

# MARKETS TODAY

*This is what you came for*



## Good morning

The US dollar rose 0.6% across the board overnight in reaction to stronger than expected US GDP growth and a stellar ADP payrolls print. Equities were also supported, up 0.5% in US and Europe. The upwardly revised GDP figures are the first hints that “hard data” in the US is finally catching up with the “soft data”. Although possibly being a ‘[This is What You Came For](#)’ moment for markets, movements in yields were more muted with Treasuries and Fed pricing little changed. The market still only prices a 26% chance of a rate hike by December and only one is fully priced by the end of 2018 compared to the Fed’s dot points of four.

First to the data. US Q2 GDP growth was upwardly revised to an annual rate of 3.0% from 2.6% (2.7% expected). The 3.0% mark now brings it closer towards where softer indicators suggest it should be. The driver of the upward revision was the US consumer with consumption growth revised to 3.3% annualised from 2.8%. ADP Payrolls were also out overnight and were very strong, up 237k in August and well above the consensus pick of 185k. At first blush that is suggestive of upside risks to Friday’s more important Non-farm Payrolls, but as many analysts note ADP is far from infallible and August tends to be a soft month for payrolls – consensus sits at 180k.

European data was also very strong with German CPI at 1.8% y/y in August (1.7% expected). Overall that suggests underlying inflation has strengthened in Europe and supports a tapering of the ECB’s asset purchase program. Eurozone consumer confidence was also strong, hitting its highest level since July-2007!

The lack of reaction in the rates market was surprising. US 10 year Treasuries traded in a tight range of 2.13-2.15% and ended the session at 2.13%. It is not clear why Treasuries were so unresponsive to the data – perhaps a combination of month end flows and concerns over the debt ceiling. On the debt ceiling, S&P said “failure to raise the debt limit would likely be more catastrophic to the economy than the 2008 failure of Lehman Brothers and would erase many of the gains of the subsequent recovery”. Despite that, most analysts still expect the debt ceiling to be raised in time and the tragic events with Hurricane Harvey is also cited as acting to pressure a quick deal to fund disaster relief and reconstruction.

The US dollar (DXY) rose 0.6% across the board on the news, checked only once by Trump’s tweet on North Korea. Trump tweeted: “The US has been talking to North Korea, and paying them extortion money, for 25 years. Talking is not the answer!” Markets were unfazed, seeing the tweet more as bluster and Defence Secretary Mattis was also quick to clarify “we’re never out of diplomatic solutions”. Nevertheless, the DXY at 92.9 is around the levels seen in mid-2016 having more than fully retraced the initial Trump-reflation trade. Our

models continue to suggest the US dollar has 8% Trump discount.

Other major currency pairs were correspondingly lower: Euro (-0.7%); Yen (-0.5%); Pound (0.0%); Aussie (-0.6%); Kiwi (-0.8%). The Aussie had a volatile intra-day session having initially spiked by 0.4% to be within a hairs breadth of the 0.80 level at 0.7997 on better than expected construction figures yesterday, but gave this back and more on US dollar strength to end the day 0.6% lower.

The Kiwi also had some excitement, dipping 0.5% on comments by outgoing RBNZ Governor Wheeler who said “A lower New Zealand dollar is needed to increase tradable inflation and help deliver more balanced growth”, but the dip was short lived after more positive comments. Nevertheless, the stronger US dollar saw the Kiwi back down to finish -0.8% on the day.

As we go to print President Trump gave his speech on tax reform. The market has had zero reaction with detail lacking despite Trump stating “I don’t want to be disappointed by Congress, you understand me?”. Trump merely restated his initial dot points of aiming for an ideal goal of a 15% corporate tax rate, down from the current 35%, partially paid for by eliminating some deductions and boosting economic growth.

## Coming up

It’s a day of key global risk events. First up are the Chinese PMIs (11.00am AEST), Australian Capex (11.30am AEST) and the US PCE deflators (22.30pm AEST).

As for the Chinese PMIs, the market looks for a similar pace of activity at 51.3 from 51.4 last month. Details last time revealed strength in steel production and it will be interesting to see whether this has continued in August.

Focus then shifts down-under to Australia’s Capex report which contains expenditure figures for Q2 as well as investment intentions for 2017-18. Although the market looks for a 0.2% q/q increase, the whisper number is likely higher after yesterday’s stellar Construction Work Done numbers. The market will also be attuned to expectations for spend, with the market expecting a third estimate of \$95.9bn for 2017-18. Also out are RBA Credit Statistics (11.30am), thought this typically receives little attention.

Next up are inflation figures for the Eurozone (will they also beat given Germany’s figures yesterday?). The last piece is then the US PCE deflators. The market looks for a still subdued 0.1% q m/m increase for both the headline and core measures. The Chicago PMI will also garner attention ahead of Friday’s more significant Manufacturing ISM.

## Overnight

On global stock markets, the S&P 500 was +0.46%. Bond markets saw US 10-years +0.17bp to 2.13%. In

commodities, Brent crude oil -2.58% to \$50.66, gold-0.2% to \$1,310, iron ore -0.4% to \$76.08, steam coal +0.4% to \$97.40, met. coal -0.1% to \$196.90. AUD is at 0.7905 and the range since yesterday 5pm Sydney time is 0.789 to 0.7996.

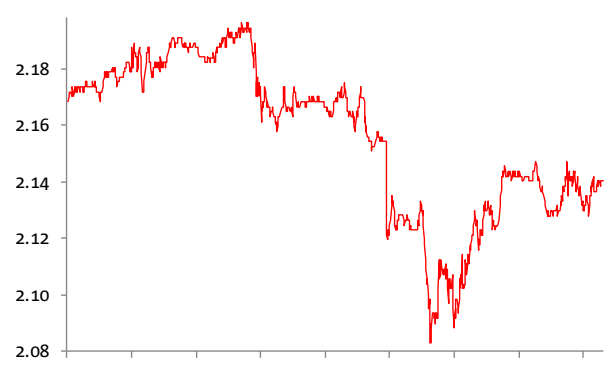
# Markets

AUD/USD - past week



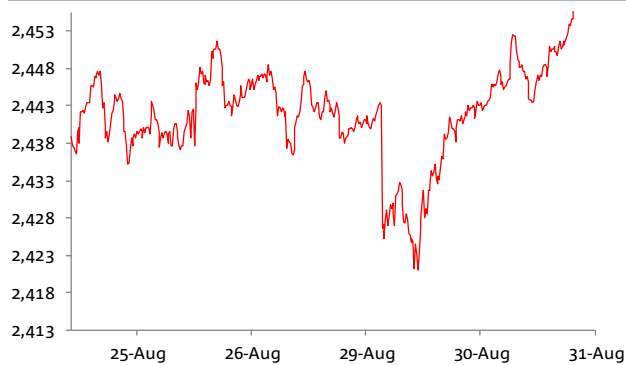
Source: Bloomberg.

US 10yr - past week



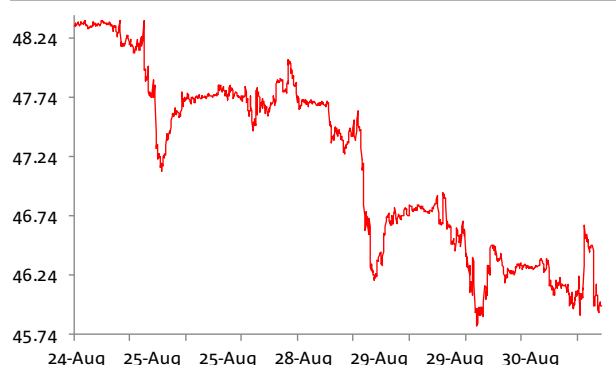
Source: Bloomberg.

S&P Future - past week



Source: Bloomberg.

WTI - past week



Source: Bloomberg.

## Foreign Exchange

	Indicative 24hr ranges (**)				Other FX		
	Last	% chge	Low	High	Last	% chge	
AUD	0.7905	-0.6	0.7890	0.7996	HKD	7.8252	0.0
NZD	0.7202	-0.8	0.7189	0.7278	CNY	6.5940	0.0
EUR	1.1884	-0.7	1.1881	1.1984	SGD	1.3581	0.2
GBP	1.2922	0.0	1.2879	1.2938	IDR	13,346	0.0
JPY	110.26	0.5	109.55	110.44	THB	33.21	0.0
CAD	1.2622	0.9	1.2501	1.2637	KRW	1,124	-0.2
AUD/EUR	0.6651	0.2	0.6625	0.6676	TWD	30.13	-0.1
AUD/JPY	87.16	-0.1	86.94	87.81	PHP	51.15	0.3
AUD/GBP	0.6117	-0.6	0.6106	0.6185	CHF	0.96	0.8
AUD/NZD	1.0977	0.2	1.0951	1.1017	SEK	7.98	0.5
AUD/CNH	5.2049	-1.0	5.2048	5.2683			

## Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprrd
USD	1.25	1.32	1.54	2.08	USD 10	2.13	0.17
AUD	1.50	1.71	1.95	2.82	AUD 10	2.68	5.40
NZD	1.75	1.95	2.19	3.12	NZD 10	2.88	3.80
EUR	0.00	-0.33	-0.19	0.79	CAD 10	1.84	-0.40
GBP	0.25	0.28	0.54	1.12	EUR 10	0.36	1.70
JPY	-0.06	-0.03	0.02	0.21	GBP 10	1.03	3.00
CAD	0.75	1.31	1.58	2.13	JPY 10	0.01	0.20

## Equities

Major Indices			
	Last	% day	% y/y
Dow	21,892	0.12	18.6
S&P 500	2,458	0.46	12.9
Nasdaq	6,368	1.05	21.9
VIX	11.22	-4.10	-14.5
FTSE	7,365	0.4	8.0
DAX	12,002	0.5	12.6
CAC 40	5,056	0.5	13.4
Nikkei	19,507	0.7	15.5
Shanghai	3,364	0.0	9.0
Hang Seng	28,095	1.2	22.3
ASX 200	5,670	0.0	4.4

## Overnight Futures

Australia		
	Last	Chge*
3 mth bill	98.24	-1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.34	-1.00
3/10 sprd	0.47	4.00
SPI	5657.0	-25.0

\*Change in bps

## Commodities\*

	Last	% day
Oil (Brent)	50.66	-2.6
Oil (WTI)	45.97	-1.0
Oil (Tapis)	51.42	0.3
Gold	1310.00	-0.2
CRB	176.87	-0.4
GS Metals	365.5	-0.4
Aluminium	2074.0	-0.4
Copper	6746.0	-0.4
Nickel	11535.0	-1.1
Zinc	3091.3	-0.5
Ch. steel	3821.0	-2.0
Iron ore	76.1	-0.4
St. Coal	97.4	0.4
Met.coal	196.9	-0.1
Wheat Chic.	429.8	0.0
Sugar	13.9	0.7
Cotton	71.5	1.3
Coffee	128.2	-0.3

Prob. of 25bps hike/cut at next meeting		
bps	%	
RBA	-0.2	-1.0%
FED	-1	-3.2%

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	AEST
<b>Wednesday, 30 August 2017</b>								
NZ	Building Permits MoM	Jul				-1.0	23.45	8.45
UK	BRC Shop Price Index YoY	Aug				-0.4	0.10	9.10
JN	Retail Sales MoM/YoY	Jul		0.3/1		0.2/2.1	0.50	9.50
AU	Construction Work Done	2Q	1.0	1		-0.7	2.30	11.30
AU	Building Approvals MoM/YoY	Jul	-4.0	-5/-16.6		10.9/-2.3	2.30	11.30
NZ	RBNZ Governor Wheeler speaks: Reflections on the stewardship of the Reserve Bank						2.30	11.30
JN	Small Business Confidence	Aug				50.0	6.00	15.00
UK	Net Consumer Credit/Net lending secured on dwellings	Jul		1.5/3.8		1.5/4.1	9.30	18.30
EC	Business Climate Indicator	Aug		1.05		1.1	10.00	19.00
GE	CPI EU Harmonized MoM/YoY	Aug P		0.1/1.7		0.4/1.5	13.00	22.00
US	ADP Employment Change	Aug		185		178.0	13.15	22.15
US	GDP Annualized QoQ	2Q 5		2.7		2.6	13.30	22.30
CA	Current Account Balance	2Q		-17.4		-14.1	13.30	22.30
US	Fed's Powell Speaks at Large-Bank Directors' Conference						14.15	23.15
<b>Thursday, 31 August 2017</b>								
UK	GfK Consumer Confidence	Aug		-13		-12.0	0.10	9.10
UK	Lloyds Business Barometer	Aug				30.0	0.10	9.10
JN	Industrial Production MoM/YoY	Jul P		-0.3/5.2		2.2/5.5	0.50	9.50
NZ	ANZ Business Confidence/Activity Outlook	Aug		/		19.4/40.3	2.00	11.00
AU	HIA New Home Sales MoM	Jul				-6.9	2.70	11.70
CH	Manufacturing/Non-manufacturing PMI	Aug		51.3/		51.4/54.5	2.00	11.00
CH	Swift Global Payments CNY	Jul				2.0	2.00	11.00
AU	Private Sector Credit MoM/YoY	Jul	0.5	0.5/5.4		0.6/5.4	2.30	11.30
AU	Private Capital Expenditure	2Q	-1.0	0.2		0.3	2.30	11.30
AU	Capex expectations, 17-18, \$Abn		95	95.9		85.4	2.30	11.30
JN	BOJ Masai speaks in Matsuyama						2.30	11.30
AU	RBA's Harris Panel Participation at Conference						4.00	13.00
NZ	Credit Aggregates, Household YoY	Jul				7.7	4.00	13.00
GE	Unemployment Claims Rate SA/Change ('000)	Aug		5.7/-6		5.7/-9.0	8.55	17.55
EC	Unemployment Rate	Jul		9.1		9.1	10.00	19.00
EC	CPI Estimate/Core YoY	Aug		1.4/1.2		1.3/1.2	10.00	19.00
US	Challenger Job Cuts YoY	Aug				-37.6	12.30	21.30
GE	Bundesbank's Dombret and Austria's Schelling in Alpbach						13.20	22.20
US	Personal Income/Spending	Jul		0.3/0.4		0.0/0.1	13.30	22.30
US	PCE Deflator MoM/YoY	Jul		0.1/1.4		0.0/1.4	13.30	22.30
US	PCE Core MoM/YoY	Jul		0.1/1.4		0.1/1.5	13.30	22.30
US	Initial Jobless Claims	Aug 26		237.5		234.0	13.30	22.30
CA	Quarterly GDP Annualized	2Q		3.7		3.7	13.30	22.30
CA	GDP MoM/YoY	Jun		0.1/4.1		0.6/4.6	13.30	22.30
US	Chicago Purchasing Manager	Aug		58.5		58.9	14.45	23.45
US	Pending Home Sales MoM/YoY	Jul		0.4/0.5		1.5/0.7	15.00	0.00
NZ	QV House Prices YoY	Aug				6.4	18.00	3.00
<b>Friday, 1 September 2017</b>								
NZ	Terms of Trade Index QoQ	2Q	2.4	3		5.1	23.45	8.45
AU	Commonwealth Bank Australia PMI Mfg	Aug				54.4	0.00	9.00
AU	AjG Perf of Mfg Index	Aug				56.0	0.30	9.30
JN	Capital Spending/ex software YoY	2Q		7.9/8.2		4.5/5.2	0.50	9.50
JN	Company Profits/Sales	2Q		/		26.6/5.6	0.50	9.50
AU	CoreLogic House Px MoM	Aug				1.5	1.00	10.00
JN	Nikkei Japan PMI Mfg	Aug F				52.8	1.30	10.30
CH	Caixin China PMI Mfg	Aug		51		51.1	2.45	11.45
JN	Consumer Confidence Index	Aug		43.5		43.8	6.00	15.00
AU	Commodity Index AUD/SDR YoY	Aug		/		114.4/17.1	7.30	16.30
EC	ECB's Nowotny in Panel Discussion in Alpbach, Austria						7.30	16.30
GE	Markit/BME Germany Manufacturing PMI	Aug F		59.4		59.4	8.55	17.55
EC	Markit Eurozone Manufacturing PMI	Aug F		57.4		57.4	9.00	18.00
UK	Markit UK PMI Manufacturing SA	Aug		55		55.1	9.30	18.30
CA	MLI Leading Indicator MoM	Jul				0.2	12.00	21.00
US	Change in Nonfarm Payrolls/Unemployment rate	Aug		180/4.3		209.0/4.3	13.30	22.30
US	Average Hourly Earnings MoM/YoY	Aug		0.2/2.6		0.3/2.5	13.30	22.30
CA	Markit Canada Manufacturing PMI	Aug				55.5	14.30	23.30
US	Markit US Manufacturing PMI	Aug F		52.5		52.5	14.45	23.45
US	Wards Total Vehicle Sales	Aug		16.6		16.7		
US	ISM Manufacturing	Aug		56.5		56.3	15.00	0.00
US	U. of Mich. Sentiment/5-10 Yr Inflationary Expectations	Aug F		97.4		97.6	15.00	0.00
US	Construction Spending MoM	Jul		0.5		-1.3	15.00	0.00
<b>Monday, 4 September 2017</b>								
AU	Melbourne Institute Inflation MoM	Aug				0.1	2.00	11.00
AU	Inventories/Company Operating Profits QoQ	2Q		/		1.2/6.0	2.30	11.30
AU	ANZ Job Advertisements MoM	Aug				1.5	2.30	11.30
UK	Markit/CIPS UK Construction PMI	Aug				51.9	9.30	18.30
EC	Sentix Investor Confidence	Sep				27.7	9.30	18.30
EC	PPI MoM/YoY	Jul		/		-0.1/2.5	10.00	19.00
CA	Bloomberg Nanos Confidence	Sep 1				59.7	15.00	0.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Australia, RBA		5-Sep	1.50%	1.50%		1.50%		
Canada, BoC		6-Sep				0.75%		
Europe ECB		7-Sep	-0.4%	-0.4%		-0.4%		
UK BOE		14-Sep				0.25%		
US Federal Reserve		21-Sep	1.00-1.25%	1.00-1.25%		1.00-1.25%		
Japan, BoJ		21-Sep	-0.1%	-0.1%		-0.1%		
New Zealand, RBNZ		28-Sep	1.75%	1.75%		1.75%		

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

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