

MARKETS TODAY

UK inflation thunder



Good morning

Yesterday's song title was Start me up by the Rolling Stones and it still seems an apt description with the risk-on tone continuing overnight. The S&P500 hit another record high (+0.3%), yields rose across the board (US Treasuries +3.7bps), while the US dollar held onto yesterday's gains. Outperforming was the Pound (+0.9%) on the back of stronger than expected inflation figures which has seen markets pull forward expectations for a Bank of England rate hike to May 2018 from Dec 2018.

In a quiet night for data risk sentiment remained positive. The UN Security Council voted early morning Sydney time to adopt new sanctions against North Korea (major items: a cap on oil imports; bans on the export of textiles; and preventing overseas North Korean workers from remitting funds). The market mostly shrugged off threats by North Korea to inflict the "greatest pain" on the US it has ever suffered, especially given China and Russia agreed to the sanctions.

In FX the biggest mover was the Pound. GBP/USD soared 0.9% to 1.3283 – its highest since September 2016. Stronger than expected inflation data supported with headline inflation spiking to 2.9% y/y, against expectations of 2.8% rise, and equalling the four-year high seen in May. Driving the price increase was clothing and petrol with the weaker pound since Brexit the main culprit. Gaining the markets attention was the core measure which was also stronger than expected at 2.7% y/y (2.5% expected). In response the market has pulled forward expectations of a Bank of England rate hike to May 2018 from Dec 2018, while the market's assessment of the terminal rate has also risen with one year OIS in five years time up 12.5bps to 1.06%. The move in market pricing now brings it more in line with Governor Carney's words in August that the first rate hike was not likely until August 2018.

Other currency pairs were more muted. The USD (DXY) held onto yesterday's gains to be unchanged at 91.912. With risk aversion abating the safe haven currencies fell: Yen (-0.8%) and Swiss Franc (-0.5%), while the Euro rose 0.1%. The Aussie was little moved overnight, down 0.1% to 0.8019.

Across the ditch, the Kiwi outperformed, up 0.5% to 0.7291 on the back of better polling for the incumbent National Party ahead of the election on 23 September. The most recent Newshub poll puts the National Party at 47.3% and Labour at 37.8% which would be just enough for the party to form government in their own right (61 seats in a 121 seat Parliament).

As for yields, the UK CPI data saw Gilts rise 9.0bps to 1.14%. That bled through to other major sovereign bond yields with German Bunds +6.5bps to 0.40% and US Treasuries +3.7bps to 2.17%. As for the Fed, abating concerns around Hurricane damage and reports that the debt ceiling up for negotiation in December could be

practically pushed into January due to emergency funding mechanisms has seen the OIS market pricing in a 47% chance of a December rate hike, up from Friday's 33% chance.

Also supporting yields were comments on US tax reform by Treasury Secretary Mnuchin. He reiterated his confidence in getting tax reform done by the end of the year: "we're going to get this done" and the administration is "super focused". However, he also noted that the corporate tax rate is unlikely to be cut to 15% from the current 35%: "I don't know if we will be able to achieve that, given the budget issues" "But we're going to get this down to a very competitive level".

Economic data was sparse but US releases continue to reinforce strength and hint towards an eventual lift in wages growth. The NFIB index rose to 105.3 from 105.2 and above the consensus of 104.8. Hiring plans remain elevated (18 v its average of 11 in 2016), while the % of firms reporting higher worker compensation rose to 28 (it averaged 24 in 2016). The number of job openings also rose to a new all-time high of 6,170k while the quit rate rose a tenth to 2.2%

Coming up

It's a quiet day coming up in terms of data. Domestically we get the W-MI Monthly Consumer Confidence index. While normally not market moving, analysts will be paying attention to see whether Consumer Confidence lifts towards Business Confidence. NAB's recent analysis into Consumer Confidence has found that elevated unemployment and low wages growth can almost fully explain the current subdued level of consumer confidence, while there also appears to be a non-mining/mining divide (email Tapas.Strickland@nab.com.au if you would like a copy of the report).

Internationally it is quiet. The UK has Unemployment figures (6.30pm AEST), Europe has Industrial Production (7.00pm AEST) while it is all quiet in the US. Germany also has a final version of August CPI which is expected to be unchanged at 1.8% y/y.

The UK Unemployment figures will be the most market sensitive, especially given yesterday's higher than expected inflation figures. The market looks for an unchanged unemployment rate at 4.4% and employment growth of 150k (3m/3m), up from 125k last month. The wages figures will also garner attention with the market looking for a 2.3% y/y pace, up from 2.1% in July.

Finally, the IEA releases its latest oil market report while UK Chancellor Hammond speaks at a dinner in London.

Overnight

On global stock markets, the S&P 500 was +0.34%. Bond markets saw US 10-years +3.66bp to 2.17%. In commodities, Brent crude oil +0.80% to \$54.27, gold+0.0% to \$1,332, iron ore +2.5% to \$76.37, steam

coal +0.2% to \$99.75, met. coal +3.0% to \$206.00. AUD is at 0.8021 and the range since yesterday 5pm Sydney time is 0.7998 to 0.8049.

Markets

AUD/USD - past week



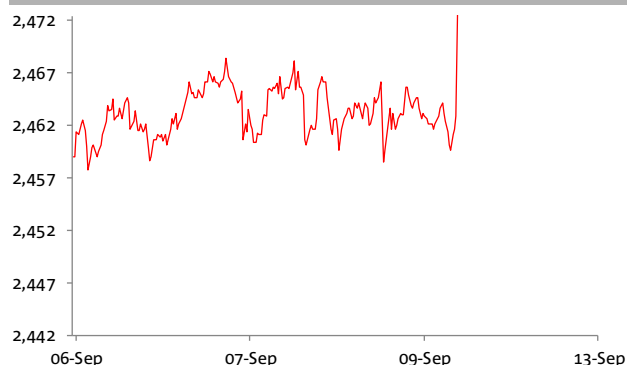
Source: Bloomberg.

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	0.8021	-0.1	0.7998	0.8049	HKD	7.8120	0.0
NZD	0.7286	0.4	0.7217	0.7321	CNY	6.5354	0.1
EUR	1.1964	0.1	1.1926	1.1978	SGD	1.3472	0.0
GBP	1.3280	0.9	1.3161	1.3298	IDR	13,200	0.3
JPY	110.14	0.7	109.24	110.25	THB	33.12	0.0
CAD	1.2180	0.6	1.2083	1.2190	KRW	1,129	-0.3
AUD/EUR	0.6704	-0.2	0.6693	0.6735	TWD	30.02	0.0
AUD/JPY	88.33	0.6	87.49	88.48	PHP	50.92	0.1
AUD/GBP	0.6039	-1.0	0.6030	0.6101	CHF	0.96	0.4
AUD/NZD	1.1007	-0.6	1.0979	1.1108	SEK	7.97	-0.5
AUD/CNH	5.2508	0.2	5.2311	5.2628			

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.32	1.57	2.12	USD 10	2.17	3.66
AUD	1.50	1.74	1.97	2.85	AUD 10	2.64	3.60
NZD	1.75	1.94	2.16	3.09	NZD 10	2.83	4.70
EUR	0.00	-0.33	-0.19	0.84	CAD 10	2.04	1.80
GBP	0.25	0.29	0.65	1.23	EUR 10	0.40	6.50
JPY	-0.06	-0.03	0.03	0.23	GBP 10	1.14	9.00
CAD	1.00	1.46	1.90	2.32	JPY 10	0.02	1.00

Equities

Major Indices			
	Last	% day	% y/y
Dow	22,119	0.28	20.7
S&P 500	2,496	0.34	15.6
Nasdaq	6,454	0.34	23.8
VIX	10.58	-1.40	-30.2
FTSE	7,401	-0.2	10.4
DAX	12,525	0.4	20.1
CAC 40	5,209	0.6	17.3
Nikkei	19,777	1.2	18.2
Shanghai	3,379	0.1	11.8
Hang Seng	27,972	0.1	20.5
ASX 200	5,746	0.6	10.3

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.22	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.33	-10.00
3/10 sprd	0.47	13.00
SPI	5770.0	-65.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	54.27	0.8
Oil (WTI)	48.37	0.6
Oil (Tapis)	53.95	0.1
Gold	1332.20	0.0
CRB	181.41	-0.1
GS Metals	365.2	-0.1
Aluminium	2106.5	0.5
Copper	6627.3	-1.3
Nickel	11913.0	1.8
Zinc	3057.8	-0.8
Ch. steel	3955.0	1.4
Iron ore	76.4	2.5
St. Coal	99.8	0.2
Met.coal	206.0	3.0
Wheat Chic.	442.0	1.7
Sugar	14.0	-1.9
Cotton	70.7	-4.1
Coffee	135.1	2.4

Prob. of 25bps hike/cut at next meeting

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

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

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