

MARKETS TODAY

Dear Prudence



Good morning

Fed chair Janet Yellen spoke last night and opined that it would be 'Imprudent to keep monetary policy on hold until inflation hits 2%'. We also heard from new Atlanta Fed President Raphael Bostic, who said he's hearing anecdotes of more pressure on wages and prices, more so when he started in June. Bostic isn't an FOMC voter this year – he will be next - but his comments have worked with the grain of Yellen's remarks to see market pricing for a December Fed rate rise move up to closer to 70% from around 65% this time yesterday.

We've been having a healthy debate within the NAB research team about whether some central banks are now elevating the importance of financial stability concerns over achievement of inflation targets in setting monetary policy. Certainty financial stability was afforded somewhat elevated status in the restated Treasury/RBA agreement after Phil Lowe took the reins from Glenn Stevens last year, but frankly it's hard to detect any 'sea change' of attitude amongst central bankers.

Perhaps the more important point to emphasise is that central bankers - of which Janet Yellen remains the most important in the world – are happy to be gradually normalising policy as long as they have confidence inflation will be moving up towards target in future. Waiting until the target is met before setting rates close to neutral would be too late – a point made forcefully by Bank of Canada Governor Stephen Poloz earlier in the year when the BoC first moved rates up from 0.5%. This has implications for RBA policy next year.

US yields are +/- 1.5bps higher across the curve and the DXY dollar index up another 0.4% to 93.02, so now over 2% up on its early September lows. US equity market haven't been fazed by the rising prospects of the Fed delivering on its median 2017 'dot', closing little changed. This is also because we haven't seen any further ratcheting up of N. Korea tensions in the past 24 hours. This shows up in USD/JPY moving back up to around ¥112.25 from ¥111.50 yesterday, albeit partly a by-product of generalised US dollar strength.

The latter has overwhelmed the impact of less market risk aversion to see AUD/USD fall below 79 cents for the first time this month and to its lowest intra-day level – 0.7859 – since mid-August. Whether we can down to as low as 0.75 by year end – NAB FX Strategy's recently revised forecast – is probably now more in the hands of US tax reform progress, or otherwise, and commodity prices, than whether the Fed does now actually deliver a December rates rise (which NAB thinks they do).

US dollar strength overnight also owes something to further pressure on the Euro, linked to Sunday's German election results and with an eye to an 'illegal' referendum on Catalonia independence this weekend and then looking ahead, Italian elections next year.

Ray Attrill, Head of FX strategy

EUR/USD dropped to its lowest levels in over a month overnight.

US data has been largely a sideshow, but the very small fall in US consumer confidence (119.8 from 120.4) tells us that the recent hurricanes haven't had nearly as depressing an effect on consumer psyche as hurricane Katrina in 2005, a catastrophe accompanied by awful scene of thousands of Illinois residents holed up for days in inhumane conditions.

Coming Up

Officially not due to be released until tonight but prone to be comprehensively leaked during our morning, the US administration and Republican leadership are slated to jointly reveal their framework for tax reform on Wednesday. Reports this week suggest that the so called 'Big Six' are not yet all on the same page (that's Treasury secretary Mnuchin, Trump's chief economic adviser Gary Cohn, House Speaker Paul Ryan, Senate majority leader Mitch McConnell, House Ways and Means committee Chairman Kevin Brady and Senator Orrin Hatch). The particular point of contention is reported to be taxes on the wealthiest, in particular whether there should be any net tax cut on the wealthiest Americans, even if the top rate of income tax is reduced to 35% from 39.5% as reportedly proposed.

What emerges on this today will be of keen interest, as will any reference to measures that would prompt large scale repatriation of US multinationals' profits currently housed abroad.

While equity markets may have incorporated some (modest) expectation of corporate tax reform into market pricing, we doubt that bond markets or the US dollar have, suggesting much more upside for yields and the dollar should tax reform hopes take a significant step higher.

Other than this, there's nothing top drawer as far as known data or events go today. US durable goods orders are the main US release (also pending home sales). James Bullard and Lael Brainard (both currently resident doves) are the allotted Fed speakers. The CBI distributive (retail) trades survey for September will be of interest for UK markets, as a guide to official retail sales due in a couple of weeks.

Overnight

On global stock markets, the S&P 500 was +0.01%. Bond markets saw US 10-years +1.41bp to 2.23%. In commodities, Brent crude oil -1.10% to \$58.37, gold -0.9% to \$1,295, iron ore +3.0% to \$64.95, steam coal +0.1% to \$97.00, met. coal +0.1% to \$205.00. AUD is at 0.7886 and the range since yesterday 5pm Sydney time is 0.7859 to 0.7949.

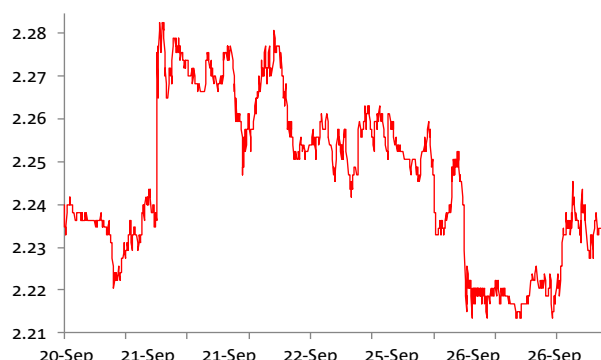
Markets

AUD/USD - past week



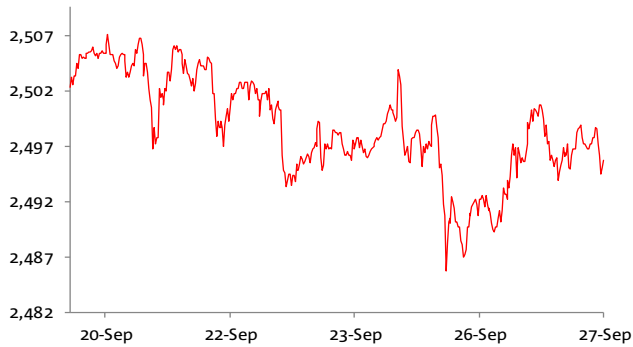
Source: Bloomberg.

US 10yr - past week



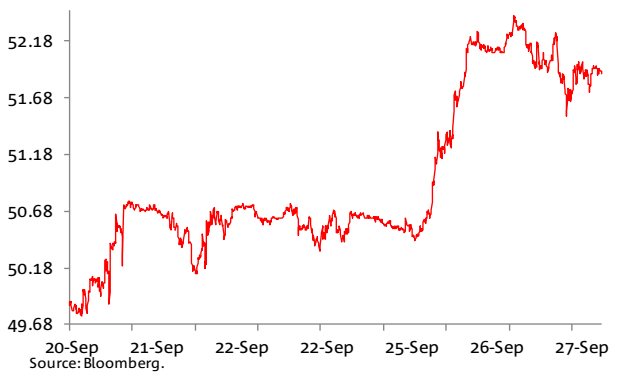
Source: Bloomberg.

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	0.7886	-0.6	0.7859	0.7949	HKD	7.8130 0.0
NZD	0.7206	-0.8	0.7168	0.7278	CNY	6.6398 0.3
EUR	1.1790	-0.5	1.1758	1.1862	SGD	1.3545 0.3
GBP	1.3456	-0.1	1.3410	1.3514	IDR	13,374 0.4
JPY	112.26	0.5	111.50	112.48	THB	33.21 0.4
CAD	1.2348	-0.2	1.2331	1.2413	KRW	1,137 0.5
AUD/EUR	0.6689	-0.1	0.6681	0.6710	TWD	30.26 0.2
AUD/JPY	88.54	-0.2	88.25	88.77	PHP	50.91 0.5
AUD/GBP	0.5861	-0.6	0.5856	0.5898	CHF	0.97 0.2
AUD/NZD	1.0943	0.2	1.0909	1.0979	SEK	8.12 1.0
AUD/CNH	5.2332	-0.6	5.2207	5.2688		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.33	1.71	2.20	USD 10	2.23	1.41
AUD	1.50	1.71	2.03	2.94	AUD 10	2.77	-2.90 0.54
NZD	1.75	1.95	2.19	3.19	NZD 10	2.95	-2.90 0.72
EUR	0.00	-0.33	-0.18	0.85	CAD 10	2.11	1.70 -0.12
GBP	0.25	0.33	0.80	1.39	EUR 10	0.41	0.80 -1.83
JPY	-0.06	-0.03	0.02	0.23	GBP 10	1.33	-0.40 -0.90
CAD	1.00	1.43	1.97	2.38	JPY 10	0.03	0.60 -2.20

Equities

Major Indices			
	Last	% day	% y/y
Dow	22,284	-0.05	23.2
S&P 500	2,497	0.01	16.3
Nasdaq	6,380	0.15	21.4
VIX	10.17	-0.39	-29.9
FTSE	7,286	-0.2	6.9
DAX	12,605	0.1	21.3
CAC 40	5,269	0.0	19.5
Nikkei	20,330	-0.3	21.9
Shanghai	3,344	0.1	11.5
Hang Seng	27,513	0.0	16.7
ASX 200	5,671	-0.2	4.9

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.22	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.19	1.00
3/10 sprd	0.61	2.00
SPI	5671.0	0.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	58.37	-1.1
Oil (WTI)	51.89	-0.6
Oil (Tapis)	59.15	2.2
Gold	1294.90	-0.9
CRB	183.40	-0.7
GS Metals	358.7	-0.6
Aluminium	2105.0	-1.2
Copper	6370.5	-0.7
Nickel	10413.0	-0.9
Zinc	3128.0	0.3
Ch. steel	3638.0	1.5
Iron ore	65.0	3.0
St. Coal	97.0	0.1
Met.coal	205.0	0.1
Wheat Chic.	473.5	-0.1
Sugar	13.2	-3.9
Cotton	69.4	-1.0
Coffee	132.3	0.5

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-0.2	-1.0%
FED	-0	-0.8%

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
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/		-0.8/-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		0.1/1.8		0.2/1.8	13.00	22.00
US	GDP Annualized QoQ	2Q T		3.1		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		-65.1		-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-ApPLICANT Ratio	Aug		2.8/1.53		2.8/1.5	0.30	9.30
JN	Overall Household Spending YoY	Aug		1		-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		-0.7/2.3		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		-15.85		-16.9	9.30	18.30
UK	Net Lending Sec. on Dwellings/Mortgage Approvals	Aug		3.6/67		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		0.1/0.7		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				-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		51.7/		51.7/53.4	2.00	11.00
Monday, 2 October 2017								
UK	Nationwide House PX MoM	Sep		0.1		-0.1	7.00	16.00
UK	Nationwide House Px NSA YoY	Sep		1.9		2.1	7.00	16.00
AU	CBA Australia PMI Mfg	Sep				53.5	0.00	9.00
AU	AiG Perf of Mfg Index	Sep				59.8	0.30	9.30
AU	CoreLogic House Px MoM	Sep				0.1	1.00	10.00
JN	Tankan Large Mfg Index	3Q		18		17.0	1.50	10.50
AU	Melbourne Institute Inflation MoM	Sep				0.1	2.00	11.00
JN	Nikkei Japan PMI Mfg	Sep P				52.2	1.30	10.30
GE	Markit/BME Germany Manufacturing PMI	Sep F				60.6	9.55	18.55
EC	Markit Eurozone Manufacturing PMI	Sep F				58.2	10.00	19.00
UK	Markit UK PMI Manufacturing SA	Sep				56.9	10.30	19.30
EC	Unemployment Rate	Aug				9.1	11.00	20.00
CA	MLI Leading Indicator MoM	Aug				0.2	13.00	22.00
CA	Markit Canada Manufacturing PMI	Sep				54.6	15.30	0.30
US	Markit US Manufacturing PMI	Sep F				53.0	15.45	0.45
US	ISM Manufacturing	Sep		57.4		58.8	16.00	1.00
US	Construction Spending MoM	Aug		0.4		-0.6	16.00	1.00
US	Fed's Kaplan Speaks in El Paso						20.00	5.00
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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