

# MARKETS TODAY

*That's the way wind-down goes*



## Good morning

The FOMC this morning announced as expected the formal start to winding down its balance sheet to commence next month. It left its Fed funds rate unchanged at 1-1.25%, also as entirely expected. While this starts another chapter in what's been a momentous decade since the GFC, the market was also – perhaps more – attuned to the FOMC forecasts for the Fed funds rate and the economy that were not materially altered for this year and next. Market reaction has seen a relief rally in the USD and a modest lift in Treasury yields.

Come next month, as the Fed's holdings of Treasury and mortgage-backed securities mature, the Fed will allow these to run off their balance sheet, but up to stated monthly caps. As they communicated in June, those caps start for the first three months at \$6bn/\$4bn for Treasuries/MBS, then the caps rise each quarter until they reach \$30bn/\$20bn per month in a year's time. There's no active selling of securities per se, but a passive run-off of the Fed's holdings. Yellen noted that the hurdle to the Fed changing tack with this program is high. There would have to be a "material" or large change, the Fed resorting more likely to use rates.

As for the Fed's dot point forecasts of its Fed funds rate, the median still has one more for this year taking it to the 1.25-1.50% target range (one bold member forecasts there will be two!) and three more next year that would take Fed funds to 2.00-2.25%. That was the expectation back in June and the big dollar liked that. The median forecast at the end of 2018 was left unchanged at 2.125%, while it was lowered 25 bps for 2019 with one more hike expected after that in 2020. The longer term projection for the Fed funds was revised down from 3.00% to 2.75%, FOMC members down-scaling their expectations for what the neutral real Fed funds rate will be over the longer term. It's currently believed to be around zero in real terms which with a 1½% core PCE inflation rate would be a nominal rate of 1½%.

That brings into play where the Fed sees growth and inflation over the next year or two, driving those rate views. Growth for this year was shaved 0.2% to 2.4%, then running close to 2% for next two years. Unemployment was lowered by 0.1%, but so was inflation for next year to 1.9% after being expected to land at the end of the year at 1.5% (-0.2% cf June's forecast).

In her press conference, Yellen spoke about how recent inflation readings had been something of a "mystery". She said the Committee does not fully understand why it's remained so low, how much is structural, how much is transitory. The data will tell no doubt. She went on to remind the press conference that monetary policy acts with a lag and that wage and price inflation is still expected to rise. They also expect that over time, there

will likely be some increase in the neutral rate requiring additional rate rises, as in their forecasts.

The USD was losing some ground in the APAC session and overnight, recovering some lost territory after this morning's announcements. Since the Tokyo close, the DXY is up a net 0.66%, Kiwi and Aussie outperforming, the former getting a boost after the Colmar-Brunton poll suggested the Nationals had regained the lead in the polls for Saturday's election. The commodity complex was mixed to higher overnight, oil getting a boost from the news that gasoline stockpiles in the US are at 22m lows. Yellen also said that the Fed would look through the data impacts from the hurricanes and that they were not expected to affect longer term economic performance. The AUD is at 0.803 after testing 0.81 pre-FOMC.

In other news overnight, UK Retail Sales in August were much stronger than expected, up 1.0% in August (+0.1/0.2E) supporting sterling before the FOMC.

## Coming up

There are more key data and events over the next 24 hours. First is NZ's Q2 GDP, our BNZ colleagues (and the market) looking for q/q growth of 0.8% after 0.5% in Q1, annual growth steady at 2.5%. Yesterday's balance of payments report suggested some upside risk from trade. Then RBA Governor Phil Lowe is speaking in Perth at lunchtime at 13.10 Perth time. His speech is to an American Chamber of Commerce in Australia event, titled "The Next Chapter". This could be a discourse on the further progression of the Australian and/or global economies, the global and domestic interest rate cycle, on currencies, or the WA/Perth story or even the US/Australia connection and growth outlooks.

Also today is the BoJ, recent outcomes mostly rather pedestrian ones for the market. But remember, the BoJ is hoping the Yen (the USD) will aid their effort to inject some price reflation into the economy while "Yield Curve Control" is aimed at restricting yields to about zero. It remains to be seen whether Fed policy will be a hindrance or a help, US inflation readings doubly important. Governor Kuroda could be questioned on the Fed and BoJ implications at his press conference (16.30 AEDT). And there are two new MPC members too. Dissent?: possible, but unlikely.

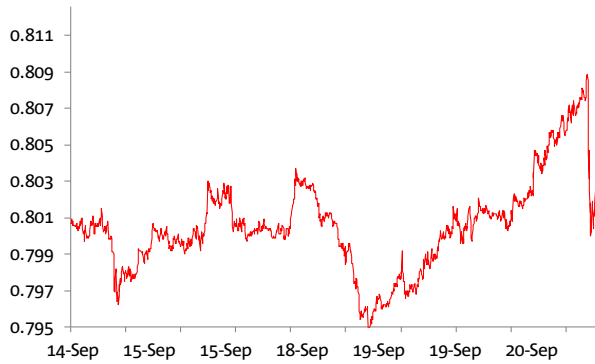
Draghi is speaking tonight.

## Overnight

On global stock markets, the S&P 500 was +0.06%. Bond markets saw US 10-years +2.30bp to 2.27%. In commodities, Brent crude oil +1.92% to \$56.2, gold-0.5% to \$1,301, iron ore +1.2% to \$69.65, steam coal -0.3% to \$97.95, met. coal +0.2% to \$206.50. AUD is at 0.8029 and the range since yesterday 5pm Sydney time is 0.7986 to 0.8102.

# Markets

AUD/USD - past week



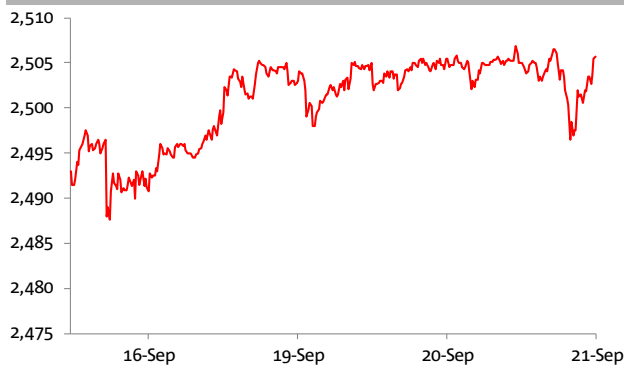
Source: Bloomberg.

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	0.8029	0.4	0.7986	0.8102	HKD	7.8007 0.0
NZD	0.7357	0.8	0.7296	0.7433	CNY	6.5749 -0.1
EUR	1.1896	-0.8	1.1862	1.2033	SGD	1.3489 0.0
GBP	1.3494	0.0	1.3453	1.3657	IDR	13,282 0.0
JPY	112.25	0.6	111.12	112.53	THB	33.12 0.1
CAD	1.2329	0.4	1.2200	1.2390	KRW	1,128 -0.3
AUD/EUR	0.6749	1.2	0.6669	0.6756	TWD	30.14 0.0
AUD/JPY	90.12	1.0	88.94	90.18	PHP	50.99 0.0
AUD/GBP	0.5950	0.4	0.5910	0.5957	CHF	0.97 0.7
AUD/NZD	1.0913	-0.4	1.0891	1.0978	SEK	8.01 0.7
AUD/CNH	5.3029	0.7	5.2623	5.2958		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.33	1.69	2.23	USD 10	2.27	2.30
AUD	1.50	1.71	2.11	3.04	AUD 10	2.83	1.50 0.56
NZD	1.75	1.94	2.27	3.30	NZD 10	3.04	2.40 0.78
EUR	0.00	-0.33	-0.18	0.87	CAD 10	2.10	1.20 -0.16
GBP	0.25	0.33	0.80	1.39	EUR 10	0.44	-0.90 -1.82
JPY	-0.06	-0.03	0.03	0.24	GBP 10	1.34	1.30 -0.93
CAD	1.00	1.44	1.93	2.37	JPY 10	0.03	-1.00 -2.24

Equities

Major Indices			
	Last	% day	% y/y
Dow	22,413	0.19	23.6
S&P 500	2,508	0.06	17.2
Nasdaq	6,456	-0.08	23.2
VIX	9.78	-3.93	-38.6
FTSE	7,272	0.0	6.5
DAX	12,569	0.1	20.9
CAC 40	5,242	0.1	19.4
Nikkei	20,310	0.1	20.8
Shanghai	3,366	0.3	11.2
Hang Seng	28,128	0.3	18.8
ASX 200	5,709	-0.1	6.9

Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.18	-3.00
3 Yr bond	97.8	3.00
10 Yr bond	97.10	-6.00
3/10 sprd	0.70	9.00
SPI	5699.0	3.0

\*Change in bps

Commodities\*

	Last	% day
Oil (Brent)	56.20	1.9
Oil (WTI)	50.73	1.7
Oil (Tapis)	56.00	-0.2
Gold	1300.60	-0.5
CRB	184.63	1.1
GS Metals	366.1	1.1
Aluminium	2157.3	2.5
Copper	6500.0	-0.1
Nickel	11328.0	2.2
Zinc	3135.3	0.8
Ch. steel	3755.0	-0.9
Iron ore	69.7	1.2
St. Coal	98.0	-0.3
Met.coal	206.5	0.2
Wheat Chic.	469.8	1.2
Sugar	14.1	2.3
Cotton	70.0	0.1
Coffee	136.6	0.9

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
<b>Thursday, 21 September 2017</b>								
NZ	GDP SA QoQ/YoY	2Q	/	0.8/2.5		0.5/2.5	23.45	8.45
NZ	Net Migration SA	Aug				5800	23.45	8.45
AU	RBA FX Transactions Market	Aug				984.0	2.30	11.30
AU	RBA Bulletin						2.30	11.30
NZ	Credit Card Spending MoM/YoY	Aug		/		0.9/7.2	4.00	13.00
JN	BOJ Policy Balance Rate/10 Yr yield target	Sep 21		-0.1/0		-0.1/0.0		
JN	All Industry Activity Index MoM	Jul		-0.1		0.4	5.30	14.30
AU	RBA Governor Lowe speaks: "The Next Chapter" at American Chamber of Commerce in Australia Business Briefing, Perth						6.10	15.10
JN	BOJ Kuroda speaks at press conference after MPM						7.30	16.30
EC	ECB's "Understanding Inflation" conference						7.55	16.55
EC	ECB's Frank Smets speaks in Frankfurt						9.00	18.00
EC	ECB Publishes Economic Bulletin						9.30	18.30
UK	UK Finance Loans for Housing	Aug		41700		41587.0	9.30	18.30
UK	Public Sector Net Borrowing/PSNB ex Banking Groups	Aug		6.35		-0.8	9.30	18.30
EC	ECB Executive Board member Praet chairs a panel in Frankfurt						10.30	19.30
CA	Wholesale Trade Sales MoM	Jul		-0.7		-0.5	13.30	22.30
US	Initial Jobless Claims	Sep 16		300		284	13.30	22.30
US	Philadelphia Fed Business Outlook	Sep		17.1		18.9	13.30	22.30
US	FHFA House Price Index MoM	Jul		0.4		0.1	14.00	23.00
EC	ECB President Mario Draghi speaks in Frankfurt						14.30	23.30
EC	Consumer Confidence	Sep A		-1.5		-1.5	15.00	0.00
US	Leading Index	Aug		0.2		0.3	15.00	0.00
US	Household Change in Net Worth	2Q				2347.0	17.00	2.00
<b>Friday, 22 September 2017</b>								
GE	Markit/BME Germany Manufacturing PMI	Sep P		59		59.3	8.30	17.30
GE	Markit Germany Services/Composite PMIs	Sep P		53.7/55.7		53.5/55.8	8.30	17.30
EC	Markit Eurozone Manufacturing PMI	Sep P		57.2		57.4	9.00	18.00
EC	Markit Eurozone Services/Composite PMIs	Sep P		54.8/55.6		54.7/55.7	9.00	18.00
EC	OPEC Joint Ministerial Monitoring Committee meets in Vienna to review production cuts							
UK	CBI Trends Total Orders/Selling Prices	Sep		13/		13.0/19.0	11.00	20.00
CA	CPI NSA MoM/YoY	Aug		0.2/1.5		0.0/1.2	13.30	22.30
CA	Retail Sales MoM	Jul		0.2		0.1	13.30	22.30
US	Fed's George Speaks at Conference on Outlook for Oil						14.30	23.30
US	Markit US Manufacturing PMI	Sep P		53		52.8	14.45	23.45
US	Markit US Services/Composite PMIs	Sep P		55.7/		56.0/55.3	14.45	23.45
US	Baker Hughes U.S. Rig/Oil Rig Count	Sep 22		931/747		936.0/749.0	18.00	3.00
<b>Saturday, 23 September 2017</b>								
NZ	General Election							
<b>Sunday, 24 September 2017</b>								
GE	General Election							
<b>Monday, 25 September 2017</b>								
JN	Nikkei Japan PMI Mfg	Sep P				52.2	1.30	10.30
JN	Leading Index CI	Jul F				105.0	6.00	15.00
JN	BOJ Kuroda make a speech in Osaka						6.30	15.30
GE	IFO Business Climate	Sep				115.9	9.00	18.00
GE	IFO Current Assessment/Expectations	Sep		/		124.6/107.9	9.00	18.00
US	Fed's Dudley Speaks on Workforce Development						13.30	22.30
US	Chicago Fed Nat Activity Index	Aug				0.0	13.30	22.30
CH	Conference Board Leading Economic Index	Aug					14.00	23.00
CA	Bloomberg Nanos Confidence	Sep 22				58.4	15.00	0.00
US	Dallas Fed Manf. Activity	Sep		13		17.0	15.30	0.30
US	Fed's Evans Speaks on Economy and Monetary Policy						17.40	2.40
<b>Tuesday, 26 September 2017</b>								
AU	RBA's Bullock Participates in Panel in Sydney						22.15	7.15
NZ	Trade Balance NZD	Aug				85.0	22.45	7.45
US	Fed's Kashkari Speaks at Townhall in Grand Forks, North Dakota						23.30	8.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Sep 24				114.8	0.30	9.30
JN	BOJ Minutes of July 19-20 Meeting						0.50	9.50
JN	PPI Services YoY	Aug				0.6	0.50	9.50
NZ	ANZ Activity Outlook/Business Confidence	Sep		/		38.2/18.3	1.00	10.00
US	S&P CoreLogic CS 20-City MoM SA/YoY	Jul		/		0.1/5.7	14.00	23.00
US	Fed's Mester Moderates Session NABE						14.30	23.30
US	New Home Sales, #/MoM	Aug		600/5.1		571.0/-9.4	15.00	0.00
US	Conf. Board Consumer Confidence	Sep		119.25		122.9	15.00	0.00
US	Richmond Fed Manufact. Index	Sep		13		14.0	15.00	0.00
US	Fed Chair Janet Yellen Delivers Keynote at NABE Conference						17.00	2.00
US	Fed's Bostic Speaks to the Atlanta Press Club						17.30	2.30
<b>Wednesday, 27 September 2017</b>								
CH	Industrial Profits YoY	Aug				16.5	2.30	11.30
JN	Small Business Confidence	Sep				49.0	6.00	15.00
JN	Machine Tool Orders YoY	Aug F				36.3	7.00	16.00
UK	CBI Retailing/Total Dist Reported Sales	Sep		/		-10.0/2.0	11.00	20.00
US	Durable Goods Orders/Core Orders	Aug P		0.9/0.4		-6.8/1.0	13.30	22.30
US	Pending Home Sales MoM/YoY	Aug		-0.5/		-0.8/-0.5	15.00	0.00
CA	Speech - Stephen S. Poloz, Governor						16.45	1.45
CA	Press Conference -- Bank of Canada Governor Stephen Poloz						17.55	2.55
US	Fed's Bullard Speaks on Economy and Monetary Policy						18.30	3.30
<b>Upcoming Central Bank Interest Rate Announcements</b>								
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%		
US Federal Reserve		2-Nov	1.00-1.25%	1.00-1.25%		1.00-1.25%		
UK BOE		2-Nov				0.25%		

GMT: Greenwich Mean Time; AEST: Australian Eastern Standard Time

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