

# MARKETS TODAY

## Milk It



### Good morning

Milk It is from Nirvana's third album 'In Utero' and starts with the line 'I am my own parasite, I don't need a host to live'. It references Kurt Cobain's frustration with fame and drug addiction. Well Winston Peters might be milking it as negotiations to form a new NZ government drag interminably on, but he clearly does need a host to live. The NZD sits close to the bottom of the G10 scoreboard this morning, weighed down not just by ongoing domestic political uncertainty, but also forecast downgrades to Fonterra's milk pay-out for the current season. BNZ reduced its projection from \$6.75 to \$6.30.

The JPY has pipped NZD for the G10 wooden spoon overnight, USD/JPY up 0.60% to ¥112.89 having earlier in the night traded up to its best level in almost two weeks at just above ¥113. Higher US Treasury yields are the proximate cause, with 10-year notes adding about 4ps to 2.34% and about 6bps higher than where they ended last week. This has not sufficed to lift the US dollar in overall terms though with the DXY index finishing in NY -0.1% on modest gains for the CAD, EUR and GBP. The AUD sits virtually unchanged on this time yesterday at 0.7847

CAD – but not the Mexican peso - looks to have been helped by suggestions that negotiations on reforming NAFTA could drag on until well into next year. GBP got a minor lift from slightly higher than expected growth in average earnings in yesterday's labour market report (2.2% against an expected 2.1%) which at the margin is seen playing in favour of the Bank of England raising rates before year-end.

As for EUR, source reports suggesting that the ECB might slash its bond buying to as little as €20bn per month from January (from €60bn now) seemed to support. The counterargument against EUR strength here is that this would allow the ECB to maintain QE for longer and in doing so further delay the process of lifting rates off their current -0.4% floor (remember the ECB has said rates will not rise until well after its Asset Purchase Programme (APP) has been completed).

The highlight of Fed speak overnight came from NY Fed President Bill Dudley (who has always been in sync. with the big hitters on the Fed Board). He said the Fed is 'on path' to achieve its 2017 rate forecast and to achieve three rate hikes in 2018. He says the real question is how far the so-called neutral rate will rise. This cuts to the heart of the current excitement about whether if John Taylor gets the nod to lead the Fed rates would necessarily be higher than otherwise. The original specification of Taylor's rule assumed a 2% neutral real rate. Janet Yellen currently thinks it's close to zero - hence policy is deemed properly calibrated - but will rise over time. We continue to believe that the 'right' trade will be to fade whatever short term volatility Trump's pick for Fed chair produces. Reports as we got to press suggest the announcement could be 'in coming days'.

Ray Attrill, Head of FX strategy

### Coming Up

September local labour force survey and China September activity numbers the economic focus. NZ First says they will tell us this afternoon whether it has or hasn't agreed to jump into bed with either Nationals or Labour (in practise Labour and Greens). For the NZD, our consistent view, still valid, is to fade whatever is the knee-jerk response to NZ First leader Peter's announcement – assuming of course that he has decided who to crown king or queen, even though we may be about to enter what proves to be a more unstable period in NZ political history.

In the wake of Chinese Leader Xi Xing Pin's 3-hour+ address to the 19<sup>th</sup> national party Congress yesterday – now that's milking it – today brings the official Q3 China GDP and, of greater interest, the slew of September activity reading from industrial production, retail sales and fixed asset investment. The GDP data is uninteresting in so far as we have already been told (by the likes of the governor of the PBOC) that growth will remain near 7% in H2 (therefore it will). Q3 should be 6.8 or 6.9% in both year on year or year-to-date growth, vs. 6.9% in Q2.

Any market volatility will come from the monthly numbers, where industrial production is seen recovering somewhat from the August dip – to 6.5% from 6.0% in yr/yr terms, with retail sales an investment little changed on the August numbers (which last printed 10.1% and 7.7% yr/yr respectively).

For today's Australia Employment report, leading indicators, including the Employment Index from the NAB Business Survey, point to yet another strong employment print. NAB's model points to what's turned out to be an above-consensus pick of +25K (market +15K). Such growth would arithmetically be sufficient to push the unemployment rate lower, except that it may well come from a lift in workforce participation. The risk on the unemployment rate is to the lower side of our (and the market consensus) forecast for an unchanged 5.6%.

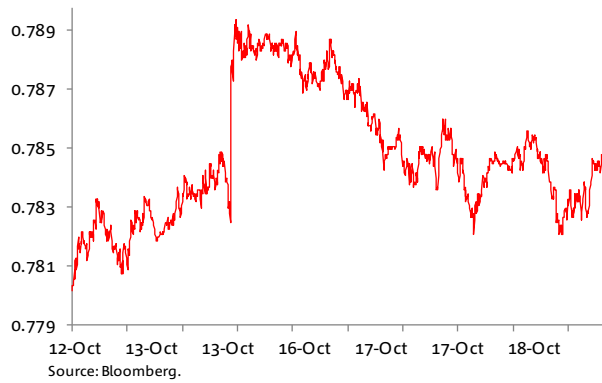
Offshore, it's UK retail sales (relevant to the debate about whether interest rates will go up in the next few months) and in the US, weekly jobless claims and the Philadelphia Fed survey.

### Overnight

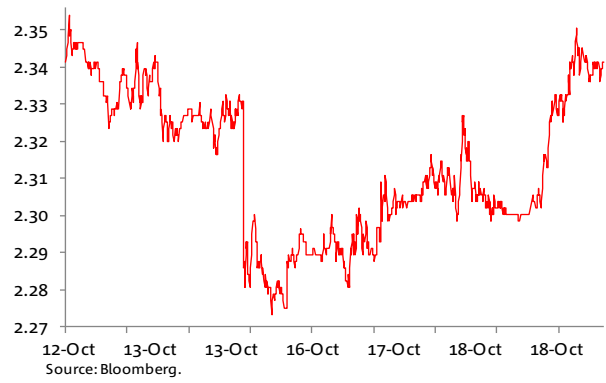
On global stock markets, the S&P 500 was +0.13%. Bond markets saw US 10-years +3.95bp to 2.34%. In commodities, Brent crude oil +0.54% to \$58.19, gold-0.2% to \$1,280, iron ore +0.0% to \$62.72, steam coal +1.0% to \$97.10, met. coal -0.1% to \$181.50. AUD is at 0.7847 and the range since yesterday 5pm Sydney time is 0.7819 to 0.7858.

# Markets

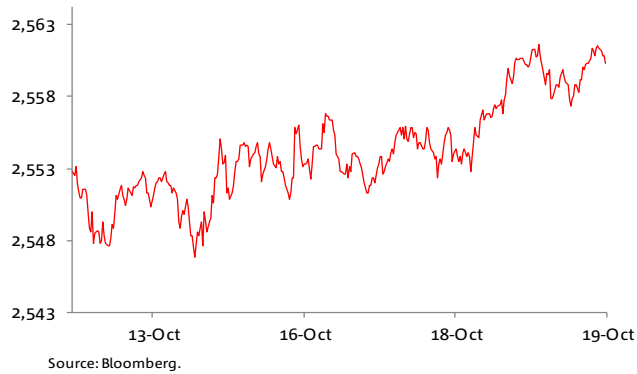
AUD/USD - past week



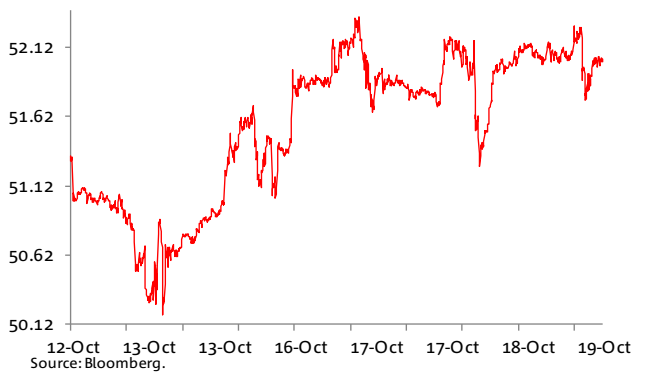
US 10yr - past week



S&P Future - past week



WTI - past week



## Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7847	0.0	0.7819	0.7858	HKD	7.8088 0.0
NZD	0.7147	-0.3	0.7119	0.7178	CNY	6.6274 0.1
EUR	1.1801	0.3	1.1730	1.1805	SGD	1.3566 0.0
GBP	1.3197	0.1	1.3140	1.3212	IDR	13,513 0.0
JPY	112.88	0.6	112.14	113.05	THB	33.12 0.0
CAD	1.2467	-0.4	1.2462	1.2534	KRW	1,130 -0.2
AUD/EUR	0.6649	-0.3	0.6647	0.6674	TWD	30.21 0.1
AUD/JPY	88.58	0.6	87.96	88.63	PHP	51.44 0.3
AUD/GBP	0.5946	0.0	0.5932	0.5957	CHF	0.98 0.2
AUD/NZD	1.0978	0.3	1.0932	1.0993	SEK	8.14 -0.2
AUD/CNH	5.1882	0.0	5.1791	5.1972		

## Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprrd
USD	1.25	1.36	1.81	2.32	USD 10	2.34	3.95
AUD	1.50	1.70	1.99	2.91	AUD 10	2.72	-3.90 0.38
NZD	1.75	1.93	2.20	3.18	NZD 10	2.90	-3.40 0.56
EUR	0.00	-0.33	-0.18	0.85	CAD 10	2.04	2.10 -0.30
GBP	0.25	0.38	0.82	1.35	EUR 10	0.40	3.10 -1.94
JPY	-0.04	-0.03	0.04	0.26	GBP 10	1.32	3.90 -1.02
CAD	1.00	1.43	1.88	2.35	JPY 10	0.07	0.30 -2.27

## Equities

Major Indices			
	Last	% day	% y/y
Dow	23,164	0.72	27.5
S&P 500	2,563	0.13	19.8
Nasdaq	6,633	0.14	26.5
VIX	10.01	-2.91	-34.5
FTSE	7,543	0.4	7.8
DAX	13,043	0.4	22.7
CAC 40	5,384	0.4	19.4
Nikkei	21,363	0.1	25.7
Shanghai	3,382	0.3	9.6
Hang Seng	28,712	0.0	23.2
ASX 200	5,890	0.0	8.4

## Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.26	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.22	2.00
3/10 sprd	0.58	1.00
SPI	5867.0	4.0

\*Change in bps

## Commodities\*

	Last	% day
Oil (Brent)	58.19	0.5
Oil (WTI)	52.02	0.3
Oil (Tapis)	59.58	0.0
Gold	1279.90	-0.2
CRB	183.99	-0.1
GS Metals	376.2	0.0
Aluminium	2106.5	-0.8
Copper	6964.5	-0.5
Nickel	11605.0	-1.0
Zinc	3149.0	1.8
Ch. steel	3613.0	-4.2
Iron ore	62.7	0.0
St. Coal	97.1	1.0
Met.coal	181.5	-0.1
Wheat Chic.	449.3	-1.0
Sugar	14.1	0.4
Cotton	67.6	-0.2
Coffee	124.3	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
<b>Thursday, 19 October 2017</b>							
JN	Trade Balance Adjusted	Sep		309.15		367.3	0.50
AU	NAB Business Confidence	3Q		7		7	1.30
AU	Employment Change/Unemployment rate	Sep	25/5.6	15/5.6		54.2/5.6	1.30
AU	RBA FX Transactions Market	Sep				571.0	1.30
AU	RBA's Bullock Gives Speech in Sydney						
CH	GDP SA QoQ/YoY	3Q		1.7/6.8		1.7/6.9	3.00
CH	Industrial Production YoY/YTD YoY	Sep		6.5/6.7		6.0/6.7	3.00
CH	Retail Sales YoY/YTD YoY	Sep		10.2/10.3		10.1/10.4	3.00
CH	Fixed Assets Ex Rural YTD YoY	Sep		7.7		7.8	3.00
AU	HIA House Affordability Index	3Q				69.4	
JN	All Industry Activity Index MoM	Aug		0.2		-0.1	5.30
CH	FX Net Settlement - Clients CNY	Sep				-27.6	
JN	Machine Tool Orders YoY	Sep F				45.3	7.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Sep		-0.2/2.2		1.0/2.8	9.30
US	Initial Jobless Claims	Oct 14		240		243.0	13.30
US	Philadelphia Fed Business Outlook	Oct		22		23.8	13.30
US	Bloomberg Consumer Comfort	Oct 15				49.5	14.45
US	Leading Index	Sep		0.1		0.4	15.00
<b>Friday, 20 October 2017</b>							
NZ	Net Migration SA	Sep				5490.0	22.45
NZ	Credit Card Spending MoM/YoY	Sep		/		-0.7/6.4	3.00
GE	PPI MoM/YoY	Sep		0.1/2.9		0.2/2.6	7.00
JN	BOJ Kuroda speaks in Tokyo						7.35
EC	ECB Current Account SA	Aug				25.1	9.00
UK	Public Finances (PSNCR)/Central Government NCR	Sep		/		0.0/1.0	9.30
CA	CPI NSA MoM/YoY	Sep		0.3/1.7		0.1/1.4	13.30
CA	CPI Core- Common/Trim YoY%	Sep		/		1.5/1.4	13.30
CA	CPI Core- Median YoY%	Sep		/		1.7	13.30
CA	Retail Sales MoM/ex autos	Aug		0.5/0.3		0.4/0.2	13.30
US	Existing Home Sales #/MoM	Sep		5.3/-0.93		5.4/-1.7	15.00
US	Baker Hughes U.S. Rig Count/Oil Rigs	Oct 20		/		928.0/743.0	18.00
US	Fed's Mester Speaks on Global Regulatory Structure						19.00
US	Yellen Speaks to National Economists Club in Washington						0.15
<b>Monday, 23 October 2017</b>							
CH	Property Prices	Sep					2.30
JN	Leading Index CI	Aug F				106.8	6.00
EC	Govt Debt/GDP Ratio	2016				#N/A N/A	10.00
UK	CBI Business Optimism	Oct				5.0	11.00
UK	CBI Trends Total Orders/Selling Prices	Oct		/		7.0/18.0	11.00
CA	Wholesale Trade Sales MoM	Aug				1.5	13.30
US	Chicago Fed Nat Activity Index	Sep				-0.3	13.30
CA	Bloomberg Nanos Confidence	Oct 20				57.9	15.00
EC	Consumer Confidence	Oct A				-1.2	15.00
<b>Tuesday, 24 October 2017</b>							
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct 22				112.4	23.30
JN	Nikkei Japan PMI Mfg	Oct P				52.9	1.30
GE	Markit/BME Germany Manufacturing/Services PMI	Oct P		/		60.6/55.6	8.30
GE	Markit/BME Germany Composite PMI	Oct P				57.7	8.30
EC	ECB Bank Lending Survey						9.00
EC	Markit Eurozone Manufacturing PMI	Oct P				58.1	9.00
EC	Markit Eurozone Services PMI	Oct P				55.8	9.00
EC	Markit Eurozone Composite PMI	Oct P				56.7	9.00
EC	Euro Area Second Quarter Government Deficit	Q2					10.00
EC	Euro Area Second Quarter Government Debt	Q2					10.00
US	Markit US Manufacturing/Services PMI	Oct P		/		53.1/55.3	14.45
US	Markit US Composite PMI	Oct P				54.8	14.45
US	Richmond Fed Manufact. Index	Oct		16		19.0	15.00
<b>Wednesday, 25 October 2017</b>							
AU	Skilled Vacancies MoM	Sep				0.3	1.00
AU	CPI QoQ	3Q		/		0.2/1.9	1.30
AU	CPI Trimmed Mean QoQ	3Q		/		0.5/1.8	1.30
AU	CPI Weighted Median QoQ	3Q		/		0.5/1.8	1.30
GE	IFO Business Climate	Oct				115.2	9.00
GE	IFO Current Assessment/Expectations	Oct		/		123.6/107.4	9.00
UK	UK Finance Loans for Housing	Sep				41807.0	9.30
UK	GDP QoQ/YoY	3Q A		0.3/1.5		0.3/1.5	9.30
UK	Index of Services MoM/3m rolling change	Aug		/		-0.2/0.5	9.30
US	MBA Mortgage Applications	Oct 13				-2.1	12.00
US	Durable Goods Orders	Sep P		1		2.0	13.30
US	Cap Goods Orders Nondef Ex Air	Sep P		0.1		1.1	13.30
EC	European Commission Economic Forecasts						25 Oct - 7 N
US	FHFA House Price Index MoM	Aug				0.2	14.00
CA	Bank of Canada Rate Decision	Oct 25		1		1.0	15.00
US	New Home Sales, #/MoM	Sep		550/-1.8		560.0/-3.4	15.00
CA	Bank of Canada Releases October Monetary Policy Report						15.00
CA	BOC's Poloz and Wilkins Hold Press Conference in Ottawa						16.15
<b>Upcoming Central Bank Interest Rate Announcements</b>							
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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