

MARKETS TODAY

All eyez on me



Good morning

"All Eyez On Me" is a single by 2Pac's fourth album by the same name and it is one of the most acclaimed hip-hop albums of the 1990s. Well nothing like a Hydrogen bomb to get people's attention. After a risk positive overnight session on Friday, news on Sunday that North Korea successfully tested a more advanced nuclear weapon has this morning triggered a bid for safe haven currencies (JPY and CHF) while AUD and NZD are a little bit softer. We now probably need to wait for Asia to open to assess the full reaction from the weekend news.

US data on Friday had something for everyone (see details below), but the lack of wage pressure has left the market convinced the Fed is not hiking until at least the end of 2018, favouring risk assets amid a goldilocks outcome of growth with no inflation. AUD was one beneficiary, CAD was the outperformer and NZD was the underperformer.

Friday's US jobs report did nothing to change the perception of a solid US labour market, but devoid of meaningful upward inflationary pressures. Non-farm payrolls (August) printed at 156k, below expectations for an outcome of 180k while net revision to previous months totalled -41k. The unemployment rate edged up a tenth to 4.4%, disappointing expectations for a no change and hourly earnings rose 0.1%, below the 0.2% expected by the market (the yoy reading as unchanged at 2.5%).

Seasonal factors in August were seemingly again at play (in recent years the first August numbers disappoint, but then experience substantial upward revisions), but with the economy still on expansionary mode and recent jobless claims remaining near record lows, it still seems reasonable to expect further declines in the unemployment rate over the coming months. That said, the lack of wage growth despite the ongoing addition of new jobs, suggest there is still spare capacity in the labour market. For now, we think the data is good enough to encourage the Fed to announce its balance sheet unwinding plan in September, but an uplift in inflation over the coming months is still needed for December Fed hike to occur.

Reaction to the US jobs report saw the USD sold across the board while UST Yields rallied. But the move was quickly reversed with the seasonal factors explanation initially playing a roll and then further boosted by a stronger than expected ISM manufacturing report. The ISM index jumped to 58.8 in August from 56.3 in July (56.5 was expected), new orders fell slightly to 60.3 from 60.4, but employment rose to 59.9 from 55.2.

So while on index terms the USD ended Friday little changed (BBDXY -0.02% and DXY 0.15%), its performance across G10 currencies was mixed. Ahead of the BoC policy decision this week the CAD was the big outperformer gaining 0.71%. USD/CAD dropped a big

figure on the payrolls report and then only managed a small recovery, finishing the day at 1.2395, its lowest level since late June 2015. The AUD/USD also had a good day, gaining 0.35% and after going up and down with the US data the pair closed at 0.7975 (AUD now trades at 0.7947, after gapping lower at the open). NZD remained on the back foot closing the week at 0.7158, 0.26% down on the day (now at 0.7149).

The Euro came under pressure after a Bloomberg report suggested the ECB will discuss its tapering plans this week, but a formal decision is likely to be delayed until December (see more below). EUR closed the week at 1.1863, 0.42% down on the day. CHF was the big loser, down 77% following SNB's Chairman Jordan's dovish comments on the currency and policy.

UST yields had a volatile session, but ended the day higher than where they started. 2y UST opened the day around 1.325%, dipped down to 1.30% on the payrolls report and closed the day at 1.34%. 10y US yields had similar price actions, starting the day at 2.125%, briefly trading sub 2.10% and closing the day at 2.167%, essentially unchanged for the week. A Fed hike is still not fully priced until the end of 2018 with the OIS market also showing very little else priced 2019.

As for equities, the Dow Jones Industrial Average rose 39.46 points, or 0.2%, to 21987.56 on Friday, putting its weekly gains at 0.8%. The S&P 500 added 4.90 points, or 0.2%, to 2476.55, rising 1.4% on the week. The Nasdaq Composite added 6.67 points, or 0.1%, to 6435.33, up 2.7% on the week, closing Friday at a new record high. Earlier in Europe, the Stoxx Europe 600 rose 0.6% on Friday with all major equity indices also closing the day in positive territory.

In commodities, WTI oil closed the week at \$47.29, 0.13% up on the day, but Brent oil was down 0.21%, closing the week at \$52.75. Gold edge up 0.29% to close the week at \$1325.23, up 2.62% in five days and the iron ore Jan-18 Dalian futures closed the week at R592, up 2.7% relative to Thursday's close.

Looking at speculative data released on Friday, the net short positioning against the USD vs G10 is essentially unchanged relative to the previous week and remains around -100k. Of note, AUD longs are now 7k higher at 67k and leverage accounts also extended their AUD longs, up 6k to 86k, the most since April 9, 2013. Meanwhile NZD longs were again trimmed, falling to 19k from 22k, EUR longs are at 87k vs 88k previously and GBP short are now -52K vs 46K short last week.

Bloomberg reports The Governing Council will hold its first formal talks next week on the pace of asset purchases after December, when the current program is scheduled to expire. Yet it's conceivable that the decision won't be finalized until the Dec. 14 meeting, according to euro-area officials familiar with the matter. That would leave around 10 trading days, during a holiday

Rodrigo Catril FX Strategist

season when volumes are typically low, for market participants to sort out their strategy for the New Year.

Several reports suggest President Trump is considering cancelling the United States' free-trade agreement with South Korea with a decision likely next week. Like with many previous moves from President Trump it is unclear whether the White House is really considering annulling the agreement, or wants to use the threat as a negotiating tactic to bring Seoul back to the bargaining table. North Korea's bomb threat over the weekend is an additional consideration.

CoreLogic's Weekend Market Summary from preliminary figures show Australia's auction volumes fell across the combined capital cities (2026 vs 2270 prev.) while preliminary clearance rate increased to 70.0% from 68.3% last week. In Melbourne there were 976 properties taken to auction, down from 1,124 last week. The preliminary clearance rate was 73.5% slightly above the 72.3% final clearance rate from the previous week. This week Sydney's had 770 auctions with a preliminary clearance rate of 70.5 %, above the 67.4% final clearance rate recorded last week across 832 auctions

Coming up

The positive close for equities and most commodities on Friday suggest the AUD should be well supported at the start of the week (the US is closed Monday celebrating Labor day), but North Korea's news over the weekend is likely to sour the mood at the open on Monday.

The local data flow heats back up this week both before Wednesday's Q2 GDP with quarterly partials and after with Retail Sales and International Trade on Thursday. The market will be paying close attention to Tuesday's RBA Meeting for recognition of an improving economy and Governor Lowe's dinner speech Tuesday allows for further expansion of that assessment. Offshore, the market is not convinced that Draghi will signal let alone start tapering its QE, while the BoC meeting will be an important signpost for market pricing which expects an October hike. US politics are likely to be back in focus for the USD with US Congress back on Tuesday. Meanwhile, NZD is likely to remain on the back foot amid uncertainty ahead of the NZ election and the expected small pull back on Tuesday's global dairy auction is unlikely to do the Kiwis any favours either.

See our What to Watch publication for more details.

Overnight

On global stock markets, the S&P 500 was +0.20%. Bond markets saw US 10-years +4.87bp to 2.17%. In commodities, Brent crude oil -0.21% to \$52.75, gold +0.6% to \$1,327, iron ore +0.0% to \$78.91, steam coal +0.5% to \$95.80, met. coal +0.0% to \$207.00. AUD is at 0.7947 and the range since Friday 5pm Sydney time is 0.7922 to 0.7994.

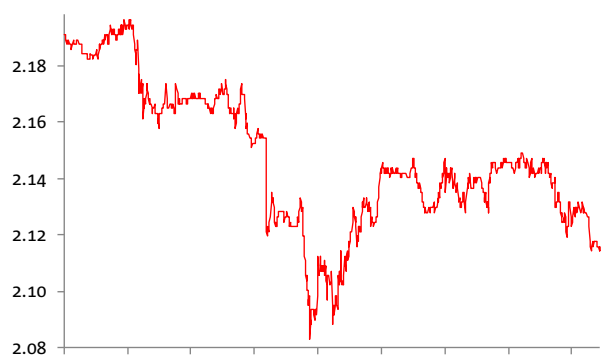
Markets

AUD/USD - past week



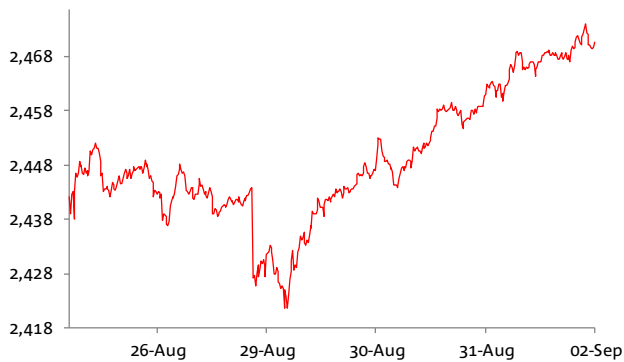
Source: Bloomberg.

US 10yr - past week



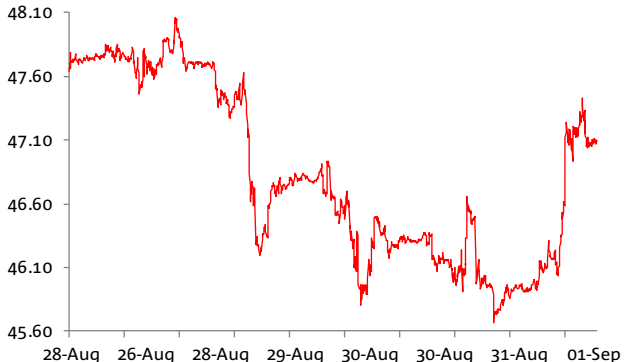
Source: Bloomberg.

S&P Future - past week



Source: Bloomberg.

WTI - past week



Source: Bloomberg.

Foreign Exchange

	Indicative 24hr ranges (**)		Other FX		
	Last	% chge	Last	% chge	
AUD	0.7947	0.0	HKD	7.8252	0.0
NZD	0.7149	-0.4	CNY	6.5584	-0.5
EUR	1.1882	-0.2	SGD	1.3582	0.2
GBP	1.2953	0.2	IDR	13,318	-0.2
JPY	109.62	-0.3	THB	33.17	-0.1
CAD	1.2415	-0.5	KRW	1,123	-0.4
AUD/EUR	0.669	0.3	TWD	30.05	-0.4
AUD/JPY	87.12	-0.3	PHP	51.13	-0.1
AUD/GBP	0.6136	-0.2	CHF	0.96	0.1
AUD/NZD	1.1117	0.4	SEK	7.98	0.5
AUD/CNH	5.2304	0.2			

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,988	0.18	18.9
S&P 500	2,477	0.20	13.6
Nasdaq	6,435	0.10	22.6
VIX	10.13	-4.34	-15.4
FTSE	7,439	0.1	7.9
DAX	12,143	0.7	13.7
CAC 40	5,123	0.7	12.8
Nikkei	19,691	0.2	16.3
Shanghai	3,367	0.2	9.8
Hang Seng	27,953	-0.1	20.1
ASX 200	5,725	0.2	6.5

Commodities*

	Last	% day
Oil (Brent)	52.75	-0.2
Oil (WTI)	47.29	0.1
Oil (Tapis)	50.94	0.0
Gold	1326.60	0.6
CRB	180.95	0.0
GS Metals	372.1	0.8
Aluminium	2121.8	0.9
Copper	6810.0	0.7
Nickel	11985.8	2.0
Zinc	3186.5	1.4
Ch. steel	4148.0	7.7
Iron ore	78.9	0.0
St. Coal	95.8	0.5
Met.coal	207.0	0.0
Wheat Chic.	438.8	1.0
Sugar	13.8	-4.5
Cotton	72.6	1.5
Coffee	129.1	-0.2

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-0.2	-1.0%
FED	-1	-2.8%

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.32	1.55	2.12	USD 10	2.17	4.87
AUD	1.50	1.74	1.96	2.84	AUD 10	2.66	-5.40 0.49
NZD	1.75	1.96	2.18	3.12	NZD 10	2.86	-4.00 0.70
EUR	0.00	-0.33	-0.19	0.81	CAD 10	1.91	6.50 -0.25
GBP	0.25	0.28	0.55	1.15	EUR 10	0.38	1.80 -1.79
JPY	-0.06	-0.03	0.01	0.20	GBP 10	1.06	2.30 -1.11
CAD	0.75	1.34	1.69	2.21	JPY 10	0.00	-1.00 -2.17

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.23	-1.00
3 Yr bond	97.8	2.00
10 Yr bond	97.33	-1.00
3/10 sprd	0.47	3.00
SPI	5725.0	-37.0

*Change in bps

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
Monday, 4 September 2017								
AU	Melbourne Institute Inflation MoM	Aug				0.1	2.00	11.00
AU	Inventories/Company Operating Profits QoQ	2Q	0.5/-3.0	0.3/-4		1.2/6.0	2.30	11.30
AU	ANZ Job Advertisements MoM	Aug				1.5	2.30	11.30
EC	Sentix Investor Confidence	Sep		27.3		27.7	9.30	18.30
Tuesday, 5 September 2017								
NZ	Volume of All Buildings SA QoQ	2Q		1.6		-3.5	23.45	8.45
AU	Commonwealth Bank Australia PMI Services/Composite	Aug		/		57.0/56.7	0.00	9.00
UK	BRC Sales Like-For-Like YoY	Aug				0.9	0.10	9.10
AU	AiG Perf of Services Index	Aug				56.4	0.30	9.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Sep 3				113.5	0.30	9.30
JN	Nikkei Japan PMI Services/Composite	Aug		/		52.0/51.8	1.30	10.30
NZ	ANZ Commodity Price	Aug				-0.8	2.00	11.00
AU	BoP Current Account Balance/Net exports growth contrib	2Q	-8.0/0.0	-8/0		-3.0/-0.7	2.30	11.30
AU	Government Spending QoQ	2Q	0.5			-1.0	2.30	11.30
CH	Caixin China PMI Services/Composite	Aug		/		51.5/51.9	2.45	11.45
AU	RBA Cash Rate Target	Sep 5	1.5	1.5		1.5	5.30	14.30
GE	Markit Germany Services/Composite PMI	Aug F		53.4/55.7		53.4/55.7	8.55	17.55
EC	Markit Eurozone Services/Composite PMI	Aug F		54.9/55.8		54.9/55.8	9.00	18.00
UK	Markit/CIPS UK Services/Composite PMI	Aug		53.3/		53.8/54.1	9.30	18.30
EC	Retail Sales MoM/YoY	Jul		-0.5/2		0.5/3.1	10.00	19.00
EC	GDP SA QoQ/YoY	2Q F		0.6/2.2		0.6/2.2	10.00	19.00
AU	RBA Governor Lowe's Remarks at Board Dinner						10.10	19.10
US	Fed's Brainard Speaks to The Economic Club of New York						13.00	22.00
AU	RBA Governor Lowe's Remarks at Board Dinner							
US	Factory Orders/Core Capital GoodsOrders	Jul		-3.2/		3.0/0.4	15.00	0.00
US	Fed's Kashkari Holds Townhall Event in Minneapolis						18.10	3.10
NZ	World Dairy Auction, GDT weighted price index					-0.4	Early am NZT	
Wednesday, 6 September 2017								
NZ	ANZ Job Advertisements MoM	Aug				-1.0	23.00	8.00
US	Fed's Kaplan Speaks in Dallas						0.00	9.00
JN	Labor Cash/Real Earnings YoY	Jul		0.5/0		-0.4/-0.8	1.00	10.00
AU	GDP SA QoQ/YoY	2Q	0.6/1.6	0.8/1.8		0.3/1.7	2.30	11.30
AU	RBA's Heath Gives Speech in Tasmania						3.30	12.30
GE	Factory Orders MoM/YoY	Jul		0.3/6		1.0/5.1	7.00	16.00
CA	Labor Productivity QoQ	2Q				1.4	13.30	22.30
CA	Int'l Merchandise Trade	Jul				-3.6	13.30	22.30
US	Trade Balance	Jul		-44.5		-43.6	13.30	22.30
US	Markit US Services PMI	Aug F				56.9	14.45	23.45
CA	Bank of Canada Rate Decision	Sep 6		0.75		0.8	15.00	0.00
US	ISM Non-Manf. Composite	Aug		55.1		53.9	15.00	0.00
US	U.S. Federal Reserve Releases Beige Book						19.00	4.00
Thursday, 7 September 2017								
AU	AiG Perf of Construction Index	Aug				60.5	0.30	9.30
AU	Retail Sales MoM	Jul	0.1	0.2		0.3	2.30	11.30
AU	Trade Balance	Jul	1500	950		856.0	2.30	11.30
JN	Tokyo Avg Office Vacancies	Aug				3.2	3.00	12.00
JN	Leading Index CI	Jul P		105.1		105.9	6.00	15.00
GE	Industrial Production SA MoM/YoY	Jul		0.5/4.5		-1.1/2.4	7.00	16.00
UK	Halifax House Prices MoM/3m YoY	Aug		/		0.4/2.1	8.30	17.30
CH	Foreign Reserves	Aug				3080.7	9.25	18.25
EC	ECB Main Refinancing/Deposit Facility Rate	Sep 7		0/-0.4		0.0/-0.4	12.45	21.45
EC	ECB Marginal Lending Facility/Asset Purchase Target	Sep 7		0.25/60		0.3/60.0	12.45	21.45
CA	Building Permits MoM	Jul				2.5	13.30	22.30
US	Initial Jobless Claims	Sep 2				236.0	13.30	22.30
US	Nonfarm Productivity/Unit Labour costs	2Q F		1/0.6		0.9/0.6	13.30	22.30
US	Bloomberg Consumer Comfort	Sep 3				53.3	14.45	23.45
CA	Ivey Purchasing Managers Index SA	Aug				60.0	15.00	0.00
US	Fed's Mester Speaks on Economic Outlook and Monetary Policy						17.15	2.15
Friday, 8 September 2017								
NZ	Mfg Activity Volume QoQ	2Q				-0.3	23.45	8.45
US	Fed's Dudley Speaks on U.S. Economic Outlook, Monetary Policy						0.00	9.00
US	Fed's George Speaks on the Economic Outlook						1.15	10.15
JN	GDP SA QoQ/Annualised QoQ	2Q F		0.7/2.9		1.0/4.0	0.50	9.50
AU	Home Loans/Investment Lending MoM	Jul	1.8	1/		0.5/1.6	2.30	11.30
CH	Trade Balance CNY	Aug				321.2	3.00	12.00
CH	Exports/Imports YoY CNY	Aug		/		11.2/14.7	3.00	12.00
CH	Trade Balance	Aug		48.6		46.7	3.45	12.45
CH	Exports/Imports YoY	Aug		5.1/10		7.2/11.0	3.45	12.45
AU	RBA's Debelle Participates in Panel in Sydney						4.00	13.00
JN	Machine Tool Orders YoY	Aug P				28.0	7.00	16.00
GE	Current Account Balance	Jul				23.6	7.00	16.00
GE	Labor Costs SA QoQ/YoY	2Q		/		0.5/2.5	7.00	16.00
UK	Industrial Production MoM/YoY	Jul		0.2/0.3		0.5/0.3	9.30	18.30
UK	Trade Balance	Jul				-4564.0	9.30	18.30
UK	BoE/TNS Inflation Next 12 Mths	Aug				2.8	9.30	18.30
AU	RBA Governor Lowe Gives Speech in Sydney						10.30	19.30
UK	NIESR GDP Estimate	Aug				0.2	13.00	22.00
CA	Net Change in Employment/Unemployment Rate	Aug		/		10.9/6.3	13.30	22.30
US	Fed's Harker Speaks on Consumer Finance in Philadelphia						13.45	22.45
CH	Foreign Direct Investment YoY CNY	Aug				2.3	8-18 Sep release	
US	Wholesale Inventories/Trade Sales MoM	Jul F		0.4/		0.4/0.7	15.00	0.00
US	Baker Hughes U.S. Rig Count	Sep 1				940.0	18.00	3.00
US	Consumer Credit	Jul		15		12.4	20.00	5.00
Saturday, 9 September 2017								
CH	CPI YoY	Aug		1.6/5.4		1.4/5.5	2.30	11.30
Sunday, 10 September 2017								
CH	New Yuan Loans/Aggregate Financing CNY	Aug		950/		825.5/1220.0	10-15 Sep release	
Upcoming Central Bank Interest Rate Announcements								
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

CONTACT DETAILS

Authors

David de Garis
Director, Economics
+61 3 8641 3045
david.degaris@nab.com.au

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848
ray.attrill@nab.com.au

Rodrigo Catril
Currency Strategist
+61 2 9293 7109
rodrigo.h.catril@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

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