

MARKETS TODAY

Six degrees of separation



Good morning

It's now six from seven in terms of core US CPI undershooting expectations (six months at 0.1% including Friday's September print and just one at the 0.2% consensus estimate that has prevailed for each of these seven months). So core CPI rose by just 0.7% in the past six months, or 1.4% annualised. No matter, Fed chair Janet Yellen spoke in Washington just a few hours ago and was reasonably emphatic in saying that "My best guess is that these soft readings will not persist, and with the ongoing strengthening of labor markets, I expect inflation to move higher next year. Most of my colleagues on the FOMC agree". One who apparently doesn't is Chicago Fed president Charles Evans (a current FOMC voter) who after the CPI data said that the data 'didn't seem encouraging'.

Market-wise, the surprise on Friday was perhaps that pricing for a December Fed rise didn't come down more. It slipped by only about 4% to 73% using Fed Funds futures. The Yellen comments should though serve to stop them slipping back further.

Also surprising was to see the DXY dollar index end the NY session fractionally higher on the day (+0.04%) for a loss of 0.8% on the week and the broader BBDXY index - 0.04% for a 0.6% weekly loss. DXY is now about 1.5% back from its early October highs having rallied by about 3.5% in the prior month or so.

A slightly soggy Euro, pulled down earlier in the day by a Bloomberg ECB sources story suggesting the ECB might agree when it meets this month to leave a QE bond buying end-date open. This doesn't disguise the fact though that EUR/USD fully retraced the initial sharp bounce post the CPI data.

The unexpected strength of the early October Michigan consumer sentiment reading (to a 13-year high) and slightly better than expected core retail sales data was part of the story behind the USD recovery, though one could equally have pointed to the dip in 5-10 year inflation expectations in the Michigan survey, to 2.4% from 2.5%, as justifying further scaling back of December Fed tightening risk. The Fed cares about this measure, though judging from the Yellen speech mentioned above, evidently not enough to stand in the way of further gradual policy normalisation.

The AUD, closely followed by NZD, were the main beneficiaries of the USD slump post the CPI data, subsequently holding gains (as did the JPY) while the dollar elsewhere spent most of the NY afternoon recouping earlier losses. AUD/USD ended +0.86% at 0.7887 and NZD +0.8% to 0.7181, the NZD market earlier Friday seemingly travelling with some confidence that NZ First Leader Winston Peters will today declare his hand in favour of an alliance with the Nationals.

Also helpful to the cause of the AUD on Friday was a bounce in iron ore prices, +\$2.40 to \$62.53 for the 62% fines Qingdao benchmark, following an earlier mini-surge on the Dalian futures market. This looked to be driven by Friday's China trade data, showing iron ore imports in September above 100 million tonnes for the first time (102.8mn) and up from 93 million tons last September. Substitution of higher grade ores for poorer local concentrates in the context of stricter environment controls is part of the story here, but which obviously hasn't been enough to prevent a 22% drop in the 62% fines (high grade) benchmark over the course of September and through mid-October, ahead of steel production curbs heading into winter. So Friday's gain was probably more psychology driven than anything else.

That said, news over the weekend of much stronger than expect China credit growth last month (¥1820bn for the broad Aggregate Social Financing measure, up from €1,480bn in August) goes somewhat toward assuaging concerns about a (lack of) credit-driven slowdown in activity – and relate commodity demand – in coming months.

Coming Up

Politics will be important at the start of the week, first in NZ with Winston Peters expected to declare his hand sometimes today; then by 9am Spanish time (6pm AEST) the Catalan President is under orders from Madrid to say whether or not he will declare independence for Catalonia. If he does then 1. It won't happen but 2. The euro will probably fall.

More important than either in the scheme of things will be whether the US Senate approves a 'procedure' this week that would allow it to pass a tax reform bill by simple majority. Senator Susan Collins, whose support was in doubt, has come out supportive last night. What about Bob Corker? Sentiment towards tax reform will turn on this, and with that the USD's fortunes this week.

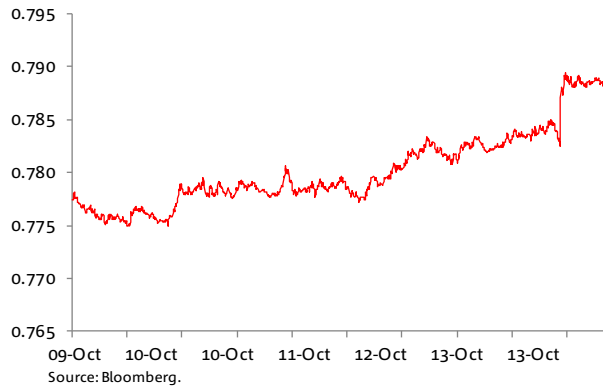
China's important for Australia this week with GDP a September activity data on Thursday, soon after the local labour market data (the main domestic point of interest this week). The 19th National Party Congress starts on Wednesday. On the weekend, the PBOC Governor told us to expect growth of 6.9% in the second half of the year. Don't bet against him!

Overnight

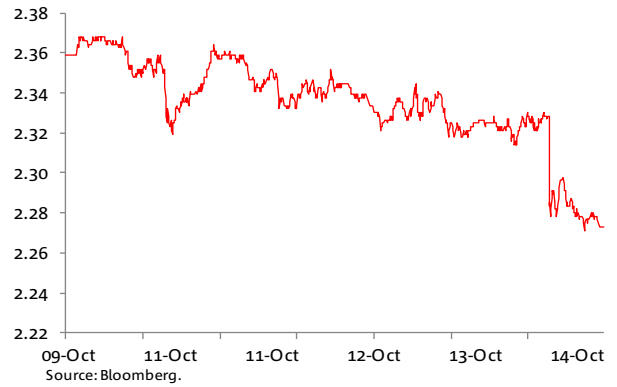
On global stock markets, the S&P 500 was +0.09%. Bond markets saw US 10-years -4.47bp to 2.27%. In commodities, Brent crude oil +1.64% to \$57.17, gold +0.6% to \$1,302, iron ore +4.1% to \$62.53, steam coal +0.6% to \$95.75, met. coal +0.3% to \$181.50. AUD is at 0.7885 and the range since Friday 5pm Sydney time is 0.7818 to 0.7897.

Markets

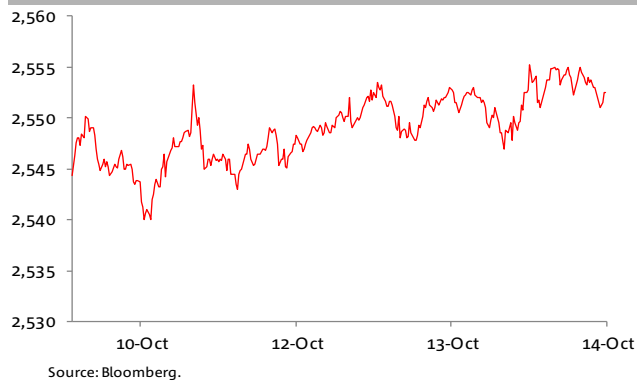
AUD/USD - past week



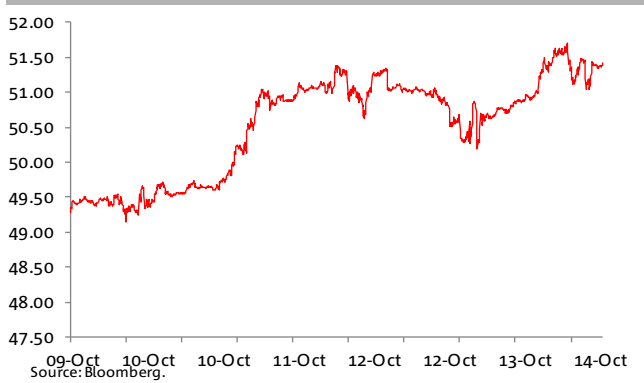
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High		Last	% chge
AUD	0.7885	0.8	0.7818	0.7897	HKD	7.8070	0.0
NZD	0.7170	0.6	0.7122	0.7197	CNY	6.5796	-0.1
EUR	1.1817	-0.1	1.1806	1.1875	SGD	1.3499	-0.2
GBP	1.3304	0.3	1.3248	1.3338	IDR	13,498	0.0
JPY	111.73	-0.5	111.69	112.31	THB	33.06	-0.2
CAD	1.2475	0.0	1.2453	1.2520	KRW	1,129	-0.4
AUD/EUR	0.6673	0.9	0.6595	0.6683	TWD	30.14	-0.2
AUD/JPY	88.07	0.3	87.66	88.31	PHP	51.41	0.0
AUD/GBP	0.5926	0.5	0.5881	0.5941	CHF	0.97	-0.1
AUD/NZD	1.0996	0.1	1.0957	1.1015	SEK	8.12	0.0
AUD/CNH	5.1859	0.6	5.1384	5.1888			

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	1.25	1.35	1.75	2.24	USD 10	2.27	-4.47	
AUD	1.50	1.70	1.99	2.92	AUD 10	2.79	-1.00	0.52
NZD	1.75	1.93	2.20	3.24	NZD 10	2.96	-1.80	0.69
EUR	0.00	-0.33	-0.18	0.86	CAD 10	2.04	-4.30	-0.24
GBP	0.25	0.37	0.83	1.39	EUR 10	0.40	-4.20	-1.87
JPY	-0.02	-0.04	0.04	0.25	GBP 10	1.37	-1.40	-0.91
CAD	1.00	1.43	1.89	2.32	JPY 10	0.06	-0.30	-2.21

Equities

Major Indices			
	Last	% day	% y/y
Dow	22,872	0.13	26.1
S&P 500	2,553	0.09	19.7
Nasdaq	6,606	0.22	26.7
VIX	9.61	-3.03	-40.4
FTSE	7,535	-0.3	7.4
DAX	12,992	0.1	22.8
CAC 40	5,352	-0.2	19.7
Nikkei	21,155	1.0	25.5
Shanghai	3,391	0.1	10.7
Hang Seng	28,476	0.1	22.6
ASX 200	5,814	0.3	7.0

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.25	0.00
3 Yr bond	97.8	0.00
10 Yr bond	97.20	3.50
3/10 sprd	0.60	-3.50
SPI	5806.0	-38.0

Commodities*

	Last	% day
Oil (Brent)	57.17	1.6
Oil (WTI)	51.45	1.7
Oil (Tapis)	58.58	0.8
Gold	1301.50	0.6
CRB	184.83	0.8
GS Metals	375.4	-0.2
Aluminium	2110.3	-0.6
Copper	6859.5	0.0
Nickel	11610.5	2.4
Zinc	3291.0	-1.2
Ch. steel	3849.0	7.5
Iron ore	62.5	4.1
St. Coal	95.8	0.6
Met. coal	181.5	0.3
Wheat Chic.	458.0	1.9
Sugar	14.4	0.9
Cotton	68.6	1.1
Coffee	126.5	0.1

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	0.2	1.0%
FED	-0	-1.2%

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	AEDT
Sunday, 15 October 2017								
US	Yellen, Zhou, Kuroda, Constancio on G-30 Panel in Washington						14.00	0.00
US	Fed's Yellen Speaks on Economy and Monetary Policy						14.00	0.00
Monday, 16 October 2017								
CH	New Yuan Loans/Aggregate Financing CNY	Sep		1200		1090.0	10-18 Oct release	
CH	Foreign Direct Investment YoY CNY	Sep				9.1	10-18 Oct release	
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		1.6/6.3		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 13				58.4	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
Tuesday, 17 October 2017								
NZ	CPI QoQ/YoY	3Q		0.4/1.8		0.0/1.7	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct 15				113.8	23.30	9.30
AU	RBA Oct. Rate Meeting Minutes						1.30	11.30
AU	RBA's Ellis Participates in a Panel						1.30	11.30
AU	New Motor Vehicle Sales MoM/YoY	Sep				0.0/1.7	1.30	11.30
NZ	Non Resident Bond Holdings	Sep				61.2	3.00	13.00
ED	ECB's Constancio Speaks at Conference in Lisbon						9.00	19.00
UK	BOE's Carney, Ramsden and Tenreiro Testify to Lawmakers						9.15	19.15
UK	CPI MoM/YoY	Sep		0.3/3		0.6/2.9	9.30	19.30
UK	CPI Core YoY	Sep		2.8		2.7	9.30	19.30
UK	PPI Input NSA MoM/YoY	Sep		1.3/8.2		1.6/7.6	9.30	19.30
UK	House Price Index YoY	Aug				5.1	9.30	19.30
EC	CPI MoM/YoY	Sep		0.4/1.5		0.3/1.5	10.00	20.00
GE	ZEW Survey Current Situation/Expectations	Oct		89/19.5		87.9/17.0	10.00	20.00
EC	ZEW Survey Expectations	Oct				31.7	10.00	20.00
EC	CPI Core YoY	Sep F		1.1		1.1	10.00	20.00
US	Import Price Index MoM	Sep		0.5		0.6	13.30	23.30
US	Industrial Production MoM	Sep		0.25		-0.9	14.15	0.15
US	NAHB Housing Market Index	Oct		63		64.0	15.00	1.00
US	Fed's Harker Speaks on Equitable Transit						18.00	4.00
US	Total Net TIC Flows/Long term flows	Aug		/		-7.3/1.3	21.00	7.00
Wednesday, 18 October 2017								
AU	Westpac Leading Index MoM	Sep				-0.1	0.30	10.30
AU	NAB Cashless Retail Sales Index (new)	Sep					1.30	11.30
AU	NAB Commercial Property Survey	Q3					1.30	11.30
JN	BOJ Sakurai makes a speech						2.30	12.30
EC	ECB President Draghi speaks in Frankfurt						9.10	19.10
UK	Jobless Claims Change	Sep				-2.8	9.30	19.30
UK	Average Weekly Earnings 3M/YoY/ex bonus	Aug		2.1/2		2.1/2.1	9.30	19.30
UK	Employment Change/Unemployment rate 3M/3M	Aug		4/3		181.0/4.3	9.30	19.30
EC	Construction Output MoM/YoY	Aug		/		0.2/3.4	10.00	20.00
US	Fed's Dudley and Kaplan Discuss Economic Development						13.00	23.00
EC	ECB's Praet is chairing a panel in Frankfurt						12.45	22.45
US	Fed's Dudley and Kaplan Discuss Economic Development						13.00	23.00
CA	Manufacturing Sales MoM	Aug				-2.6	13.30	23.30
US	Housing Starts #/MoM	Sep		1180/0		1180.0/-0.8	13.30	23.30
US	Building Permits #/MoM	Sep		1230/-3.3		1300.0/5.7	13.30	23.30
EC	ECB's Coeure is chairing a panel in Frankfurt						15.15	1.15
US	U.S. Federal Reserve Releases Beige Book						19.00	5.00
Thursday, 19 October 2017								
JN	Trade Balance Adjusted	Sep		317.9		367.3	0.50	10.50
AU	NAB Business Confidence	3Q				7	1.30	11.30
AU	Employment Change/Unemployment rate	Sep	25/5.6	15/5.6		54.2/5.6	1.30	11.30
AU	RBA FX Transactions Market	Sep				571.0	1.30	11.30
AU	RBA's Bullock Gives Speech in Sydney							
CH	GDP SA QoQ/YoY	3Q		1.7/6.8		1.7/6.9	3.00	13.00
CH	Industrial Production YoY/YTD YoY	Sep		6.4/6.7		6.0/6.7	3.00	13.00
CH	Retail Sales YoY/YTD YoY	Sep		10.2/10.3		10.1/10.4	3.00	13.00
CH	Fixed Assets Ex Rural YTD YoY	Sep		7.7		7.8	3.00	13.00
AU	HIA House Affordability Index	3Q				69.4		
JN	All Industry Activity Index MoM	Aug		0.2		-0.1	5.30	15.30
CH	FX Net Settlement - Clients CNY	Sep				-27.6		
JN	Machine Tool Orders YoY	Sep F				45.3	7.00	17.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Sep		-0.1/2.5		1.0/2.8	9.30	19.30
US	Initial Jobless Claims	Oct 14				243.0	13.30	23.30
US	Philadelphia Fed Business Outlook	Oct		20.5		23.8	13.30	23.30
US	Bloomberg Consumer Comfort	Oct 15				49.5	14.45	0.45
US	Leading Index	Sep		0.1		0.4	15.00	1.00
Friday, 20 October 2017								
NZ	Net Migration SA	Sep				5490.0	22.45	8.45
NZ	Credit Card Spending MoM/YoY	Sep		/		-0.7/6.4	3.00	13.00
GE	PPI MoM/YoY	Sep		0.1/2.9		0.2/2.6	7.00	17.00
JN	BOJ Kuroda speaks in Tokyo						7.35	17.35
EC	ECB Current Account SA	Aug				25.1	9.00	19.00
UK	Public Finances (PSNCR)/Central Government NCR	Sep		/		0.0/1.0	9.30	19.30
CA	CPI NSA MoM/YoY	Sep		/		0.1/1.4	13.30	23.30
CA	CPI Core- Common/Trim YoY%	Sep		/		1.5/1.4	13.30	23.30
CA	CPI Core- Median YoY%	Sep		/		1.7	13.30	23.30
CA	Retail Sales MoM/ex autos	Aug		/		0.4/0.2	13.30	23.30
US	Existing Home Sales #/MoM	Sep		5.3/-0.93		5.4/-1.7	15.00	1.00
US	Baker Hughes U.S. Rig Count/Oil Rigs	Oct 13		/		936.0/748.0	18.00	4.00
US	Fed's Mester Speaks on Global Regulatory Structure						19.00	5.00
US	Yellen Speaks to National Economists Club in Washington						0.15	10.15
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; AEDT: Australian Eastern Daylight Savings Time

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