

# MARKETS TODAY

## Running on Faith



### Good morning

While equity markets had a day of consolidation, the USD and US Treasury yields had a decent move higher aided by increasing hopes over US Tax reform. Like Eric Clapton would say the market is running on faith, nothing concrete has been announced, but there is a growing feeling that something will be done amid Trump's bipartisan approach along with the need for Republican to score some runs ahead of next year's election. Meanwhile quietly in the background, commodities had another mixed day, oil is up, but copper and nickel are down.

The USD range traded early in the overnight session, but then tweets and news reports over a possible Republican announcement on US Tax reform lifted the USD across the board.

Kevin Brady chairman of the House Ways and Means Committee, told the chamber's Republicans that White House leaders and congressional leaders "will release a consensus document with the core elements of big, bold tax reform" during the last week of September. White House Budget Director Mick Mulvaney said the target date is September 25.

The news lifted USD indices (BBDXY +0.40% and DXY +0.61%) and saw the big dollar outperform across the board. The CAD managed to only lose 0.05% thanks to an uptick in oil prices (see more below), but all other G10 currencies fell between 0.4% and 0.90%.

After trading to an overnight high of 0.8044, the AUD drifted down to an intraday low of 0.7971 and now it has settled around 0.7985. The overnight dip in the currency tested the upward trend established since mid-May and now the AUD is sitting on the trend line. AU Labour force today and US CPI tonight are important data releases (see coming section below) and could have an influence on the near term direction of the currency. US CPI numbers have printed below expectations for 5 months in a row and another soft print tonight would raise serious question over the possibility of a Fed rate hike in December.

GBP fell 0.65% to 1.3209 despite the fact that UK unemployment (ILO measure) dropped to another new all-time low at 4.3%. Earnings for July were lower than forecast at +2.1%/y (vs +2.2% f/c) and unchanged vs June. This after yesterday's spike in (Aug) CPI to 2.9%, meaning real incomes are lower still. The lack of real income growth muddies the waters for the BoE which meets tonight (see more below).

NZD is down 0.78% to 0.7241, weighed down by broad USD outperformance and as our NZ strategist notes there is nothing more to say other than the currency seems to be well contained within a range of around 0.7150-0.73. The Euro also suffered the same faith, dropping almost one big figure from 1.1980 to 1.1885. At the margin

Euro's underperformance is also explained by the small decline in 10y Bunds, 1bps to 0.40% against a the rise in 10y UST yields to 2.188%, from 2.155%

SEK was the big underperformer overnight (-0.93%) given back all of its CPI gains after the final 2Q GDP reading showed that Sweden grew 1.3% q/q versus the preliminary figure 1.7%.

Looking at commodities oil prices are up between 1.6% and 2.3% aided by reports from the IEA and OPEC forecasting stronger demand. Meanwhile copper fell 1.7% to \$2.9835, the lowest in more than three weeks and Nickel had another bad day, dropping 5.3%. Gold ended 0.5% lower and iron ore was essentially unchanged at \$76.6.

### Coming up

We have a busy day today with important items in the domestic and offshore calendar. RBA Deputy Governor Debelle speaks at 9:15 this morning ahead of the release of Australia's labour force report and then just before midday China releases its activity indicators for August. This evening the BoE makes its policy rate announcement and later on the US releases its CPI figures for August as well as the usual weekly jobless claims.

RBA Deputy Governor Debelle speaks at a King and Mallesons Workshop and at this stage there's no speech title available on the RBA website. That said our economists note that with the RBA Board meeting now out of the way, Debelle does have a bit of freedom to offer his view on the economy, monetary policy and the AUD.

As for the labour force report, NAB (and the consensus) looks for another solid report with a steady unemployment rate of 5.6% and around 20,000 new jobs created. This month's release also includes the latest quarterly reading on underemployment. The latter will be just as important as the headline numbers as RBA officials, including Harper yesterday, have noted the lack of improvement in the under-employment rate as a concern.

Also this morning, China releases its August readings for Fixed Asset Investment, retail sales and Industrial Production. We think the data will likely simply confirm the picture of mildly slowing growth.

Looking at the Bank of England policy rate decision, the consensus view is for an unchanged outcome, however recent media stories suggest the Bank is likely to warn investors, businesses and households that they underappreciate how soon rates may rise in the UK. That said, after yesterday's stronger than expected CPI reading, the market has brought forward expectations of a BoE rate hike to May 2018 from December 2018.

The 5% uptick in gasoline prices after hurricane Harvey suggests there is upside risk to the 0.3% rise in US headline CPI expected by consensus (1.8%yoy exp. vs 1.7% prev.). After five soft prints the core reading is expected to rebound to 0.2%mom (1.6% yoy vs 1.7% prev.). If there is no rebound in the core reading, however, the market is likely to further question the likelihood of a December rate hike (currently priced at 32% probability).

Lastly the US weekly jobless claims are likely to be a bit of a lottery. The market is looking for an essentially unchanged 300k print, but after Hurricane Katrina in 2005, jobless claims jumped by more than 100k. So even if we get an unchanged number this week, a big number is due to show up in the coming weeks.

## Overnight

On global stock markets, the S&P 500 was -0.03%. Bond markets saw US 10-years +2.63bp to 2.19%. In commodities, Brent crude oil +1.58% to \$55.13, gold-0.5% to \$1,322, iron ore +0.2% to \$76.56, steam coal +0.6% to \$100.30, met. coal +0.0% to \$206.00. AUD is at 0.7981 and the range since yesterday 5pm Sydney time is 0.7971 to 0.8044.

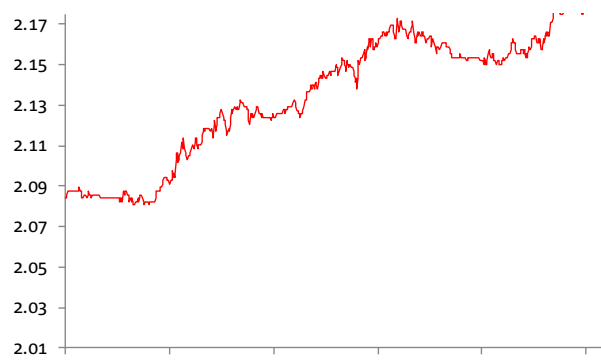
# Markets

AUD/USD - past week



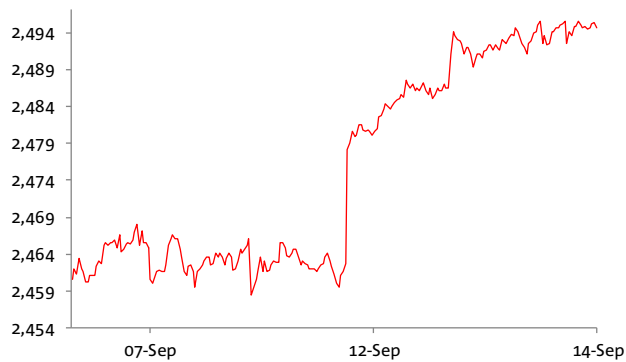
Source: Bloomberg.

US 10yr - past week



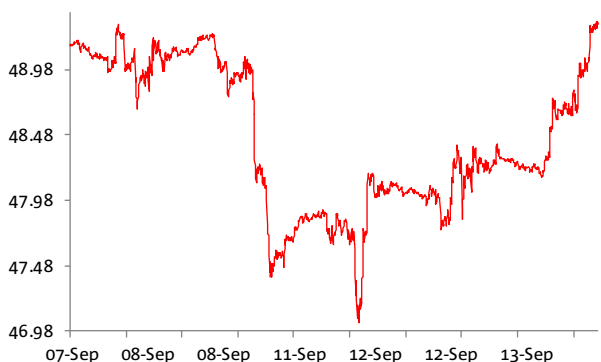
Source: Bloomberg.

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	0.7981	-0.5	0.7971	0.8044	HKD	7.8129 0.0
NZD	0.7231	-0.8	0.7220	0.7304	CNY	6.5415 0.1
EUR	1.1881	-0.7	1.1873	1.1995	SGD	1.3510 0.3
GBP	1.3196	-0.7	1.3185	1.3329	IDR	13,201 0.0
JPY	110.62	0.4	109.91	110.69	THB	33.14 0.0
CAD	1.2192	0.0	1.2131	1.2220	KRW	1,128 0.0
AUD/EUR	0.6718	0.3	0.6691	0.6721	TWD	30.06 0.1
AUD/JPY	88.29	-0.1	88.09	88.56	PHP	50.98 0.1
AUD/GBP	0.6048	0.2	0.6024	0.6067	CHF	0.96 0.5
AUD/NZD	1.1037	0.3	1.0996	1.1047	SEK	8.05 0.9
AUD/CNH	5.2228	-0.5	5.2167	5.2628		

## Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.32	1.59	2.15	USD 10	2.19	2.63
AUD	1.50	1.73	1.97	2.86	AUD 10	2.67	3.00 0.48
NZD	1.75	1.94	2.17	3.10	NZD 10	2.84	4.70 0.65
EUR	0.00	-0.33	-0.19	0.84	CAD 10	2.07	2.40 -0.13
GBP	0.25	0.29	0.64	1.23	EUR 10	0.40	0.00 -1.79
JPY	-0.06	-0.03	0.03	0.23	GBP 10	1.15	1.00 -1.05
CAD	1.00	1.46	1.92	2.34	JPY 10	0.03	1.40 -2.16

## Equities

Major Indices			
	Last	% day	% y/y
Dow	22,137	0.08	22.5
S&P 500	2,496	-0.03	17.3
Nasdaq	6,452	-0.04	25.2
VIX	10.42	-1.51	-41.6
FTSE	7,380	-0.3	10.7
DAX	12,554	0.2	20.9
CAC 40	5,218	0.2	18.9
Nikkei	19,866	0.5	19.6
Shanghai	3,384	0.1	12.7
Hang Seng	27,894	-0.3	20.3
ASX 200	5,744	0.0	9.9

## Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.23	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.32	-4.80
3/10 sprd	0.48	7.80
SPI	5741.0	4.0

\*Change in bps

## Commodities\*

	Last	% day
Oil (Brent)	55.13	1.6
Oil (WTI)	49.32	2.3
Oil (Tapis)	55.29	2.5
Gold	1322.00	-0.5
CRB	182.88	0.8
GS Metals	365.2	0.0
Aluminium	2080.0	-1.3
Copper	6513.8	-1.7
Nickel	11278.0	-5.3
Zinc	3024.3	-1.1
Ch. steel	3885.0	-1.0
Iron ore	76.6	0.2
St. Coal	100.3	0.6
Met.coal	206.0	0.0
Wheat Chic.	443.3	0.3
Sugar	14.3	2.2
Cotton	70.0	-1.0
Coffee	137.9	2.1
<b>Prob. of 25bps hike/cut at next meeting</b>		
	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
<b>Thursday, 14 September 2017</b>								
UK	RICS House Price Balance	Aug		0		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	20/5.6		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		0.1/1.4		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		0.4		0.2	13.30	22.30
US	Initial Jobless Claims	Sep 9		300		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
<b>Friday, 15 September 2017</b>								
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 Noyu Speech in Finland						7.00	16.00
EC	Trade Balance SA	Jul		20.3		22.3	10.00	19.00
EC	Labour Costs YoY	2Q				1.5	10.00	19.00
US	Empire Manufacturing	Sep		18		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		0.1/0.3		0.2/-0.1	14.15	23.15
US	U. of Mich. Sentiment/5-10Y Inflation expectations	Sep P		95/		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 15		/		944/756	18.00	3.00
<b>Monday, 18 September 2017</b>								
CH	Foreign Direct Investment YoY CNY	Aug				2.3	9-18 Sep release	
NZ	Performance Services Index	Aug				56.0	23.30	8.30
UK	Rightmove House Prices MoM/YoY	Sep		/		-0.9/3.1	0.10	9.10
CH	Property Prices	Aug						
AU	New Motor Vehicle Sales MoM/YoY	Aug		/		-2.0/1.8	2.30	11.30
EC	CPI MoM/YoY	Aug		/		-0.5/1.3	10.00	19.00
EC	CPI Core YoY	Aug F				1.2	10.00	19.00
CA	Int'l Securities Transactions	Jul				-0.9	13.30	22.30
CH	FX Net Settlement - Clients CNY	Aug				-42.8		
CA	Bloomberg Nanos Confidence	Sep 15				58.4	15.00	0.00
US	NAHB Housing Market Index	Sep		67		68.0	15.00	0.00
UK	BOE Governor Carney Speaks at IMF in Washington, DC						16.00	1.00
US	Total Net TIC Flows/Net Long-term TIC Flows	Jul		/		7.7/34.4	21.00	6.00
<b>Tuesday, 19 September 2017</b>								
NZ	Westpac Consumer Confidence	3Q				113.4	23.00	8.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Sep 17				109.8	0.30	9.30
AU	House Price Index QoQ	2Q				2.2	2.30	11.30
AU	House Price Index YoY	2Q				10.2	2.30	11.30
AU	RBA Sept. Rate Meeting Minutes						2.30	11.30
EC	ECB Current Account SA	Jul				21.2	9.00	18.00
EC	Construction Output MoM/YoY	Jul		/		-0.5/3.4	10.00	19.00
GE	ZEW Survey Current Situation/Expectations	Sep		/		86.7/10.0	10.00	19.00
EC	ZEW Survey Expectations	Sep				29.3	10.00	19.00
CA	Manufacturing Sales MoM	Jul				-1.8	13.30	22.30
US	Housing Starts #/MoM	Aug		1180/2.2		1155.0/-4.8	13.30	22.30
US	Building Permits #/MoM	Aug		1210/-1.6		1223.0/-4.1	13.30	22.30
US	Current Account Balance	2Q		-112.42		-116.8	13.30	22.30
US	Import Price Index MoM/YoY	Aug		0.3/		0.1/1.5	13.30	22.30
US	Export Price Index MoM/YoY	Jul		0.2/		0.4/0.8	13.30	22.30
<b>Wednesday, 20 September 2017</b>								
NZ	BoP Current Account Balance NZD/% GDP Yr	2Q		/		0.2/-3.1	23.45	8.45
JN	Trade Balance Adjusted	Aug				337.4	0.50	9.50
JN	Exports/Imports YoY	Aug		/		13.4/16.3	0.50	9.50
AU	Westpac Leading Index MoM	Aug				0.1	1.30	10.30
AU	Skilled Vacancies MoM	Aug				0.8	2.00	11.00
GE	PPI MoM/YoY	Aug		/		0.2/2.3	7.00	16.00
JN	Convenience Store Sales YoY	Aug				0.0	8.00	17.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Aug		0.1/1.4		0.5/1.5	9.30	18.30
UK	Retail Sales Inc Auto Fuel MoM/YoY	Aug		0.2/1.2		0.3/1.3	9.30	18.30
US	MBA Mortgage Applications	Sep 8				3.3	12.00	21.00
AU	RBA's Ellis Gives Speech in Sydney							
US	Existing Home Sales #/MoM	Aug		5.48/0.74		5.4/-1.3	15.00	0.00
US	FOMC Rate Decision (Lower/Upper Bound)	Sep 20		1/1.25		1.0/1.25	19.00	4.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
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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