

MARKETS TODAY

False Alarm?



Good morning

A mild risk-off theme quickly emerged around midnight following North Korea's statement that the US has effectively "declared war" and that North Korea has every right to "make countermeasures". While the White House has called both statements "absurd", this does represent a significant escalation in rhetoric and raises the risk of a tactical misstep. Safe havens were consequently bid, with increases in the Yen (+0.3%) and Swiss Franc (+0.2%), Gold rose (+1.2%), Equities fell (S&P500 -0.2%) and Treasury yields were lower (-3.0bps).

How worried should we be? It is clear that over the past few weeks both sides have been upping their rhetoric. Stratfor who has more expertise than most in this area points to the North Korean threat being equivalent to recent US threats – the US has discussed shooting down North Korea's next missile test and North Korea has responded in kind with the threat of possibly shooting down US bombers. Stratfor concludes that the probability of intentional war is still relatively low, but the potential for an accident or miscalculation is rising (see [Stratfor worldview](#) for more).

Now to markets! There was US dollar strength overnight with the DXY up 0.5%. Much of that strength appears to have come from weakness in the Euro (-0.9%) with the Euro under pressure as the market digested the results of the German election. Also contributing to US dollar strength was expectations of US tax reform, with the press suggesting tax reform details could be released on Wednesday.

As for the German elections, while Merkel's conservative bloc gained the most votes at 33%, she needs to negotiate to form government. The two likely partners are a "Jamaican" coalition with the FDP and the Greens who are likely to insist on lower immigration and argue for a less of a push towards Eurozone integration; the alternative is to form a coalition with the Social Democrats though they have not expressed a willingness to do so to date. The other clear winner of the election was the rise of the far right with the Alternative for Germany (AfD) winning 12.6% of the vote, a 7.9% point increase from the last election in 2013. It seems Germany is not immune from global trends and a breakdown of voters reveals half of the support for the AfD came from people who normally do not vote in elections.

It's no surprise then to see the Euro down 0.9% to \$1.1847. Also weighing on the Euro was a softer IFO Business Confidence (107.4 vs 108.0 expected), while remarks by Draghi to the European Parliament did not yield much of a reaction. There is good support for the Euro at this level, though a break below \$1.18 could be possible if US dollar strength continues on the back of a possible US tax reform plan. In that case, my colleague Gavin Friend suggests the next range being 1.1675-1.1775.

Tapas Strickland, Economist, Markets

Other currency pairs showed only modest slippage against the USD: Aussie (-0.3%); Canadian Dollar (-0.3%). The Yen was bid on safe haven concerns (+0.3%), with Japanese markets little affected by the decision for a snap election (it was mooted some weeks ago) and to PM's Abe's economic stimulus package (worth ¥2trillion Yen or around US\$18bn).

German Bund yields also fell, down 4.7bps to 0.40%. Some of the fall does relate to risk aversion following the North Korean statements overnight and US Treasury yields are also down similarly by 3.0 bps to 2.22%.

As for Fed Talk, Evans (voter) and Dudley (voter) hit the wires overnight with slightly contrasting views on inflation. Dudley reinforced that weak inflation over the past six months reflected temporary factors that will fade and thus expects "inflation will rise and stabilise around the Fed's 2% objective". Evans in contrast wants to see "clear signs of building wage and price pressures before taking the next step in removing accommodation" and that a "gradual and cautious approach" is appropriate. It's clear that the next few months of CPI prints will be crucial in determining whether the FOMC sees the recent low inflation as transitory, or a more permanent feature.

The other big mover overnight was the oil price. WTI rose 2.9% to \$52.13 while Brent was stronger (+4.2% to \$59.24). The move higher reflects political tensions between Turkey and the Iraqi area of Kurdistan which held an independence referendum yesterday – counting has begun but no results are available as yet. Turkey also has a sizeable Kurdish population and the fear is that if Kurdistan succeeds it could lead to a fragmentation of Turkey. It's no surprise then to see Turkey threatening "to close the valves" on Kurdistan's oil exports.

Coming up

Domestically it is quiet with only second-tier Weekly Consumer Confidence which rose last week to 114.8 – around its long-run average. There is also one RBA item, with the RBA's Bullock who heads up financial stability speaking at a panel on "where to from here?".

Internationally, the clear highlight will be US Fed Chair Yellen (2.45am AEST) who is speaking on "Inflation, Uncertainty, and Monetary Policy" at the NABE conference.

Outside of this, it is very quiet. NZ has the ANZ Business Outlook (10.00am AEST) and the US has the Conference Board Measure of Consumer Confidence (12.00am AEST).

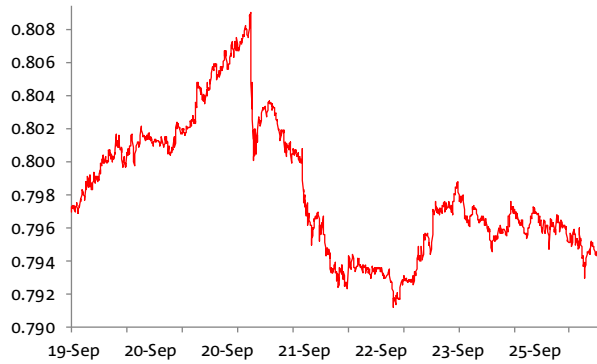
Overnight

On global stock markets, the S&P 500 was -0.22%. Bond markets saw US 10-years -3.01bp to 2.22%. In commodities, Brent crude oil +4.19% to \$59.24, gold +1.2% to \$1,309, iron ore -0.8% to \$63.06, steam coal -0.3% to \$96.95, met. coal +0.1% to \$204.75. AUD is at

0.7937 and the range since yesterday 5pm Sydney time is 0.7926 to 0.7974.

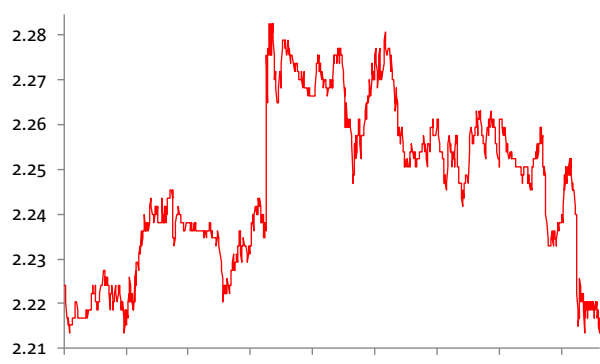
Markets

AUD/USD - past week



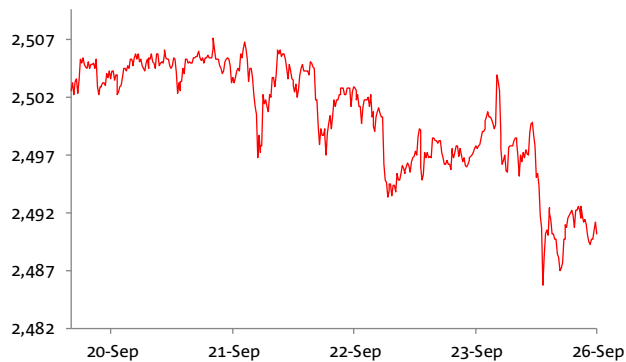
Source: Bloomberg.

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	0.7937	-0.3	0.7926	0.7974	HKD	7.8142	0.1
NZD	0.7267	-0.9	0.7252	0.7344	CNY	6.6215	0.5
EUR	1.1847	-0.9	1.1832	1.1937	SGD	1.3508	0.4
GBP	1.3462	-0.3	1.3431	1.3571	IDR	13,325	0.1
JPY	111.70	-0.3	111.48	112.53	THB	33.10	0.0
CAD	1.2371	0.3	1.2313	1.2385	KRW	1,132	-0.4
AUD/EUR	0.6699	0.6	0.6660	0.6714	TWD	30.19	0.0
AUD/JPY	88.66	-0.6	88.37	89.68	PHP	50.68	0.0
AUD/GBP	0.5895	0.0	0.5868	0.5908	CHF	0.97	-0.2
AUD/NZD	1.0922	0.6	1.0833	1.0972	SEK	8.04	0.8
AUD/CNH	5.2646	0.2	5.2276	5.2688			

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.33	1.69	2.19	USD 10	2.22	-3.01
AUD	1.50	1.71	2.02	2.93	AUD 10	2.80	0.60
NZD	1.75	1.96	2.20	3.19	NZD 10	2.95	-4.80
EUR	0.00	-0.33	-0.18	0.85	CAD 10	2.09	-1.80
GBP	0.25	0.33	0.79	1.37	EUR 10	0.40	-4.70
JPY	-0.05	-0.03	0.03	0.24	GBP 10	1.33	-2.10
CAD	1.00	1.43	1.96	2.37	JPY 10	0.03	-0.60

Equities

Major Indices			
	Last	% day	% y/y
Dow	22,296	-0.24	22.1
S&P 500	2,497	-0.22	15.3
Nasdaq	6,371	-0.88	20.1
VIX	10.21	6.47	-16.9
FTSE	7,301	-0.1	5.7
DAX	12,595	0.0	18.5
CAC 40	5,267	-0.3	17.3
Nikkei	20,398	0.5	23.3
Shanghai	3,342	-0.3	12.1
Hang Seng	27,500	-1.4	17.9
ASX 200	5,684	0.0	4.6

Overnight Futures

Australia		
	Last	Chge*
3 mth bill	98.22	0.00
3 Yr bond	97.8	0.00
10 Yr bond	97.20	4.50
3/10 sprd	0.60	-4.50
SPI	5688.0	-16.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	59.24	4.2
Oil (WTI)	52.13	2.9
Oil (Tapis)	57.87	2.1
Gold	1309.20	1.2
CRB	184.61	0.6
GS Metals	360.9	0.1
Aluminium	2129.5	-0.6
Copper	6418.3	-0.2
Nickel	10511.0	1.4
Zinc	3117.5	2.4
Ch. steel	3591.0	-0.2
Iron ore	63.1	-0.8
St. Coal	97.0	-0.3
Met.coal	204.8	0.1
Wheat Chic.	473.8	0.9
Sugar	13.7	-1.7
Cotton	70.1	1.4
Coffee	131.6	-2.2

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
Tuesday, 26 September 2017								
AU	RBA's Bullock Participates in Panel in Sydney						22.15	7.15
NZ	Trade Balance NZD	Aug	-1170	-825		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
NZ	ANZ Activity Outlook/Business Confidence	Sep		/		38.2/18.3	1.00	10.00
AU	NAB Consumer Spending	Q2					2.30	11.30
NZ	New Residential Lending YoY	Aug				-23.8	3.00	12.00
EC	ECB's Praet chairs speech in Frankfurt						13.00	22.00
US	S&P CoreLogic CS 20-City MoM SA/YoY	Jul		0.2/5.7		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		585/2.5		571.0/-9.4	15.00	0.00
US	Conf. Board Consumer Confidence	Sep		120		122.9	15.00	0.00
US	Richmond Fed Manufact. Index	Sep		13		14.0	15.00	0.00
US	Fed's Brainard Speaks on Labor Market Disparities						15.30	0.30
US	Fed's Bostic Speaks to the Atlanta Press Club						17.30	2.30
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
Wednesday, 27 September 2017								
CH	Industrial Profits YoY	Aug				16.5	2.30	11.30
AU	NAB Consumer Anxiety	Q2					2.30	11.30
JN	Small Business Confidence	Sep		49.5		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		8/		-10.0/2.0	11.00	20.00
US	Durable Goods Orders/Core Orders	Aug P		1/0.3		-6.8/1.0	13.30	22.30
US	Pending Home Sales MoM/YoY	Aug		-0.5/-0.5		-0.8/-0.5	15.00	0.00
CA	BoC Governor Stephen Poloz speaks						16.45	1.45
CA	BoC Governor Poloz press conference						17.55	2.55
US	Fed's Bullard Speaks on Economy and Monetary Policy						18.30	3.30
US	Fed's Brainard Speaks at Minority Banker Forum						19.00	4.00
Thursday, 28 September 2017								
NZ	RBNZ Official Cash Rate	Sep 28	1.75	1.75		1.8	21.00	6.00
US	Fed's Rosengren to Speak to Money Marketeers in New York						0.00	9.00
CH	Swift Global Payments CNY	Aug				2.0	2.00	11.00
AU	Job vacancies	Aug				1.5	2.30	11.30
GE	GfK Consumer Confidence	Oct		11		10.9	7.00	16.00
EC	ECB's Praet speaks in Berlin						9.00	18.00
UK	Carney Speaks at BOE Independence Conference, London						9.15	18.15
AU	RBA's Debelle Speaks on "Central Bank Independence in Retrospect" at BOE Conference, London						10.00	19.00
EC	Business Climate Indicator	Sep		1.12		1.1	10.00	19.00
CH	BoP Current Account Balance	2Q F				52.9	10.15	19.15
EC	ECB's Lautenschlaeger speaks in Vienna						12.10	21.10
GE	CPI EU Harmonized MoM/YoY	Sep P		0.1/1.9		0.2/1.8	13.00	22.00
US	GDP Annualized QoQ	2Q T		3		3.0	13.30	22.30
US	Initial Jobless Claims	Sep 23		270		259.0	13.30	22.30
US	Advance Goods Trade Balance	Aug		-65.05		-63.9	13.30	22.30
US	Wholesale Inventories MoM	Aug P		0.4		0.6	13.30	22.30
US	Fed's Fischer Speaks at BOE Independence Conference, London						15.00	0.00
US	Fed's George Speaks on Economy and Monetary Policy						14.45	23.45
US	Kansas City Fed Manf. Activity	Sep		14		16.0	16.00	1.00
US	Fed's Bostic to Speak about Careers in Economics						18.30	3.30
Friday, 29 September 2017								
NZ	Building Permits MoM	Aug				-0.7	22.45	7.45
UK	GfK Consumer Confidence/Lloyds Business Barometer	Sep		-11		-10.0/17.0	0.10	9.10
JN	Jobless Rate/Job-to-Applclicant Ratio	Aug		2.8/1.53		2.8/1.5	0.30	9.30
JN	Overall Household Spending YoY	Aug		0.9		-0.2	0.30	9.30
JN	Natl CPI YoY	Aug		0.6		0.4	0.30	9.30
JN	BOJ Summary of Opinions at Sept.20-21 Meeting						0.50	9.50
JN	Retail Sales MoM/YoY	Aug		-0.5/2.5		1.1/1.9	0.50	9.50
JN	Industrial Production MoM/YoY	Aug P		1.8/5.2		-0.8/4.7	0.50	9.50
AU	Private Sector Credit MoM/YoY	Aug	0.4/5.4	0.5/5.5		0.5/5.3	2.30	11.30
CH	Caixin China PMI Mfg	Sep		51.5		51.6	2.45	11.45
NZ	Credit Aggregates, Household YoY	Aug				7.1	3.00	12.00
GE	Unemployment Change (000's)/Claims Rate (%)	Sep		-5/5.7		-5.0/5.7	8.55	17.55
UK	Current Account Balance	2Q		-15.9		-16.9	9.30	18.30
UK	Net Lending Sec. on Dwellings/Mortgage Approvals	Aug		3.6/67.25		3.6/68.7	9.30	18.30
UK	GDP QoQ/YoY	2Q F		0.3/1.7		0.3/1.7	9.30	18.30
UK	Index of Services MoM/3mYoY	Jul		0.05/0.7		0.4/0.5	9.30	18.30
EC	CPI Estimate/Core YoY	Sep		1.6/1.2		1.5/1.2	10.00	19.00
UK/IMF	IMF's Lagarde Speaks at BOE Conference, London						11.30	20.30
UK	BOE's Broadbent Speaks at Conference in London						13.30	22.30
US	Personal Income/Spending	Aug		0.2/0.1		0.4/0.3	13.30	22.30
US	PCE Deflator MoM/YoY	Aug		0.3/1.5		0.1/1.4	13.30	22.30
US	PCE Core MoM/YoY	Aug		0.2/1.4		0.1/1.4	13.30	22.30
CA	GDP MoM/YoY	Jul		0.1/3.9		0.3/4.3	13.30	22.30
CA	Industrial Product Price/Raw Materials Price Index MoM	Aug		0.5		-1.5/-0.6	13.30	22.30
US	Chicago Purchasing Manager	Sep		58.7		58.9	14.45	23.45
US	U. of Mich. Sentiment/5-10y Inflation expectations	Sep F		95.3/		95.3/2.6	15.00	0.00
EC/UK	ECB's Draghi, BOE's Carney in dialog in London						15.15	0.15
US	Fed's Harker Speaks at Fintech Event on Consumers and Banking						16.00	1.00
US	Baker Hughes U.S. Rig Count/Oil Rig Count	Sep 29		/		935.0/744.0	18.00	3.00
Saturday, 30 September 2017								
CH	Manufacturing PMI	Sep		51.5/		51.7/53.4	2.00	11.00
Upcoming Central Bank Interest Rate Announcements								
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%		
Japan, BoJ		31-Oct	-0.1%	-0.1%		-0.1%		
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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