

MARKETS TODAY

Don't Dream It's Over



Good morning

The biggest news overnight was the finalisation of the NZ Government. Labour's Jacinda Arden will now be the next Prime Minister following NZ First's deal to form a coalition government. The Kiwi moved sharply on the news and is now down 2% overnight. Other market moves were more contained: equities were slightly weaker (S&P500 flat, EuroStoxx -0.5%), yields nudged slightly lower (10-year USTs -2bps), and there was slight US dollar weakness (DXY -0.2%). As we go to print, Powell is shaping up to be the next Fed chair according to Politico.

First to NZ politics. After 26 days of waiting, NZ First's Winston Peters finally announced that he would be forming a coalition government with Labour and the Greens will provide confidence and supply. Ms Arden will now be NZ's youngest prime minister at 37 years. A formal coalition agreement will be signed today and publically released early next week. NZ First is set to get four cabinet ministers and a junior secretary outside of cabinet. Despite the Greens not being in the government, the Greens will get 3 ministerial positions outside of Cabinet and also an under-secretary role.

With little policy detail to go on, it's no surprise the market took its cue from the pre-election policies of both parties and sold on the news. The NZ dollar fell sharply and is down 2% to 0.7027, where it now appears to be now finding a floor (the low was 0.7009). With US dollar weakness overnight, the Kiwi fell more sharply against the Euro (2.3%) and the Aussie (2.2%).

Despite the initial market reaction, it is unclear whether the eventual policies will prove to be Kiwi dollar negative or positive. It's likely a Labour-NZ First government will ramp up spending, immigration could be reduced in some way which could tighten the labour market at the margin, and the minimum wage could be hiked as well. Of course until we get more policy certainty it's likely a cloud will hang over the Kiwi, but the negative impulse is likely to quickly fade against global forces.

As for other FX moves, it was a story of slight USD weakness with the DXY down 0.2%. Correspondingly the Euro was higher (+0.4%) along with the Yen (+0.3%).

The Aussie had some intra-day volatility, initially up 0.4% on the better than expected jobs figures yesterday, while retracing on slightly lower than expected Chinese data. Overall it has finished up 0.2% and is currently trading at 0.7880.

Also potentially weighing was China's Central Bank Governor who warned of the build-up in corporate and household debt and that a sharp correction could occur. That's likely to see the Chinese government attempt to implement further reforms, despite keeping the economic growth target largely unchanged.

In rates, US 10-year Treasury yields fell 2.0 bps to 2.33%. There was no clear catalyst for the moves and moves within Treasuries were mostly contained in a narrow band.

Data overnight was mostly second-tier but were very strong. US Jobless Claims fell to their lowest levels since 1973 at 222k and well below the consensus of 240k. It's clear from these stats that Texas and Florida have largely run through their hurricane distortion and that sets up Payrolls for a strong bounce in the months ahead. Mapping Jobless Claims to payrolls suggests growth of 200k a month, which would be more than enough to put downward pressure on the unemployment rate. The Philly Fed was also out overnight and it rose to 27.9 from 23.8 and was also well above the consensus of 22.0; the employment sub-index was also very strong.

Strong labour market data should continue to give the Fed confidence in wages and inflation picking up and argues towards the Fed continuing along its dot point path. Despite that the market still only prices two rate hikes by 2018 against the Fed's dot points of four. As we go to print, Politico reports Trump is leaning towards Powell for the next Fed-chair. Powell is known to be favoured by Treasury Secretary Mnuchin. Powell is seen to be willing to accommodate the financial de-regulation agenda and is also seen as relatively dovish against other contenders. However, your scribe also notes that while that may be the case, he is also likely to be slightly more hawkish than current Fed chair Yellen.

Coming Up

The international highlight will be a speech by Fed chair Yellen, who is giving a lecture on 'Monetary Policy Since the Financial Crisis' (10.30am Saturday AEDT). Also speaking from the Fed is Mester (non-voter, hawk) (5.00am Saturday AEDT).

Other pieces of data include Canadian CPI figures (11.30pm AEDT). The market looks for the annual pace to pick up to 1.7% y/y from 1.4%. How CPI prints will be crucial for the outlook with the Bank of Canada currently in wait and see mode after having hiked twice recently. The market currently prices a year-end rate hike at a 54% probability and fully prices a rate hike by January 2018. Also out in Canada are Retail Sales.

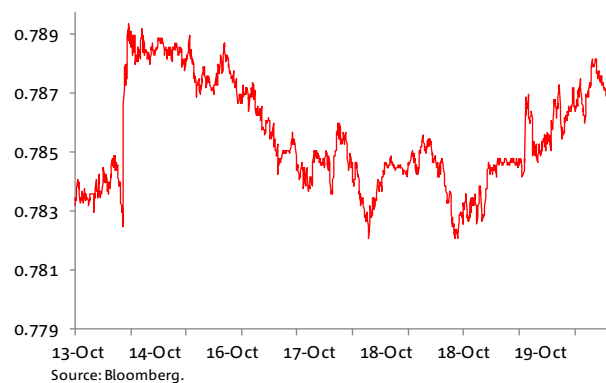
Otherwise it's mostly second-tier data. Baker Hughes drill rigs and existing home sales.

Overnight

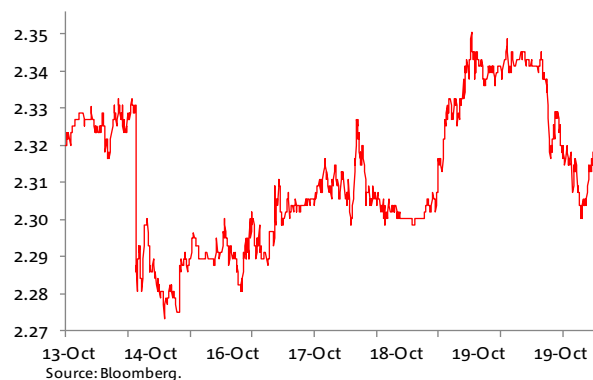
On global stock markets, the S&P 500 was -0.03%. Bond markets saw US 10-years -1.97bp to 2.33%. In commodities, Brent crude oil -1.60% to \$57.22, gold +0.4% to \$1,285, iron ore -2.9% to \$60.88, steam coal -0.4% to \$96.75, met. coal +0.3% to \$182.00. AUD is at 0.7863 and the range since yesterday 5pm Sydney time is 0.7841 to 0.7884.

Markets

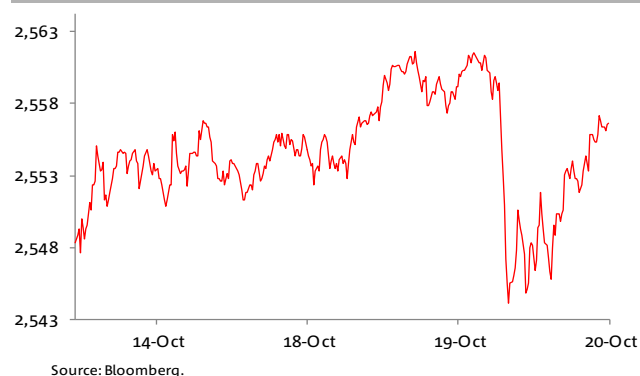
AUD/USD - past week



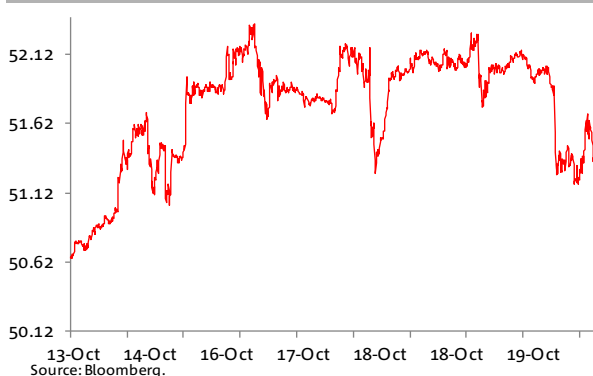
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

Indicative 24hr
ranges (**)

	Last	% chge	Low	High		Last	% chge
AUD	0.7863	0.2	0.7841	0.7884	HKD	7.8010	-0.1
NZD	0.7010	-2.0	0.7010	0.7171	CNY	6.6138	-0.2
EUR	1.1833	0.4	1.1768	1.1858	SGD	1.3584	0.1
GBP	1.3151	-0.4	1.3135	1.3229	IDR	13,515	0.0
JPY	112.65	-0.3	112.30	113.15	THB	33.13	-0.1
CAD	1.2493	0.2	1.2451	1.2494	KRW	1,132	0.2
AUD/EUR	0.6645	-0.2	0.6641	0.6672	TWD	30.22	0.0
AUD/JPY	88.58	0.0	88.39	89.00	PHP	51.48	0.1
AUD/GBP	0.5979	0.6	0.5934	0.5988	CHF	0.98	-0.5
AUD/NZD	1.1217	2.2	1.0954	1.1225	SEK	8.14	-0.1
AUD/CNH	5.2109	0.4	5.1852	5.1962			

Other FX

Equities

Major Indices

	Last	% day	% y/y
Dow	23,144	-0.06	27.1
S&P 500	2,561	-0.03	19.4
Nasdaq	6,596	-0.42	25.7
VIX	10.09	0.20	-30.0
FTSE	7,523	-0.3	7.1
DAX	12,990	-0.4	22.0
CAC 40	5,368	-0.3	18.8
Nikkei	21,449	0.4	24.4
Shanghai	3,370	-0.3	9.3
Hang Seng	28,159	-1.9	20.5
ASX 200	5,896	0.1	8.3

Commodities*

	Last	% day
Oil (Brent)	57.22	-1.6
Oil (WTI)	51.37	-1.3
Oil (Tapis)	59.11	-0.8
Gold	1285.30	0.4
CRB	184.07	0.0
GS Metals	376.0	0.2
Aluminium	2143.0	1.7
Copper	6946.0	-0.3
Nickel	11693.5	0.8
Zinc	3142.0	-0.2
Ch. steel	3634.0	-2.7
Iron ore	60.9	-2.9
St. Coal	96.8	-0.4
Met.coal	182.0	0.3
Wheat Chic.	451.3	0.4
Sugar	14.1	0.4
Cotton	67.3	-0.5
Coffee	126.9	2.1

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.26	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.21	-1.50
3/10 sprd	0.59	4.50
SPI	5862.0	8.0

*Change in bps

Interest Rates

Indicative Swap Rates

	Cash	3mth	2Yr	10Yr		Last	chge	Spred
USD	1.25	1.36	1.80	2.31	USD 10	2.33	-1.97	
AUD	1.50	1.70	2.00	2.92	AUD 10	2.76	3.90	0.44
NZD	1.75	1.93	2.17	3.17	NZD 10	2.94	4.00	0.61
EUR	0.00	-0.33	-0.19	0.85	CAD 10	2.02	-1.60	-0.31
GBP	0.25	0.38	0.80	1.32	EUR 10	0.40	-0.10	-1.93
JPY	-0.04	-0.04	0.03	0.25	GBP 10	1.28	-3.60	-1.05
CAD	1.00	1.43	1.86	2.34	JPY 10	0.07	-0.60	-2.26

Benchmark 10 Year Bonds

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
Thursday, 19 October 2017							
JN	Trade Balance Adjusted	Sep		309.15		367.3	0.50
AU	NAB Business Confidence	3Q				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
Friday, 20 October 2017							
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
Monday, 23 October 2017							
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
Tuesday, 24 October 2017							
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
Wednesday, 25 October 2017							
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
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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