

MARKETS TODAY

I don't care, I love it



Good morning

I don't care, I love it was the electro pop song of 2012. So it was with the market reaction to the ECB meeting overnight with the Euro higher (+0.9% to 1.2023) and German Bund yields lower (-4.0bps to 0.31%). Those moves came despite an explicit nod by the ECB that they would likely announce a taper of the Asset Purchase Program at the upcoming October meeting and some concern over the recent strength in the Euro. It seems the lack of detail and indecision over tapering dominated, while moves in Bunds helped drive down US Treasury yields to their lowest since November (10-years down 6.6bps to 2.04%).

First up the ECB meeting. As largely foreshadowed by anonymous sources last week, the ECB did not announce a tapering of its €60bn a month Asset Purchase Program that runs until December or beyond if necessary. Instead Draghi noted that the ECB had only held “very preliminary” discussions with an announcement not likely until the 26 October meeting: “we’ll announce when we are ready...we think we have much of what we need in October”. While Draghi noted that many factors were discussed, the lack of explicit detail and perhaps indecision over the timing and scale of tapering has supported a rally in bonds.

The ECB also noted some concern over the currency, noting that “recent volatility in the exchange rate represents a source of uncertainty” with implications for the medium-term outlook for price stability. The recent euro appreciation also saw the staff’s projections of inflation revised down by 0.1% point with 2018 at 1.2% and 2019 at 1.5%. There was some hint of an override in the impact of the higher euro, with it being offset by an improved growth outlook – and the 2017 GDP growth outlook was indeed revised up to 2.2% from 1.9%. Although some fanfare was made of the ECB using a higher Euro assumption of 1.18, it was merely a technical methodology that uses the two week average of the exchange rate to the 14 August.

In the FX space the Euro surged on the news, initially up some 1.1% before settling up 0.9% at 1.2023. Other European currencies were also dragged higher with the Norwegian Krone +0.9% and Swedish Krona +0.8%. The USD in contrast was weaker across the board, with the DXY down 0.6% and at 91.58 is now the lowest we have seen since January 2015. The Yen remains bid (+0.7%) with likely safe haven demand alongside concerns around North Korea. The Aussie (+0.6%) and the Kiwi (+0.4%) were mainly bystanders overnight.

Bond yields were led lower by moves in German Bunds. US Treasury yields fell 6.6bps to 2.04%. Yesterday’s resignation of Fed vice-chair Fischer and the pushing out of the debt ceiling showdown to mid-December are also likely weighing – reducing the chances of a December

rate hike. Nevertheless one Fed official remains committed with non-voter Mester noting: “In my view, if economic conditions evolve as anticipated, I believe further removal of accommodation via gradual increases in the fed funds rate will be needed” and that the Fed shouldn’t wait until inflation hits 2% before hiking again.

There was little in the way of significant data. Although US Jobless Claims surged to 298k (245k expected), the 62k increase was likely entirely due to Hurricane Harvey with jobless claims up 52k in Texas. A further rise is likely in coming weeks. As we go to print Hurricane Irma is forecast to hit Florida on Sunday. Insurance stocks have been sold ahead of the event with the S&P500 Insurance sub-index down 1.9% against an unchanged broader market (S&P500 0.0%; Euro Stoxx 50 +0.4%).

Finally, the Swedish Riksbank also meet overnight and while there was no change to either rates or their own asset purchase program, the growth outlook was revised higher. Nevertheless, the Riksbank governor noted it would be risky to move ahead of other central banks so it seems we are basically waiting on the ECB to move before we see a change in policy in Sweden. According to current forecasts the Riksbank expects to raise rates in the middle of 2018 (unchanged from last meeting).

Coming up

It’s quiet in Australia with only Housing Finance Approvals low on the radar (11.30am AEST). The market looks for a 1.0% m/m increase in the number of owner-occupier loan approval; NAB is similar at 1.8% m/m. There are also two RBA speeches which are unlikely to impact on markets too much with Deputy Governor Debelle speaking on ‘Interest Rate Benchmarks’ (1.00pm AEST) and Governor Lowe at the Bank of China Sydney Branch Anniversary (6.30pm AEST).

US Fed speakers will dominate the morning session with Dudley (voter; 9.00am AEST) and George (non-voter; 10.15am). Dudley is the one to watch given he is seen to be very close to the centre of the FOMC.

Next up and most important is the Chinese trade data released anytime today. Markets look for a slightly slower y/y pace of growth with imports at 10.0% y/y (from 11.0% y/y previously) and exports at 6.0% y/y (from 7.2% previously). The headline trade balance is expected to be in surplus at \$48.5bn, marginally higher than the \$46.7bn in July. Japan also has the final reading for Q2 GDP along with the July Trade Balance (9.50am AEST). The market looks for a downwardly revised Q2 GDP print of 0.7% q/q from the 1.0% q/q previously indicated.

Canadian employment data (10.30pm AEST) will garner more attention than usual given the Bank of Canada’s hawkish tilt. The market looks for 15k jobs in August and an unchanged unemployment rate at 6.3%. Any data outperformance will likely play into the view of the Bank

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of Canada hiking rates again – markets fully price another hike by January 2017.

Other pieces of data worth noting include the UK Trade Balance and Industrial Production.

Finally, North Korea is expected to launch an ICBM on Saturday to help celebrate their country's founding. This is likely to add a bid to safe haven currencies into the weekend.

Overnight

On global stock markets, the S&P 500 was -0.02%. Bond markets saw US 10-years -6.59bp to 2.04%. In commodities, Brent crude oil +0.59% to \$54.52, gold+1.1% to \$1,350, iron ore -1.6% to \$75.61, steam coal -0.3% to \$97.65, met. coal -1.2% to \$200.00. AUD is at 0.8047 and the range since yesterday 5pm Sydney time is 0.7975 to 0.8049.

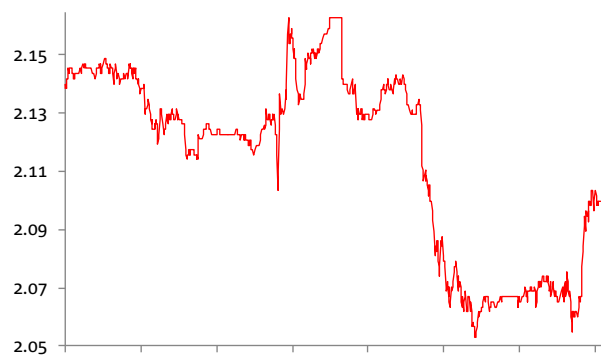
Markets

AUD/USD - past week



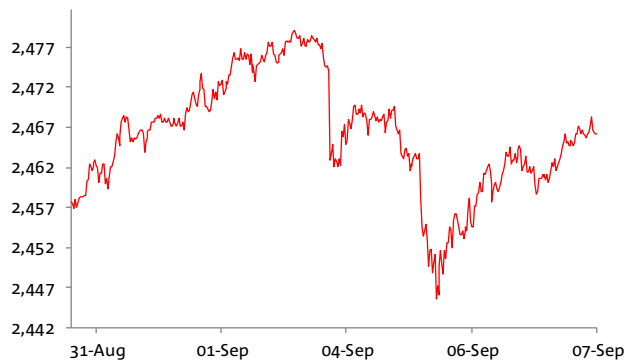
Source: Bloomberg.

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	0.8047	0.6	0.7975	0.8049	HKD	7.8131 -0.2
NZD	0.7231	0.4	0.7172	0.7242	CNY	6.4870 -0.6
EUR	1.2023	0.9	1.1914	1.2059	SGD	1.3405 -0.7
GBP	1.3099	0.4	1.3033	1.3116	IDR	13,307 -0.2
JPY	108.44	-0.7	108.05	109.27	THB	33.09 -0.2
CAD	1.2123	-0.8	1.2111	1.2241	KRW	1,130 -0.5
AUD/EUR	0.6693	-0.3	0.6668	0.6723	TWD	30.00 -0.2
AUD/JPY	87.27	-0.1	86.89	87.51	PHP	50.86 -0.4
AUD/GBP	0.6143	0.2	0.6117	0.6150	CHF	0.95 -0.6
AUD/NZD	1.1128	0.1	1.1070	1.1145	SEK	7.92 -0.7
AUD/CNH	5.2125	-0.1	5.1968	5.2425		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.32	1.50	2.00	USD 10	2.04	-6.59
AUD	1.50	1.74	1.94	2.75	AUD 10	2.64	3.90 0.60
NZD	1.75	1.95	2.13	3.05	NZD 10	2.76	-1.00 0.72
EUR	0.00	-0.33	-0.20	0.76	CAD 10	1.94	-0.60 -0.10
GBP	0.25	0.28	0.52	1.07	EUR 10	0.31	-4.00 -1.73
JPY	-0.06	-0.03	0.01	0.20	GBP 10	0.97	-3.30 -1.07
CAD	1.00	1.46	1.84	2.22	JPY 10	0.01	-0.20 -2.03

Equities

Major Indices			
	Last	% day	% y/y
Dow	21,785	-0.10	17.6
S&P 500	2,465	-0.02	12.8
Nasdaq	6,398	0.07	21.1
VIX	11.55	-0.69	-3.3
FTSE	7,397	0.6	8.0
DAX	12,297	0.7	14.4
CAC 40	5,115	0.3	12.2
Nikkei	19,397	0.2	14.4
Shanghai	3,365	-0.6	8.7
Hang Seng	27,523	-0.3	15.1
ASX 200	5,690	0.0	5.6

Overnight Futures

Australia		
	Last	Chge*
3 mth bill	98.22	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.43	3.50
3/10 sprd	0.38	-0.50
SPI	5693.0	-19.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	54.52	0.6
Oil (WTI)	49.11	-0.1
Oil (Tapis)	54.85	1.5
Gold	1350.10	1.1
CRB	182.87	-0.1
GS Metals	370.4	0.1
Aluminium	2088.5	0.0
Copper	6870.8	-0.1
Nickel	12095.3	-0.1
Zinc	3127.5	1.1
Ch. steel	3986.0	-1.7
Iron ore	75.6	-1.6
St. Coal	97.7	-0.3
Met.coal	200.0	-1.2
Wheat Chic.	437.3	-1.9
Sugar	14.0	-1.8
Cotton	75.0	-0.3
Coffee	129.2	1.0

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-0.2	-1.0%
FED	-1	-3.6%

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
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	1000		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		0.5/4.6		-1.1/2.4	7.00	16.00
UK	Halifax House Prices MoM/3m YoY	Aug		0.2/2.1		0.4/2.1	8.30	17.30
CH	Foreign Reserves	Aug		3095		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		-1		2.5	13.30	22.30
US	Initial Jobless Claims	Sep 2		242		236.0	13.30	22.30
US	Nonfarm Productivity/Unit Labour costs	2Q F		1.2/0.35		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	/		0.5/1.6	2.30	11.30
CH	Trade Balance CNY	Aug		334.39		321.2	3.00	12.00
CH	Exports/Imports YoY CNY	Aug		7.7/12.2		11.2/14.7	3.00	12.00
CH	Trade Balance	Aug		48.4		46.7	3.45	12.45
CH	Exports/Imports YoY	Aug		6/10		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		20.8		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		-3250		-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		15/6.3		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 8				943.0	18.00	3.00
US	Consumer Credit	Jul		15		12.4	20.00	5.00
Saturday, 9 September 2017								
CH	CPI YoY	Aug		1.7/5.7		1.4/5.5	2.30	11.30
Sunday, 10 September 2017								
CH	New Yuan Loans/Aggregate Financing CNY	Aug		950/1300		825.5/1220.0	10-15 Sep release	
Monday, 11 September 2017								
NZ	REINZ House Sales YoY	Aug				-24.5		
NZ	Card Spending Retail MoM/YoY	Aug				-0.5	23.45	8.45
JN	Machine Orders MoM/YoY	Jul				-1.9	0.50	9.50
JN	Tertiary Industry Index MoM	Jul				0.0	5.30	14.30
JN	Machine Tool Orders YoY	Aug P				28.0	7.00	16.00
CA	Housing Starts	Aug				222.3	13.15	22.15
CA	Bloomberg Nanos Confidence	Sep 1				59.7	15.00	0.00
Tuesday, 12 September 2017								
NZ	ANZ Truckometer Heavy MoM	Aug				-5.5	23.00	8.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Sep 3				113.5	0.30	9.30
JN	PPI MoM	Aug				0.3	0.50	9.50
AU	NAB Business Conditions/Confidence	Aug				15.0	2.30	11.30
UK	CPI MoM/YoY	Aug				-0.1	9.30	18.30
UK	CPI Core YoY	Aug				2.4	9.30	18.30
UK	PPI Input NSA MoM/YoY	Aug				0.0	9.30	18.30
UK	PPI Output Core NSA MoM/YoY	Aug				0.1	9.30	18.30
UK	House Price Index YoY	Jul				4.9	9.30	18.30
US	NFIB Small Business Optimism	Aug				105.2	11.00	20.00
US	JOLTS Job Openings	Jul				6163.0	15.00	0.00
Wednesday, 13 September 2017								
NZ	Food Prices MoM	Aug				-0.2	23.45	8.45
JN	PPI YoY	Aug				2.6	0.50	9.50
AU	Westpac Consumer Conf Index/MoM	Sep				95.5	1.30	10.30
GE	CPI EU Harmonized MoM/YoY	Aug F				0.2	7.00	16.00
UK	Claimant Count Rate	Aug				2.3	9.30	18.30
UK	Jobless Claims Change	Aug				-4.2	9.30	18.30
UK	Average Weekly Earnings/ex bonus 3M/YoY	Jul				2.1	9.30	18.30
UK	ILO Unemployment Rate/Employment change 3Mths	Jul				4.4	9.30	18.30
EC	Industrial Production SA MoM/YoY	Jul				-0.6	10.00	19.00
EC	Employment QoQ/YoY	2Q				0.4	10.00	19.00
CA	Teranet/National Bank HPI MoM/YoY	Aug				2.0	13.30	22.30
US	PPI Final Demand MoM/YoY	Aug		0.3		-0.1	13.30	22.30
US	PPI Ex Food and Energy MoM/YoY	Aug		0.2		-0.1	13.30	22.30
US	PPI Ex Food, Energy, Trade MoM/YoY	Aug				0.0	13.30	22.30
US	Monthly Budget Statement	Aug				-42.9	19.00	4.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		3-Oct	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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