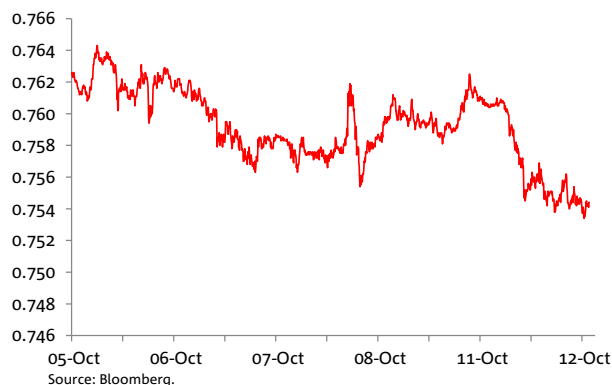
Other data out includes Japanese Machine Orders/Tool Orders, European Industrial Production and the US Monthly Budget Statement. OPEC also releases its monthly oil market report which could garner some attention given recent moves in the oil price. That oil price has started to shift market inflation expectations so is worth watching for in terms of the inflationary process.

Overnight

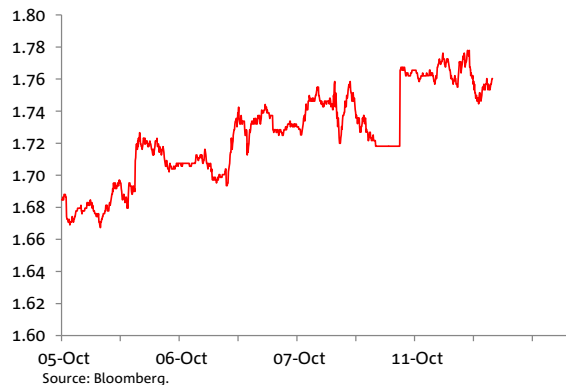
On global stock markets, the S&P 500 was -1.26%. Bond markets saw US 10-years +4.22bp to 1.76%. In commodities, Brent crude oil -1.49% to \$52.35, gold -0.4% to \$1,253, iron ore +1.8% to \$57.68. AUD is at 0.7544 and the range since yesterday 5pm Sydney time is 0.7534 to 0.7569.

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	0.7544	-0.8	0.7534	0.7616	HKD	7.7585 0.0
NZD	0.7060	-1.1	0.7047	0.7142	CNY	6.7220 0.2
EUR	1.1054	-0.8	1.1049	1.1142	SGD	1.3794 0.3
GBP	1.2134	-1.8	1.2090	1.2376	IDR	13,032 0.4
JPY	103.43	-0.2	103.18	104.07	THB	35.46 0.9
CAD	1.3247	0.5	1.3164	1.3273	KRW	1,120 1.1
AUD/EUR	0.6825	-0.1	0.6778	0.6834	TWD	31.65 0.7
AUD/JPY	78.03	-1.0	77.75	78.92	PHP	48.69 0.7
AUD/GBP	0.6217	1.0	0.6124	0.6233	CHF	0.99 0.6
AUD/NZD	1.0685	0.2	1.0651	1.0701	SEK	8.82 1.9
AUD/CNH	5.0742	-0.6	5.0680	5.1225		

Equities

Major Indices	Last	% day	% y/y
	Dow	18,098	-1.3
S&P 500	2,131	-1.3	5.8
Nasdaq	5,237	-1.7	8.4
VIX	16	21.5	-4.8
FTSE	7,071	-0.4	10.2
DAX	10,577	-0.4	4.8
CAC 40	4,472	-0.6	-4.9
Nikkei	17,025	1.0	-7.7
Shanghai	3,065	0.6	-6.8
Hang Seng	23,550	-1.3	3.6
ASX 200	5,480	0.1	4.7

Commodities*

	Last	% day
Oil (Brent)	52.35	-1.5
Oil (WTI)	50.70	-1.3
Oil (Tapis)	52.80	2.0
Gold	1253.00	-0.4
CRB	189.16	-0.6
GS Metals	283.2	0.0
Aluminium	1671.5	-0.7
Copper	4793.5	-0.8
Nickel	10379.5	-0.9
Zinc	2235.3	-3.4
Ch. steel	2334.0	3.9
Iron ore	57.7	1.8
St. Coal	84.4	0.4
Met.coal	216.0	0.0
Wheat Chic.	425.0	0.3
Sugar	23.3	0.7
Cotton	67.1	-0.3
Coffee	150.8	-1.3

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.23	-1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.77	-9.50
3/10 sprd	0.03	12.50
SPI	5417.0	43.0

*Change in bps

CO₂ Emissions - Euros

	Last	% day
Dec-2016	5.44	-4.1
Jun-2017	5.44	-4.4

* cld = 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	AEDST
Tuesday, 11 October 2016								
NZ	Card Spending Retail MoM/YoY	Sep	0.5	0.8		-0.4/-0.8	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct 9				117.9	23.30	9.30
UK	BRC Sales Like-For-Like YoY	Sep		-0.3		-0.9	0.10	10.10
JN	BoP Current Account Adjusted	Aug		1570.3		1447.8	0.50	10.50
AU	NAB Business Conditions/Confidence	Sep				7.0/6.0	1.30	11.30
AU	Home Loans headline MoM #/Investment MoM \$	Aug	-3.6/	-1.5/		-4.2/0.5	1.30	11.30
AU/US	Fed's Evans Speaks on Economy and Policy in Sydney						2.30	12.30
JN	Eco Watchers Survey Current/Outlook	Sep		45.8		45.6/47.4	6.00	16.00
GE	ZEW Survey Current Situation/Expectations	Oct		55.5		55.1/0.5	10.00	20.00
EC	ZEW Survey Expectations	Oct				5.4	10.00	20.00
US	NFIB Small Business Optimism	Sep		95		94.4	11.00	21.00
CA	Housing Starts	Sep		190		182.7	13.15	23.15
AU	HIA House Affordability Index	3Q				78.7		
CA	Bloomberg Nanos Confidence	Oct 7				56.5	15.00	1.00
US	Labor Market Conditions Index Change	Sep				-0.7	15.00	1.00
Wednesday, 12 October 2016								
AU	Westpac Consumer Conf Index/MoM	Oct				101.4/0.3	0.30	10.30
JN	Machine Orders MoM/YoY	Aug		-4.6		4.9/5.2	0.50	10.50
JN	Machine Tool Orders YoY	Sep P				-8.4	7.00	17.00
EC	Industrial Production SA MoM/YoY	Aug		1.5		-1.1/-0.5	10.00	20.00
US	Monthly Budget Statement	Sep		29.3		-107.1	12-15 Oct release	
US	JOLTS Job Openings	Aug		5800		5871.0	15.00	1.00
US	U.S. Fed Releases Minutes from Sept. 20-21 FOMC Meeting						19.00	5.00
Thursday, 13 October 2016								
NZ	ANZ Job Advertisements MoM	Sep				3.1	22.00	8.00
NZ	BusinessNZ Manufacturing PMI	Sep				55.1	22.30	8.30
NZ	Food Prices MoM	Sep	0.6			1.3	22.45	8.45
UK	RICS House Price Balance	Sep		14		12.0	0.10	10.10
AU	Consumer Inflation Expectation	Oct				3.3	1.00	11.00
NZ	Crown Financial Statements	FY 2016					1.00	11.00
NZ	ANZ Consumer Confidence Index/MoM	Oct				121.0/2.8	1.00	11.00
CH	Trade Balance	Sep		53		52.1	2.30	12.30
CH	Exports/Imports YoY	Sep		-3.3/0.7		-2.8/1.5	2.30	12.30
CH	Trade Balance CNY	Sep		364.5		346.0	2.30	12.30
CH	Exports/Imports YoY	Sep		2.5/5.5		5.9/10.8	2.30	12.30
JN	Tertiary Industry Index MoM	Aug		-0.2		0.3	5.30	15.30
GE	CPI MoM/YoY	Sep F		0.1		0.1/0.7	7.00	17.00
GE	CPI EU Harmonized MoM/YoY	Sep F		0		0.0/0.5	7.00	17.00
US	Import Price Index MoM/YoY	Sep		0.1/-1.1		-0.2/-2.2	13.30	23.30
CA	New Housing Price Index MoM/oY	Aug		0.2		0.4/2.8	13.30	23.30
CA	Teranet/National Bank HPI MoM/YoY	Sep				1.5/11.4	13.30	23.30
US	Initial Jobless Claims	Oct 8		253		249.0	13.30	23.30
US	Bloomberg Consumer Comfort	Oct 9				41.4	14.45	0.45
US	Fed's Harker Speaks on Economic Outlook in Philadelphia						17.15	3.15
Friday, 14 October 2016								
JN	PPI MoM/YoY	Sep		-0.1		-0.3/-3.6	0.50	10.50
AU	RBA Financial Stability Review						1.00	11.00
CH	CPI/PPI YoY	Sep		1.6		1.3/-0.8	1.30	11.30
UK	BoE Credit Conditions and Bank Liabilities Surveys						9.30	19.30
UK	Construction Output SA MoM/YoY	Aug		0		0.0/-1.5	9.30	19.30
EC	Trade Balance SA	Aug		20.4		20.0	10.00	20.00
US	Fed's Rosengren Gives Opening Remarks at Boston Fed Conference						13.30	23.30
US	Retail Sales Advance/ex autos and gas MoM	Sep		0.6/0.3		-0.3/-0.1	13.30	23.30
US	PPI Final Demand MoM/YoY	Sep		0.2/0.6		0.0/0.0	13.30	23.30
US	Business Inventories	Aug		0.1		0.0	15.00	1.00
US	U. of Mich. Sentiment/5-10Yr Inflation expectations	Oct P		92		91.2/2.6	15.00	1.00
US	Fed Chair Yellen Speaks at Boston Fed Conference						17.00	3.00
Monday, 17 October 2016								
EC	ECB Survey of Professional Forecasters						15-26 Oct release	
NZ	Performance Services Index	Sep				57.9	22.30	8.30
UK	Rightmove House Prices MoM/YoY	Oct				0.7/4.0	0.10	10.10
JN	Industrial Production MoM/YoY	Aug F				1.5/4.6	5.30	15.30
EC	CPI MoM/YoY	Sep				0.1/0.2	10.00	20.00
EC	CPI Core YoY	Sep F				0.8	10.00	20.00
CA	Int'l Securities Transactions	Aug				5.2	13.30	23.30
US	Empire Manufacturing	Oct		1		-2.0	13.30	23.30
CA	Existing Home Sales MoM	Sep				-3.1	14.00	0.00
US	Industrial Production MoM	Sep		0.15		-0.4	14.15	0.15
US	Bloomberg Economic Expectations	Oct				41.5	14.45	0.45
CA	Bloomberg Nanos Confidence	Oct 7				56.5	15.00	1.00
Upcoming Central Bank Interest Rate Announcements								
Europe ECB		20-Oct				0.00%		
Canada, BoC		20-Oct				0.50%		
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%		

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

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