

# MARKETS TODAY

## Beautiful Noise



### Good morning

Neil Diamonds' Beautiful Noise was the working title for today's missive following the latest US payrolls report on Friday. It almost got bumped in favour of Hall and Oats' Adult Education, after remarks from US Republican Senator Bob Corker, hitting back at Trump's critique of Corker as a 'negative voice' by saying that the White House has become an "adult day centre" (responding to apparent lack of support from Trump for beleaguered Secretary of State Rex Tillerson). Why this is important is that Corker is a deficit hawk, already critical of suggestions that the planned elimination of deductions in the 'big six' tax plan could be watered down. The Senate commands just a 52-48 majority of Republicans, and if Corker's vote can't be counted on, the tax plan is in more trouble than it otherwise might be.

There was indeed more noise than signal in Friday's US labour market data. In particular in the 33k fall in employment (more than 200k below recent trends) and a reported jump in average hourly earnings of 0.5% than pulled the annual rate of change up to 2.9% from an (upwards revised) 2.7% in August. The explanation here was that those unable to work because of the hurricanes (and not getting paid) would be mostly lower-paid and casual workers, biasing up the average earnings of those who were at work (or got paid even if they weren't).

When the individual state data is published on October 20<sup>th</sup>, we'll have more clarity on the employment situation, but in the meantime the BLS on Friday claimed that there were no obvious distortions to the unemployment rate calculations, which fell by 0.2% to 4.2% and to its lowest level since December 2000.

Post-payrolls, FOMC members Kaplan and Boston suggested they're open minded or in wait-and-see mode re a December hike. NY Fed President Dudley said it's still appropriate to gradually remove accommodation, while James Bullard remains implacably opposed; he's getting more concerned the Fed may make a policy mistake.

AUD made its lowest level since a July 14 offshore on Friday (0.7733) before a small pull back. RBA Board member Ian Harper in his WSJ interview on Friday, was lamenting slow wage growth/household income which he said "if it lost momentum, might be the basis for some sort of policy action". He also noted that the level of the Australian dollar also remains an inhibitor to growth even after recent falls "You wouldn't want to be jumping the gun and tightening too quickly" Harper said.

AUD is particularly vulnerable to any break of the 0.7690/00 area this week. China data and their return to global commodity markets after a week holiday, and local business and consumer confidence reading this week are all important, at a time when speculative position on the AUD remains close to 2013 highs.

### Coming Up

By the end of this week we might know a few important things we don't know today and which are probably more important for markets in the shorter term than they will be in the long run.

One is who will be President Trump's pick to be next Fed chair, assuming that Janet Yellen is not to be offered a second term, something the [predictit.org](http://predictit.org) betting agency currently suggests is no better than a 13% chance. As of Friday night, the same organisation had Jerome Powell ahead of Kevin Warsh by 35% to 30% - a significant shift from earlier in the week when Warsh was a good ten percentage points ahead of Powell. If we had to bet, we'd bet on Powell.

Markets having previously decided – rightly or wrongly (probably wrongly) - that a Warsh-led Fed would necessarily be more hawkish than one led by Yellen or Powell, knee-jerk response to news of someone other than Warsh getting the nod is apt to be a touch US dollar negative. We'd caution though that a Powell-led Fed that, that will now include Randolph Quarles as Fed Governor responsible for banking supervision, will likely be supportive of efforts to toll back some of the post-GFC regulations imposed on banks and which would be good for financial sector stocks and potentially bond yield - and USD positive – as a result.

While we might not know as early as this week who will be running the Fed next year, we should know who will be running New Zealand. NZ First leader Winston Peters had earlier promised to show his hand by October 12 (Thursday). The weekend results of the so-called Special votes have left the Nations with 56 seats and Labour/Greens on 54. 62 seats are needed to form a majority and NZ First holds 9. The knee jerk response to news Bill English will still be prime Minister will be to buy the NZD, if it's to be Labour leader Jacinda Ardern, to sell it. The uncertainty factor ahead of Peters showing his hand is in itself a NZD-negative, already evident in a relatively sharp 0.5% drop in the NZD this morning.

We might also know this week whether US inflation is finally on the turn up, with Friday's September CPI release the week's key data point (US retail sales also due on Friday). In August headline inflation rose to 1.9% from 1.7% and core held at 1.7% rather than dip to 1.6% as had been expected. Headline inflation at least will likely be hurricane impacted (market sees 2.3%) so interest will be more in the core (seen rising to 1.8%). There are no fewer than 18 Fed speeches scheduled this week, but not one from Janet Yellen.

Here, key events will be Tuesday's NAB business survey and Wednesday's Westpac Consumer Confidence readings – the latter of more than usual interest after last week's weak retail sales report. For AUD, more impact might be seen from today's Caixin China services PMI

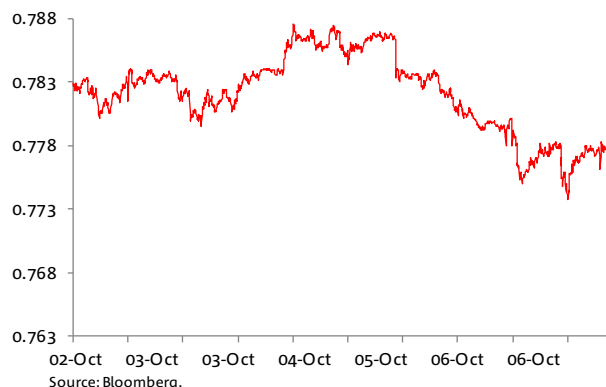
(remembering the official version rose to 55.4 from 53.4, but the official and Caixin vintages of manufacturing PMI diverged - former up to 52.4 from 51.7 but the latter down to 51.0 from 51.6). Similar divergence in today's services read play with the grain of slowdown concerns already evident in August activity readings. Commodity prices will also be import with China returning from a week-long holiday. Will the 22% fall in iron ore prices since late August resume?

### **Overnight**

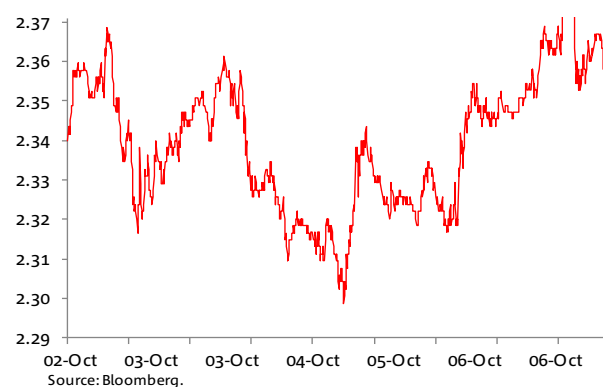
On global stock markets, the S&P 500 was -0.11%. Bond markets saw US 10-years +1.09bp to 2.36%. In commodities, Brent crude oil -2.42% to \$55.62, gold+0.1% to \$1,272, iron ore +1.2% to \$62.24, steam coal -1.3% to \$97.35, met. coal +0.0% to \$180.00. AUD is at 0.7774 and the range since Friday 5pm Sydney time is 0.7733 to 0.7798.

# Markets

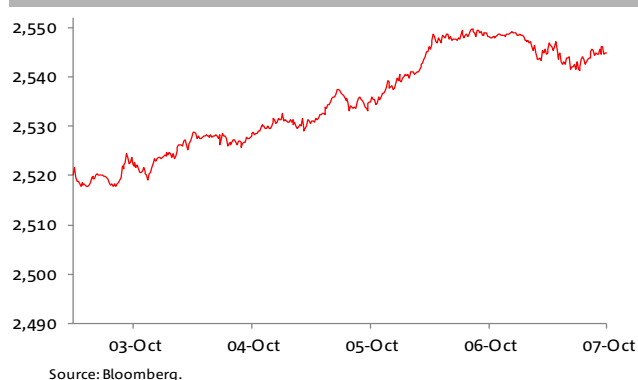
AUD/USD - past week



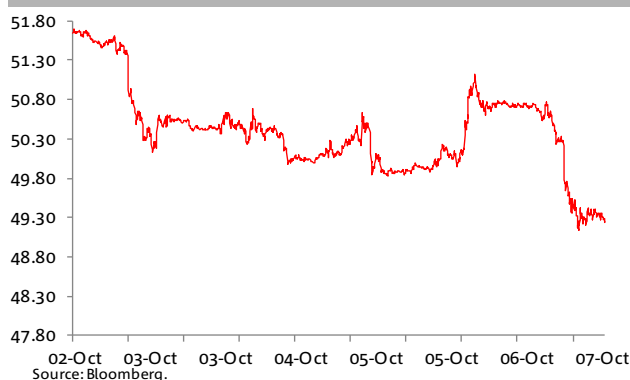
US 10yr - past week



S&P Future - past week



WTI - past week



## Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7774	-0.3	0.7733	0.7798	HKD	7.8063 0.0
NZD	0.7057	-0.8	0.7051	0.7119	CNY	6.6528 0.0
EUR	1.1735	0.2	1.1670	1.1739	SGD	1.3664 0.1
GBP	1.3087	-0.2	1.3027	1.3121	IDR	13,519 0.4
JPY	112.65	-0.2	112.57	113.44	THB	33.43 0.1
CAD	1.2533	-0.3	1.2526	1.2598	KRW	1,142 0.0
AUD/EUR	0.6625	-0.5	0.6608	0.6697	TWD	30.39 0.1
AUD/JPY	87.56	-0.4	87.39	87.99	PHP	51.17 0.4
AUD/GBP	0.5940	0.0	0.5913	0.6014	CHF	0.98 -0.1
AUD/NZD	1.1011	0.5	1.0911	1.1025	SEK	8.12 -0.3
AUD/CNH	5.1634	-0.5	5.1508	5.1885		

## Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.35	1.77	2.31	USD 10	2.36	1.09
AUD	1.50	1.70	2.02	2.99	AUD 10	2.82	3.30 0.46
NZD	1.75	1.95	2.21	3.26	NZD 10	2.96	1.50 0.60
EUR	0.00	-0.33	-0.17	0.91	CAD 10	2.13	2.60 -0.23
GBP	0.25	0.34	0.79	1.40	EUR 10	0.46	0.30 -1.90
JPY	-0.03	-0.05	0.03	0.27	GBP 10	1.36	-2.40 -1.00
CAD	1.00	1.41	1.91	2.40	JPY 10	0.06	1.00 -2.30

## Equities

Major Indices			
	Last	% day	% y/y
Dow	22,774	-0.01	24.9
S&P 500	2,549	-0.11	18.4
Nasdaq	6,590	0.07	24.5
VIX	9.65	5.01	-28.4
FTSE	7,523	0.2	6.8
DAX	12,956	-0.1	23.5
CAC 40	5,360	-0.4	20.4
Nikkei	20,691	0.3	22.7
Shanghai	3,349	0.0	11.5
Hang Seng	28,458	0.3	19.3
ASX 200	5,711	1.0	4.4

## Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.23	1.00
3 Yr bond	97.8	0.00
10 Yr bond	97.14	-3.00
3/10 sprd	0.66	3.00
SPI	5691.0	-57.0

\*Change in bps

## Commodities\*

	Last	% day
Oil (Brent)	55.62	-2.4
Oil (WTI)	49.29	-3.0
Oil (Tapis)	58.42	1.1
Gold	1271.60	0.1
CRB	180.95	-1.1
GS Metals	368.7	-0.8
Aluminium	2134.3	-0.8
Copper	6626.0	-0.6
Nickel	10524.0	0.6
Zinc	3274.5	-1.7
Ch. steel	3603.0	0.0
Iron ore	62.2	1.2
St. Coal	97.4	-1.3
Met. coal	180.0	0.0
Wheat Chic.	462.8	0.7
Sugar	14.0	-2.8
Cotton	69.5	0.8
Coffee	130.0	2.2

## Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-1.0	-4.0%
FED	-0	-0.4%

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

Monday, 9 October 2017									
CH	Caixin China PMI Services/Composite	Sep		/	52.7/52.4	2.45	12.45		
AU	Foreign Reserves	Sep			76.3	6.30	16.30		
GE	Industrial Production SA MoM	Aug		0.8	0.0	7.00	17.00		
EC	Bank of Portugal Governor Costa Speaks at Conference in Lisbon					9.00	19.00		
EC	Sentix Investor Confidence	Oct		28	28.2	9.30	19.30		
CA	Bloomberg Nanos Confidence	Oct 6			58.3	15.00	1.00		
Tuesday, 10 October 2017									
NZ	REINZ House Sales YoY	Sep			-20.0		10-14 Oct release		
NZ	Card Spending Retail MoM	Sep	0.4	0.7	-0.2	22.45	8.45		
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct 8			113.4	23.30	9.30		
UK	BRC Sales Like-For-Like YoY	Sep			1.3	0.10	10.10		
JN	BoP Current Account Adjusted	Aug		2030	2032.9	0.50	10.50		
AU	NAB Business Conditions/Confidence	Sep		/	15/5	1.30	11.30		
AU	RBA's Debelle Gives Speech in HK Via Video Link						15.20		
GE	Current Account Balance	Aug			19.4	7.00	17.00		
CH	New Yuan Loans/Aggregate Financing CNY	Sep		1230/1572.7	1090/1480		10-18 Oct release		
UK	Industrial Production MoM	Aug		0.2	0.2	9.30	19.30		
UK	Construction Output SA MoM	Aug		-0.4	-0.9	9.30	19.30		
UK	Trade Balance	Aug		-2800	-2872.0	9.30	19.30		
US	NFIB Small Business Optimism	Sep		104.8	105.3	11.00	21.00		
UK	NIESR GDP Estimate	Sep		0.4	0.4	13.00	23.00		
CA	Housing Starts	Sep			223.2	13.15	23.15		
JN	Eco Watchers Survey Current SA	Sep		49.5	49.7				
JN	Machine Tool Orders YoY	Sep P			36.2	7.00	17.00		
US	Fed's Kashkari Speaks at Regional Economic Conference					15.00	1.00		
CA	Bank of Canada's Wilkins speaks at IMF panel					19.00	5.00		
Wednesday, 11 October 2017									
NZ	ANZ Truckometer Heavy MoM	Sep			6.2	22.00	8.00		
AU	Westpac Consumer Conf SA MoM/Index	Oct		/	2.5/97.9	0.30	10.30		
JN	Core Machine Orders MoM/YoY	Aug		0.7/0.3	8.0/-7.5	0.50	10.50		
US	Fed's Kaplan Speaks at Stanford Institute					1.00	11.00		
US	Fed's Evans Speaks on Economy and Monetary Policy					12.15	22.15		
JN	Machine Tool Orders YoY	Sep P			36.2	7.00	17.00		
US	JOLTS Job Openings	Aug			6170.0	15.00	1.00		
US	FOMC Meeting Minutes					19.00	5.00		
US	Fed's Williams Gives Community Leaders Speech					19.40	5.40		
EC	ECB's Praet Speaks in New York					19.50	5.50		
Thursday, 12 October 2017									
NZ	Food Prices MoM	Sep	-0.4		0.6	22.45	8.45		
UK	RICS House Price Balance	Sep			6.0	0.10	10.10		
JN	PPI YoY	Sep		3	2.9	0.50	10.50		
NZ	ANZ Consumer Confidence Index	Oct			129.9	1.00	11.00		
AU	Consumer Inflation Expectation	Oct			3.8	1.00	11.00		
AU	Home Loans/Investment Lending MoM	Aug	0.0	0.5/	2.9/-3.9	1.30	11.30		
JN	Tertiary Industry Index MoM	Aug		0.1	0.1	5.30	15.30		
UK	Bank of England Credit Conditions & Bank Liabilities Surveys					9.30	19.30		
EC	Industrial Production SA MoM	Aug		0.5	0.1	10.00	20.00		
CA	New Housing Price Index MoM	Aug			0.4	13.30	23.30		
CA	Teranet/National Bank HPI MoM	Sep			0.6	13.30	23.30		
US	PPI Final Demand MoM	Sep		0.4	0.2	13.30	23.30		
US	Initial Jobless Claims	Oct 7			260.0	13.30	23.30		
US	Bloomberg Consumer Comfort	Oct 8			49.9	14.45	0.45		
EC/US	ECB's Draghi, Fed's Brainard Speak on Monetary Policy Panel					15.15	1.15		
US	Fed's Powell Speaks at IIF Conference in Washington					15.30	1.30		
CA	BOC's Wilkins speaks at IIF Panel					20.15	6.15		
Friday, 13 October 2017									
NZ	BusinessNZ Manufacturing PMI	Sep			57.9	22.30	8.30		
AU	RBA Financial Stability Review					1.30	11.30		
CH	Trade Balance CNY	Sep		266	286.5	3.00	13.00		
CH	Exports/Imports YoY CNY	Sep		11.5/16.7	6.9/14.4	3.00	13.00		
CH	Trade Balance	Sep		38.05	42.0	3.10	13.10		
CH	Exports/Imports YoY	Sep		9.8/15.2	5.5/13.3	3.10	13.10		
GE	CPI EU Harmonized MoM/YoY	Sep F		0/1.8	0.0/1.8	7.00	17.00		
US	CPI MoM/YoY	Sep		0.6/2.3	0.4/1.9	13.30	23.30		
US	CPI Ex Food and Energy MoM/YoY	Sep		0.2/1.8	0.2/1.7	13.30	23.30		
US	Retail Sales Advance MoM	Sep		1.6	-0.2	13.30	23.30		
US	Retail Sales Ex Auto and Gas/Control Group	Sep		0.4/0.4	-0.1/-0.2	13.30	23.30		
US	Monthly Budget Statement	Sep		0	-107.7	14.00			
US	U. of Mich. Sentiment/5-10Y Inflation expectations	Oct P		95/	95.1/2.5	15.00	1.00		
US	Business Inventories	Aug		0.5	0.2	15.00	1.00		
US	Fed's Evans Speaks on Economy and Monetary Policy					15.25	1.25		
US	Fed's Kaplan Speaks in Boston					16.30	2.30		
US	Baker Hughes U.S. Rig Count/Oil Rigs	Oct 6		/	940.0/750.0	18.00	4.00		
US	Fed's Powell Speaks at Boston Fed Economic Conference					18.00	4.00		
Monday, 16 October 2017									
CH	New Yuan Loans/Aggregate Financing CNY	Sep		1230	1090.0		-18 Oct release		
CH	Foreign Direct Investment YoY CNY	Sep			9.1		-18 Oct release		
NZ	REINZ House Sales YoY	Sep			-20.0		-16 Oct release		
US	Monthly Budget Statement	Sep		0	-107.7		#VALUE! #VALUE!		
NZ	Performance Services Index	Sep			57.3	22.30	8.30		
UK	Rightmove House Prices MoM/YoY	Oct		/	-1.2/1.1	0.10	10.10		
CH	CPI/PPI YoY	Sep		1.6/6.5	1.8/6.3	2.30	12.30		
JN	Industrial Production MoM/YoY	Aug F			2.1/5.4	5.30	15.30		
EC	Trade Balance SA	Aug			18.6	10.00	20.00		
CA	Int'l Securities Transactions	Aug			24.0	13.30	23.30		
US	Empire Manufacturing	Oct		20	24.4	13.30	23.30		
CA	Existing Home Sales MoM	Sep			1.3	14.00	0.00		
CA	Bloomberg Nanos Confidence	Oct 6			58.3	15.00	1.00		
CA	Business Outlook Future Sales	3Q			31.0	15.30	1.30		
CA	BoC Senior Loan Officer Survey	3Q			2.1	15.30	1.30		
Upcoming Central Bank Interest Rate Announcements									
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%			
Australia, RBA		7-Nov	1.50%	1.50%		1.50%			
New Zealand, RBNZ		9-Nov				1.75%			

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

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