

MARKETS TODAY

Start me up



Good morning

A broad risk on rally that started in the Asia continued overnight driven by expectations of a lower damage bill from Hurricane Irma and the absence of geopolitical headlines with North Korea not launching an ICBM on Saturday as many had feared it would. Equities rose (S&P 500 +1.1%), bond yields gapped higher (US Treasuries +8.0 bps), gold fell (-1.5%), while the US dollar was stronger (DXY +0.7%). For the rates (and FX) market the key question is whether the risk on rally represents a genuine [Start me up](#) moment (title courtesy of the Rolling Stones) given where US Treasury yields and the US dollar are at the moment.

First to Hurricane Irma. As the sun rose on Monday it revealed that while Hurricane Irma was no doubt devastating, it was likely to cause less damage than many had feared. Munich Re forecasts that worldwide insurance losses from the event are likely to be in the order of \$20-30bn, well below the initial fears of more than \$65bn. Equities rose in response led by financials and insurers – the S&P500 insurance sub-index rose 1.6% – with the overall S&P500 up 1.1%. Also in the background was the upcoming United Nations vote on North Korea where the US has moderated proposals for an oil embargo and a naval blockade in order to garner support from China and Russia – instead it looks there will be a cap on oil imports.

US Treasury yields gapped higher, finishing up 8.0 bps to 2.13% and back at the levels where they were early last week instead of plumbing the lows seen in November. Market pricing for a December rate hike has also edged back to a 46% probability whereas on Friday it was 33% with the lower damage bill now less likely to weigh on the Fed's December meeting. There is though still only one rate hike fully priced by the end of 2018 compared to the Fed's dot points of four and it is likely a run of better CPI or wage numbers will be required to get the market to shift pricing any higher – that makes Thursday's CPI figures very important.

In FX, the typical risk on rally theme dominated. The safe havens fell sharply with risk aversion unwinding: Yen -1.4% and Swiss Franc -1.3%. The US dollar rallied (DXY +0.7% to 91.95) while other major currency pairs were lower: Euro (-0.7% to 1.1954); Aussie (-0.4%); Kiwi (-0.1%); CAD (-0.4%).

Comments by ECB speakers had little impact on the Euro. Coeure gave mixed soundings on the exchange rate. He noted that "there are three forces, of roughly equal strength, that help to explain the euro's marked appreciation in recent months: improved euro area growth prospects, an exogenous component and a tightening in the relative monetary policy stance vis-à-vis the U.S." and that "pass-through is likely to have been lower in recent years". Nevertheless if "exogenous shocks...persistent [it] can lead to an unwarranted

tightening of financial conditions with undesirable consequences for the inflation outlook". Overall it seems the ECB is ok with the recent strength in the Euro, but would be cautious of it going any further. Other ECB officials overnight mainly emphasised it was time to withdraw some monetary stimulus in a gradual and well telegraphed manner.

The other big FX move occurred in USD/CNY which rose 0.5% to 6.53. Supporting was a report that the PBoC was removing its reserve requirement for financial institutions trading in FX forwards by cutting it to 0% from 20% currently. The change makes it cheaper to buy dollars and sell Yuan. The PBoC also announced the removal of reserve requirement on foreign banks' yuan deposits.

As we go to print the UK Parliament looks set to pass the Brexit Bill which will allow the government to copy EU law into domestic law and then allow the UK to edit that law once it has left the EU in 2019. Finally for Krone watchers, Norway looks to have re-elected Erna Solberg as PM with 82% of the vote counted.

Coming up

Domestic focus will be on the NAB Business Survey (11.30am AEST). No hints here as usual and your scribe only points out the obvious, that markets will be interested in the extent to which Business Conditions and the Employment sub-index have sustained their recent improvements – and whether Business Confidence and Consumer Confidence continue to diverge. Also out is the usually second-tier ANZ-Roy Morgan Weekly Consumer Confidence (9.30am AEST).

Otherwise it's mostly quiet in the Asian timezone with the only significant event being Chinese Premier Li Keqiang hosting an economic roundtable which will include heads of the IMF, World Bank and WTO. Potential headlines could be possible.

The UK CPI is next up (6.30pm AEST) with a sharp tick up expected driven by higher transportation costs. The market looks for headline inflation at 0.5% m/m from -0.1% m/m in July, taking the y/y rate to 2.8% (from 2.6%). The core measure is also expected to tick higher by one-tenth to 2.5%. While two Bank of England officials (Saunders and McCafferty) are likely to continue to argue for rate hikes on the back of the data, the other six officials are keen to hold rates amid an uncertain economic outlook and declining real wages growth. Governor Carney noted in August that two rate hikes could be expected over the coming three years with the first hike not likely to occur until the Q3 2018. The market is currently similarly priced.

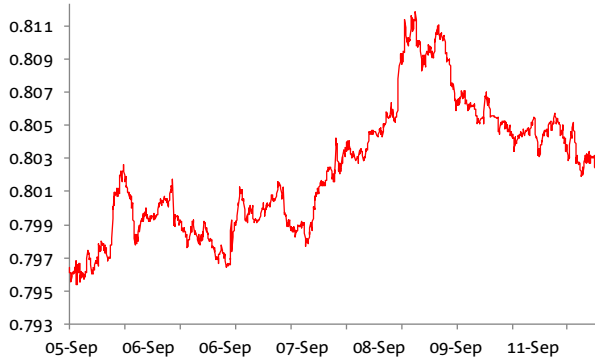
Finally in the US we get the JOLTS and NFIB figures. US Treasury Secretary Mnuchin also gives a keynote address to CNBC and Institutional Investor Delivering Alpha Conference.

Overnight

On global stock markets, the S&P 500 was +1.08%. Bond markets saw US 10-years +7.99bp to 2.13%. In commodities, Brent crude oil +0.20% to \$53.89, gold-1.4% to \$1,328, iron ore +0.2% to \$74.49, steam coal +1.1% to \$99.55, met. coal +0.0% to \$200.00. AUD is at 0.8028 and the range since yesterday 5pm Sydney time is 0.8019 to 0.8073.

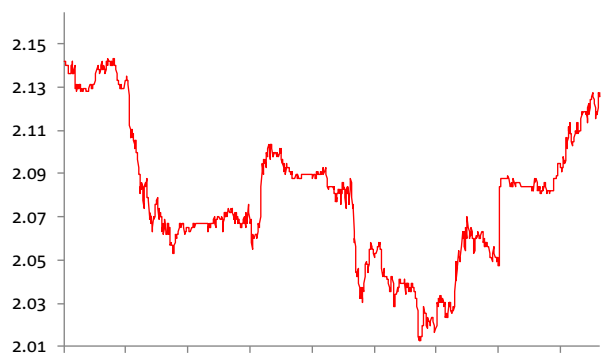
Markets

AUD/USD - past week



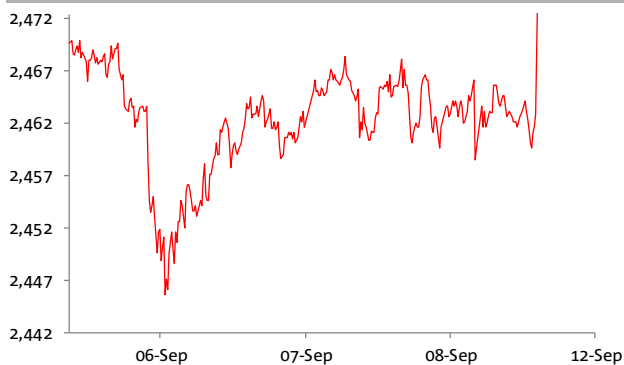
Source: Bloomberg.

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	0.8028	-0.4	HKD	7.8108	0.0
NZD	0.7255	-0.1	CNY	6.5292	0.5
EUR	1.1954	-0.7	SGD	1.3467	0.4
GBP	1.3164	-0.3	IDR	13,156	-0.2
JPY	109.39	1.4	THB	33.12	0.0
CAD	1.2116	-0.4	KRW	1,132	0.4
AUD/EUR	0.6715	0.4	TWD	30.01	0.0
AUD/JPY	87.82	1.1	PHP	50.86	0.1
AUD/GBP	0.6098	-0.1	CHF	0.96	1.2
AUD/NZD	1.1066	-0.2	SEK	8.01	1.0
AUD/CNH	5.2409	0.1			

Equities

Major Indices			
	Last	% day	% y/y
Dow	22,057	1.19	22.0
S&P 500	2,488	1.08	16.9
Nasdaq	6,432	1.13	25.5
VIX	10.73	-11.47	-38.7
FTSE	7,414	0.5	9.4
DAX	12,475	1.4	18.0
CAC 40	5,177	1.2	15.3
Nikkei	19,546	1.4	17.2
Shanghai	3,376	0.3	11.7
Hang Seng	27,955	1.0	20.0
ASX 200	5,713	0.7	9.5

Commodities*

	Last	% day
Oil (Brent)	53.89	0.2
Oil (WTI)	48.10	1.3
Oil (Tapis)	53.89	-1.9
Gold	1328.00	-1.4
CRB	181.66	0.3
GS Metals	365.7	1.0
Aluminium	2095.5	0.9
Copper	6712.3	0.8
Nickel	11702.5	1.5
Zinc	3082.3	1.7
Ch. steel	3940.0	-0.5
Iron ore	74.5	0.2
St. Coal	99.6	1.1
Met.coal	200.0	0.0
Wheat Chic.	434.8	-0.7
Sugar	14.3	1.4
Cotton	73.7	-2.5
Coffee	131.9	0.9

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.31	1.55	2.08	USD 10	2.13	7.99
AUD	1.50	1.74	1.97	2.82	AUD 10	2.60	2.50 0.47
NZD	1.75	1.95	2.17	3.08	NZD 10	2.81	5.00 0.68
EUR	0.00	-0.33	-0.20	0.79	CAD 10	2.03	4.20 -0.11
GBP	0.25	0.29	0.58	1.13	EUR 10	0.34	2.40 -1.79
JPY	-0.06	-0.03	0.02	0.21	GBP 10	1.05	5.50 -1.09
CAD	1.00	1.46	1.91	2.30	JPY 10	0.01	0.60 -2.12

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.22	0.00
3 Yr bond	97.8	0.00
10 Yr bond	97.36	-6.20
3/10 sprd	0.44	6.20
SPI	5736.0	-67.0

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-0.2	-1.0%
FED	#N/A	#N/A

*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, 11 September 2017								
NZ	REINZ House Sales YoY	Aug				-24.5		
NZ	Card Spending Retail MoM/YoY	Aug	0.8	0.5/		-0.5/-0.7	23.45	8.45
JN	Machine Orders MoM/YoY	Jul		4.2		-1.9	0.50	9.50
JN	Tertiary Industry Index MoM	Jul		0.1		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 8				58.9	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 10				114.1	0.30	9.30
JN	PPI MoM	Aug		0.1		0.3	0.50	9.50
AU	NAB Business Conditions/Confidence	Aug		/		15/12	2.30	11.30
UK	CPI MoM/YoY	Aug		0.4/		-0.1/2.6	9.30	18.30
UK	CPI Core YoY	Aug				2.4	9.30	18.30
UK	PPI Input NSA MoM/YoY	Aug		/		0.0/6.5	9.30	18.30
UK	PPI Output Core NSA MoM/YoY	Aug		/		0.1/2.4	9.30	18.30
UK	House Price Index YoY	Jul				4.9	9.30	18.30
US	NFIB Small Business Optimism	Aug		105		105.2	11.00	20.00
US	JOLTS Job Openings	Jul		5950		6163.0	15.00	0.00
Wednesday, 13 September 2017								
NZ	Food Prices MoM	Aug	-0.1			-0.2	23.45	8.45
JN	PPI YoY	Aug		3		2.6	0.50	9.50
AU	Westpac Consumer Conf Index/MoM	Sep		/		95.5/-1.2	1.30	10.30
GE	CPI EU Harmonized MoM/YoY	Aug F		0.2		0.2	7.00	16.00
UK	Claimant Count Rate/Jobless claims change	Aug		/		2.3/-4.2	9.30	18.30
UK	Jobless Claims Change	Aug				-4.2	9.30	18.30
UK	Average Weekly Earnings/ex bonus 3M/YoY	Jul		/		2.1/2.1	9.30	18.30
UK	ILO Unemployment Rate/Employment change 3Mths	Jul		4.4/		4.4/125.0	9.30	18.30
EC	Industrial Production SA MoM/YoY	Jul		0.2		-0.6	10.00	19.00
EC	Employment QoQ/YoY	2Q		/		0.4/1.5	10.00	19.00
CA	Teranet/National Bank HPI MoM/YoY	Aug		/		2.0/14.2	13.30	22.30
US	PPI Final Demand MoM/YoY	Aug		0.3/2.5		-0.1/1.9	13.30	22.30
US	Monthly Budget Statement	Aug		-124		-42.9	19.00	4.00
Thursday, 14 September 2017								
UK	RICS House Price Balance	Aug				1.0	0.10	9.10
NZ	ANZ Consumer Confidence Index/MoM	Sep				126.2	2.00	11.00
AU	Consumer Inflation Expectation	Sep				4.2	2.00	11.00
AU	Employment Change/Unemployment rate	Aug	21/5.6	19/5.6		27.9/5.6	2.30	11.30
AU	Participation Rate	Aug	65.1	65.1		65.1	2.30	11.30
CH	Industrial Production YoY/YTD YoY	Aug		6.6/6.8		6.4/6.8	3.00	12.00
CH	Retail Sales YoY/YTD YoY	Aug		10.5/10.4		10.4/10.4	3.00	12.00
CH	Fixed Assets Ex Rural YTD YoY	Aug		8.2/		8.3/3.3	3.00	12.00
JN	Industrial Production MoM/YoY	Jul F				-0.8	5.30	14.30
UK	Retail Sales Ex Auto Fuel MoM/YoY	Aug		/		0.5/1.5	9.30	18.30
UK	Bank of England Bank Rate	Sep 14		0.25		0.25	12.00	21.00
UK	BOE Asset Purchase/Corporate Bond Target	Sep		435/10		435.0/10.0	12.00	21.00
CA	New Housing Price Index MoM/YoY	Jul				0.2	13.30	22.30
US	Initial Jobless Claims	Sep 9				298.0	13.30	22.30
US	CPI MoM/YoY	Aug		0.3/1.8		0.1/1.7	13.30	22.30
US	CPI Ex Food and Energy MoM/YoY	Aug		0.2/1.6		0.1/1.7	13.30	22.30
US	Real Avg Weekly/Hourly Earnings YoY	Aug				1.1	13.30	22.30
US	Bloomberg Consumer Comfort	Sep 10				52.6	14.45	23.45
EC	Bundesbank's Weidmann speaks in Frankfurt						16.30	1.30
Friday, 15 September 2017								
NZ	BusinessNZ Manufacturing PMI	Aug				55.4	23.30	8.30
NZ	Non Resident Bond Holdings	Aug				61.7	4.00	13.00
EC	ECB's Nouy Speech in Finland						7.00	16.00
EC	Trade Balance SA	Jul				22.3	10.00	19.00
EC	Labour Costs YoY	2Q				1.5	10.00	19.00
US	Empire Manufacturing	Sep		19		25.2	13.30	22.30
US	Retail Sales Advance/Ex Autos MoM	Aug		0.1/0.5		0.6/0.5	13.30	22.30
CA	Existing Home Sales MoM	Aug				-2.1	14.00	23.00
US	Industrial/Manufacturing Production MoM	Aug		0.1/0.5		0.2/-0.1	14.15	23.15
US	U. of Mich. Sentiment/5-10Y Inflation expectations	Sep P		96.5/		96.8/2.5	15.00	0.00
US	Business Inventories	Jul		0.2		0.5	15.00	0.00
US	Baker Hughes U.S. Rig Count/Oil Rig Count	Sep 8		/		943/759	18.00	3.00
Upcoming Central Bank Interest Rate Announcements								
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%		
Australia, RBA		3-Oct	1.50%	1.50%		1.50%		
Europe ECB		26-Oct	-0.4%	-0.4%		-0.4%		
Canada, BoC		26-Oct				1.00%		

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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