

Bad [FOMC] Romance?

Reading the US FOMC Minutes I couldn't help but think of Lady Gaga's hit 2009 song Bad Romance. The main disagreement between the hawks and the doves are on their views of the degree of spare capacity in the labour market, and the degree of confidence that inflation will pick-up to the Fed's 2% target. Despite that difference, the two camps are not so far apart with the Minutes noting the September decision was "a close call" (as had already been flagged by Fischer) and "that a reasonable argument could be made either for an increase at this meeting or for waiting for some additional information on the labor market and inflation". Consequently, a December rate hike still looks highly probable assuming the labour market continues to improve. Against that backdrop, the market now prices an 81% chance of a rate hike by December according to OIS, only marginally higher than yesterday.

While the FOMC Minutes captured the market's attention, for your scribe the most instructive comments came from the Fed's Dudley who serves as the FOMC vice-chair in his fireside chat overnight. He noted that "there's more slack in the labor market than is suggested by just the unemployment rate" and with inflation below target "we can be quite gentle as we go in terms of gradually removing monetary policy accommodation". That suggests after a likely December hike, it's going to be a very gentle tightening cycle until the Fed sees evidence of inflation picking up to 2% or wages growth at or exceeding 3% (Fischer has echoed similar words in recent weeks).

Against that backdrop, US Treasury yields were 1.2 bps higher to 1.78%, with an earlier increase up to 1.80% unwound following Dudley's remarks and the Minutes. Other major sovereign bond yields essentially followed the moves by Treasuries the previous day, with German Bund yields up 4.2 bps to 0.1%. UK Gilt yields rose by a greater magnitude, up 6.4bps to 1.0% helped along by comments by Prime Minister May (see below).

There was little data out overnight, with only US Job Opening figures (JOLTS) which fell 6.7% August. Although below consensus, it was viewed as merely compensating for extraordinary levels and importantly, the quit rate was unchanged at 2.1% - suggestive of a tight labour market

In the FX space, it's a story of very slight US dollar strength with the US dollar up 0.2% across the board. Amongst G10 currencies, the outperformer was the British Pound, up 0.7% and unwinding some of yesterday's sharp 1.9% fall. Most of that price action occurred in the Asian time zone following a report that PM May had accepted that Parliament should be

allowed to vote on Brexit. That story was later clarified with Parliament not voting on triggering Article 50 (the formal Brexit instrument), but rather on having a discussion on the plans for Brexit.

The AUD also outperformed, holding onto its gains, up 0.3%. That move was helped by a higher CNY fix against a fairly stable RMB basket, along with reports that the Q4 Coking Coal Contract price in Australia had been set at \$200 a tonne, a massive 100% increase on Q3! Very rough back of the envelope calculations suggest that could boost export earnings by up to \$1bn a month, and potentially halve the monthly trade deficit.

Equities were mixed overnight. US equities rose with the S&P500 up 0.2%, but European equities fell with the DAX down 0.5% and the FTSE also down 0.7%. Oil fell another 1% last night, to \$US50.27 (WTI measure), with doubts over the OPEC production cap and Russia's participation, despite OPEC indicating that talks with Russia had been "very constructive".

Coming Up

This morning in Australia we get Consumer Inflation Expectations. While not usually market moving, it is worth watching out for given that inflation expectations has been grinding lower and is important for the outlook for monetary policy.

Across the ditch there is a swath of data, though mostly second tier, including: ANZ Job Advertisements; Manufacturing PMI; Food Prices; and ANZ Consumer Confidence. The REINZ House Sales was out as this goes to print and was down 9.5% in the month.

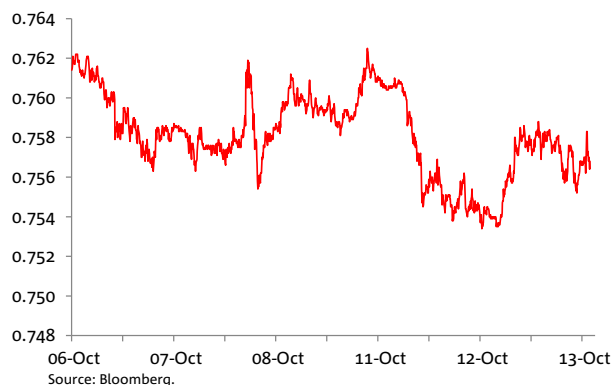
As for the international data, the pick will be Chinese trade figures. Otherwise a very quiet session ahead.

Overnight

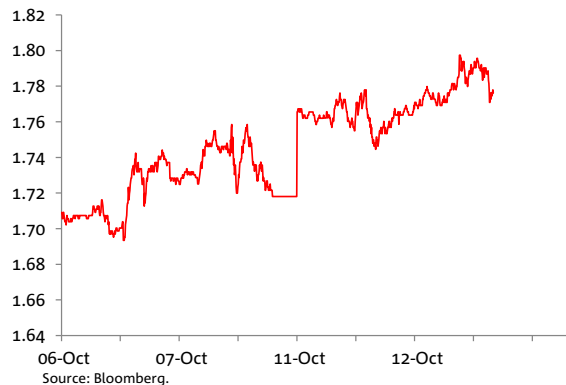
On global stock markets, the S&P 500 was +0.16%. Bond markets saw US 10-years +1.24bp to 1.78%. In commodities, Brent crude oil -0.93% to \$51.92, gold+0.1% to \$1,254, iron ore -0.9% to \$57.16. AUD is at 0.7568 and the range since yesterday 5pm Sydney time is 0.7552 to 0.7588.

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 | 0.7568 | 0.4 | 0.7535 | 0.7593 | HKD | 7.7574 0.0 |
| NZD | 0.7073 | 0.2 | 0.7045 | 0.7095 | CNY | 6.7195 0.0 |
| EUR | 1.1016 | -0.3 | 1.1005 | 1.1068 | SGD | 1.3845 0.4 |
| GBP | 1.2195 | 0.6 | 1.2106 | 1.2325 | IDR | 13,018 -0.1 |
| JPY | 104.24 | 0.7 | 103.28 | 104.48 | THB | 35.68 0.6 |
| CAD | 1.3248 | -0.1 | 1.3209 | 1.3288 | KRW | 1,124 0.3 |
| AUD/EUR | 0.687 | 0.7 | 0.6816 | 0.6881 | TWD | 31.63 0.0 |
| AUD/JPY | 78.89 | 1.1 | 77.99 | 79.04 | PHP | 48.65 -0.1 |
| AUD/GBP | 0.6205 | -0.2 | 0.6149 | 0.6225 | CHF | 0.99 0.1 |
| AUD/NZD | 1.0699 | 0.1 | 1.0673 | 1.0736 | SEK | 8.84 0.3 |
| AUD/CNH | 5.0815 | 0.1 | 5.0688 | 5.1170 | | |

Equities

| Major Indices | Last | % day | % y/y |
|---------------|--------|--------|-------|
| | Dow | 18,158 | 0.2 |
| S&P 500 | 2,142 | 0.2 | 6.2 |
| Nasdaq | 5,243 | -0.1 | 8.4 |
| VIX | 16 | 1.0 | -9.1 |
| FTSE | 7,024 | -0.7 | 10.2 |
| DAX | 10,523 | -0.5 | 4.0 |
| CAC 40 | 4,452 | -0.4 | -5.0 |
| Nikkei | 16,840 | -1.1 | -7.6 |
| Shanghai | 3,058 | -0.2 | -7.1 |
| Hang Seng | 23,407 | -0.6 | 3.6 |
| ASX 200 | 5,475 | -0.1 | 5.2 |

Commodities*

| | Last | % day |
|-------------|---------|-------|
| Oil (Brent) | 51.92 | -0.9 |
| Oil (WTI) | 50.27 | -1.0 |
| Oil (Tapis) | 52.62 | -0.3 |
| Gold | 1254.00 | 0.1 |
| CRB | 188.07 | -0.6 |
| GS Metals | 279.8 | 0.0 |
| Aluminium | 1678.3 | 0.4 |
| Copper | 4793.8 | 0.0 |
| Nickel | 10522.0 | 1.4 |
| Zinc | 2250.5 | 0.7 |
| Ch. steel | 2344.0 | 1.5 |
| Iron ore | 57.2 | -0.9 |
| St. Coal | 86.0 | 1.9 |
| Met.coal | 225.5 | 0.0 |
| Wheat Chic. | 416.5 | -2.0 |
| Sugar | 23.2 | -0.6 |
| Cotton | 69.0 | 2.7 |
| Coffee | 152.1 | 0.9 |

Interest Rates

| | Indicative Swap Rates | | | | Benchmark 10 Year Bonds | | |
|-----|-----------------------|-------|-------|------|-------------------------|-------|-------------|
| | Cash | 3mth | 2Yr | 10Yr | Last | chge | Sprd |
| USD | 0.50 | 0.88 | 1.09 | 1.61 | USD 10 | 1.78 | 1.24 |
| AUD | 1.50 | 1.75 | 1.78 | 2.37 | AUD 10 | 2.30 | 5.40 0.53 |
| NZD | 2.00 | 2.17 | 2.08 | 2.67 | NZD 10 | 2.52 | 2.40 0.74 |
| EUR | 0.00 | -0.31 | -0.20 | 0.43 | CAD 10 | 1.21 | 1.50 -0.56 |
| GBP | 0.25 | 0.40 | 0.58 | 1.03 | EUR 10 | 0.07 | 4.20 -1.71 |
| JPY | -0.04 | -0.02 | -0.07 | 0.07 | GBP 10 | 1.04 | 6.40 -0.73 |
| CAD | 0.50 | 0.90 | 0.96 | 1.42 | JPY 10 | -0.06 | -1.10 -1.83 |

Overnight Futures

| | Last | Chge* |
|------------------|--------|-------|
| Australia | | |
| 3 mth bill | 98.22 | -2.00 |
| 3 Yr bond | 97.8 | 3.00 |
| 10 Yr bond | 97.73 | -6.50 |
| 3/10 sprd | 0.08 | 9.50 |
| SPI | 5440.0 | 25.0 |

*Change in bps

CO₂ Emissions - Euros

| | Last | % day |
|----------|------|-------|
| Dec-2016 | 5.52 | 1.7 |
| Jun-2017 | 5.54 | 1.8 |

* 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 | 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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