

Fresh Fruit

Seven years on from their 1974 classic 'Whiter Shade of Pale', Procol Harem's light-hearted ode to the health benefits of fruit is set for a test today. Healthy on the body fruit may be, but possibly not on the hip pocket in Q3 according to our economists. If we get an upside surprise in headline inflation this morning, fresh fruit prices are likely to be the main culprit. See 'Coming Up' for more.

In overnight markets, we've seen the US stock market's crown slipping a little largely thanks to lower oil hitting the energy and materials sectors (crude is off just under \$1). Consumer discretionary stocks are down even more and which may owe something to the disappointing consumer conference reading. The Conference Board's version fell to 98.6 from a downward revised 103.5, against expectations for much smaller fall to 101.5. Evidence of pre-election inertia perhaps? The S&P is closing down 0.3%.

In currencies, it's the Aussie dollar (up) and Sterling (down) that are the standouts. After yesterday's 'limit up' move on the Dalian futures exchange, the benchmark China iron ore import price has jumped \$2.68 to \$61.96, its highest since late August. Steaming coal also pushed ahead, up another \$2 and while coking coal didn't trade Tuesday, it added \$4.50 on Monday. Terms of trade tailwinds thus continue to support the AUD on the crosses, at the same time that general US dollar strength is limiting gains versus the USD.

GBP/USD meanwhile has – with the exclusion of the 7 October 'flash crash' session - made new post-referendum low at \$1.2083, only pulling back late in the London session after BoE Governor Mark Carney said there were limits to the extent to which the Bank could look though higher – GBP induced – inflation. A further rate cut from the BoE before year end is now quite unlikely in NAB's view. Sterling's recovery brought the USD off its earlier highs and which had seen the narrow DXY index trade to within 0.7% of its 29 January YTD highs.

Coming Up

Both interest rate and currency market traders will be sitting on their hands this morning pending the 11:30 AEDST Q3 CPI release.

There is as you would expect much greater disparity of views on the headline CPI read than the underlying measures. From a policy perspective it is the underlying (trimmed mean and weighted median) numbers that are the more significant, though the headline rate is also important – not least from the perspective of inflation expectations. It is after all low headline readings in recent

years, albeit driven in no small part by the collapse in oil prices, that have played a significant role in driving inflation expectations down to such low levels and to the chagrin of policy makers.

Forecast for headline CPI centre on 0.5% but range from 0.2% (which would match last week's equivalent New Zealand print) and 0.9%. NAB is closer to the top end (0.8%) with strength seen derived from fresh fruit and vegetable prices (mostly fruit) higher housing construction costs, higher electricity and gas prices for customers on the eastern seaboard and also the indexation of alcohol and tobacco which may have added a bit more to CPI last quarter than in Q3 2015.

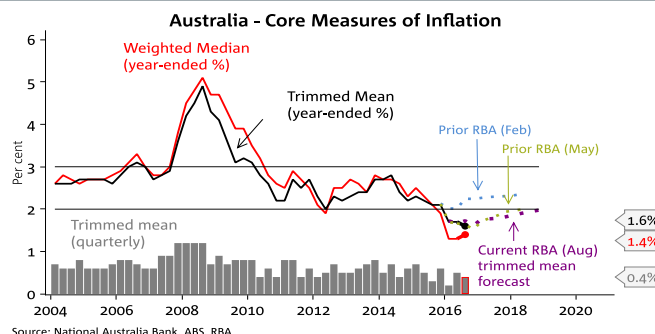
On the core measures, the range of market estimates is much narrower (0.3%-0.5% for both) and NAB is in line with the consensus looking for a pair of 0.4s. This would put annual growth of 1.6% up from 1.5% in Q2 and wouldn't necessitate any change (or perhaps even a slight uplift) to the RBA's forecasts (see Chart of the Day).

When it comes to inflation data, second decimal places can count, as we've experienced with US CPI data of late. The mean of market forecasts for the trimmed mean measure is 0.42% and for the weighted median 0.43%. This means that a 0.5% print for one or both core measures will be less of a surprise than 0.3%. We'd judge that on 0.3% for the average of the two measures, markets will shift pricing for a November cut up to around 25% and at 0.2% to perhaps 50%. 0.5% - or even 0.4% - and it will be time to 'chill out' until at least next February (as Glenn Stevens famously told markets in November 2015).

Overnight

On global stock markets, the S&P 500 was -0.24%. Bond markets saw US 10-years -0.87bp to 1.76%. In commodities, Brent crude oil -1.63% to \$50.62, gold +1.0% to \$1,274, iron ore +4.5% to \$61.96. AUD is at 0.7648 and the range since yesterday 5pm Sydney time is 0.7618 to 0.7653.

Chart of the day: Core inflation and RBA's forecasts



Author:

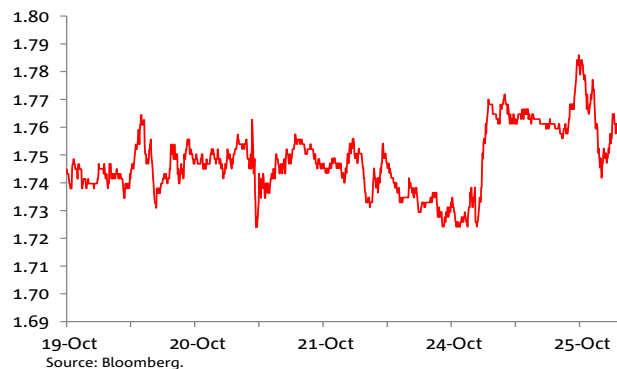
Ray Attrill – Co-head of FX Strategy

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	0.7648	0.5	0.7589	0.7655	HKD	7.7569 0.0
NZD	0.7163	0.4	0.7110	0.7173	CNY	6.7804 0.1
EUR	1.0889	0.1	1.0851	1.0905	SGD	1.3893 -0.3
GBP	1.2194	-0.4	1.2083	1.2244	IDR	13,005 -0.1
JPY	104.18	0.0	104.12	104.87	THB	34.90 -0.4
CAD	1.3348	0.5	1.3278	1.3371	KRW	1,133 0.2
AUD/EUR	0.7023	0.4	0.6981	0.7035	TWD	31.61 -0.2
AUD/JPY	79.68	0.5	79.17	80.02	PHP	48.24 0.0
AUD/GBP	0.6272	0.9	0.6210	0.6310	CHF	0.99 0.1
AUD/NZD	1.0677	0.1	1.0642	1.0703	SEK	8.92 0.1
AUD/CNH	5.1853	0.7	5.1505	5.1778		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spred
USD	0.50	0.88	1.08	1.60	USD 10	1.76	-0.87
AUD	1.50	1.75	1.77	2.37	AUD 10	2.28	3.60 0.52
NZD	2.00	2.14	2.11	2.73	NZD 10	2.59	0.20 0.83
EUR	0.00	-0.31	-0.18	0.41	CAD 10	1.14	-2.60 -0.62
GBP	0.25	0.40	0.60	1.04	EUR 10	0.03	0.70 -1.73
JPY	-0.05	-0.01	-0.03	0.08	GBP 10	1.09	0.70 -0.67
CAD	0.50	0.90	0.90	1.38	JPY 10	-0.07	-1.40 -1.82

Equities

Major Indices

	Last	% day	% y/y
Dow	18,180	-0.2	3.0
S&P 500	2,143	-0.2	3.3
Nasdaq	5,283	-0.5	5.0
VIX	14	4.8	-5.7
FTSE	7,018	0.4	8.9
DAX	10,757	0.0	-0.3
CAC 40	4,541	-0.3	-7.8
Nikkei	17,365	0.8	-8.3
Shanghai	3,132	0.1	-8.7
Hang Seng	23,565	-0.2	1.9
ASX 200	5,443	0.6	1.8

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.24	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.75	-0.50
3/10 sprd	0.05	3.50
SPI	5407.0	-15.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	50.62	-1.6
Oil (WTI)	49.81	-1.4
Oil (Tapis)	51.12	-0.1
Gold	1274.10	1.0
CRB	189.35	0.0
GS Metals	273.3	0.0
Aluminium	1663.0	2.4
Copper	4726.3	2.2
Nickel	10191.0	1.2
Zinc	2359.5	2.4
Ch. steel	2526.0	2.3
Iron ore	62.0	4.5
St. Coal	93.2	0.4
Met.coal	236.5	1.9
Wheat Chic.	426.8	0.5
Sugar	22.9	-1.2
Cotton	68.5	-0.4
Coffee	164.5	4.2

CO₂ Emissions - Euros

	Last	% day
Dec-2016	5.79	-0.2
Jun-2017	5.81	Clsd

* 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
Monday, 24 October 2016								
JN	Trade Balance Adjusted	Sep		211		408.4	0.50	10.50
JN	Exports/Imports YoY	Sep		-11/-16.8		-9.6/-17.3	0.50	10.50
JN	Nikkei Japan PMI Mfg	Oct P				50.4	1.30	11.30
JN	Leading Index CI	Aug F				101.2	6.00	16.00
GE	Markit/BME Germany Manufacturing PMI	Oct P		54.3		54.3	8.30	18.30
GE	Markit Germany Services/Composite PMI	Oct P		51.8/53.3		50.9/52.8	8.30	18.30
EC	Markit Eurozone Manufacturing PMI	Oct P		52.6		52.6	9.00	19.00
EC	Markit Eurozone Services/Composite PMI	Oct P		52.4/52.8		52.2/52.6	9.00	19.00
UK	CBI Trends Total Orders	Oct				-5.0	11.00	21.00
US	Chicago Fed Nat Activity Index	Sep		-0.125		-0.6	13.30	23.30
CA	Wholesale Trade Sales MoM	Aug				0.3	13.30	23.30
JN	Small Business Confidence	Oct				47.7	24-28 Oct release	
CH	Conference Board Leading Economic Index	Sep					14.00	0.00
US	Fed's Bullard Speaks on Economy, Monetary Policy in Arkansas						14.05	0.05
US	Markit US Manufacturing PMI	Oct P		51.5		51.5	14.45	0.45
CA	Bloomberg Nanos Confidence	Oct 21				56.8	15.00	1.00
US	Fed's Evans Speaks in Chicago						18.30	4.30
Tuesday, 25 October 2016								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct 23				117.8	23.30	9.30
GE	IFO Business Climate	Oct		109.6		109.5	9.00	19.00
GE	IFO Current Assessment/Expectations	Oct		115/104.7		114.7/104.5	9.00	19.00
EC	<i>European Commission Economic Forecasts</i>							
US	FHFA House Price Index MoM	Aug		0.5		0.5	14.00	0.00
US	S&P CoreLogic CS 20-City MoM/YoY SA	Aug		0.15/5.1		0.0/5.0	14.00	0.00
US	Consumer Confidence Index	Oct		101		104.1	15.00	1.00
US	Richmond Fed Manufact. Index	Oct		-4		-8.0	15.00	1.00
US	IBD/TIPP Economic Optimism	Oct		47.5		0.0	15.00	1.00
Wednesday, 26 October 2016								
AU	RBA CIO Girn Gives Speech						1.15	11.15
AU	CPI QoQ/YoY	3Q	0.8/1.4	0.5/1.1		0.4/1.0	1.30	11.30
AU	CPI Trimmed Mean QoQ/YoY	3Q	0.4/1.8	0.4/1.7		0.5/1.7	1.30	11.30
AU	CPI Weighted Median QoQ/YoY	3Q	0.4/1.6	0.4/1.4		0.4/1.3	1.30	11.30
CH	Westpac-MNI Consumer Sentiment	Oct				115.2	2.45	12.45
GE	GfK Consumer Confidence	Nov		10		10.0	7.00	17.00
UK	BBA Loans for House Purchase	Sep				36997.0	9.30	19.30
US	Advance Goods Trade Balance	Sep		-60.5		-58.4	13.30	23.30
US	Wholesale Inventories MoM	Sep P		0.1		-0.2	13.30	23.30
US	Markit US Services/Composite PMI	Oct P		52.3/		52.3/52.3	14.45	0.45
US	New Home Sales, #/MoM	Sep		601.5/-1.2		609.0/-7.6	15.00	1.00
Thursday, 27 October 2016								
NZ	Trade Balance	Sep		-1122.5		-1265.0	22.45	8.45
AU	Export/Import Price Index QoQ	3Q		2/-0.8		1.4/-1.0	1.30	11.30
CH	Swift Global Payments CNY	Sep				1.9	2.00	12.00
CH	Industrial Profits YoY	Sep				19.5	2.30	12.30
EC	M3 Money Supply YoY	Sep		5		5.1	9.00	19.00
UK	GDP QoQ/YoY	3Q A		0.3/2.1		0.7/2.1	9.30	19.30
UK	Index of Services MoM/YoY	Aug		0		0.4/0.6	9.30	19.30
UK	CBI Retailing Reported Sales	Oct				-8.0	11.00	21.00
US	Durable Goods Orders/Core Orders	Sep P		0.1/0		0.1/0.9	13.30	23.30
US	Initial Jobless Claims	Oct 22				260.0	13.30	23.30
US	Bloomberg Consumer Comfort	Oct 23				41.3	14.45	0.45
US	Pending Home Sales MoM/YoY	Sep		1.2/		-2.4/4.0	15.00	1.00
US	Kansas City Fed Manf. Activity	Oct				6.0	16.00	2.00
Friday, 28 October 2016								
JN	Jobless Rate	Sep		3.1		3.1	0.30	10.30
JN	Job-To-Applclicant Ratio	Sep		1.38		1.4	0.30	10.30
JN	Overall Household Spending YoY	Sep		-2.7		-4.6	0.30	10.30
JN	Natl CPI YoY	Sep		-0.5		-0.5	0.30	10.30
JN	Natl CPI Ex Fresh Food/Ex Fresh Food, Energy YoY	Sep		-0.5/0.1		-0.5/0.2	0.30	10.30
AU	HIA New Home Sales MoM	Sep				-1.8	1.00	11.00
AU	PPI QoQ/YoY	3Q		/		0.1/1.0	1.30	11.30
EC	ECB's Coeure Speaks in Frankfurt						8.30	18.30
EC	Business Climate Indicator	Oct		0.49		0.5	10.00	20.00
GE	CPI EU Harmonized MoM/YoY	Oct P		0.1/0.6		0.0/0.5	13.00	23.00
US	Employment Cost Index	3Q		0.6		0.6	13.30	23.30
US	GDP Annualized QoQ	3Q A		2.5		1.4	13.30	23.30
US	U. of Mich. Sentiment	Oct F		88.1		87.9	15.00	1.00
US	U. of Mich. 5-10 Yr Inflation	Oct F				2.4	15.00	1.00
Upcoming Central Bank Interest Rate Announcements								
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; AEST: Australian Eastern Standard Time

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