

MARKETS TODAY

Sweet Dreams



Good morning

As song titles go, *Sweet Dreams* by the Eurythmics probably sums up overnight price action the best. It was a night of limited market moves with markets trading water ahead of key risk events later in the week (ECB Thursday and US GDP Friday). US dollar strength continued (DXY +0.2%), bond yields barely moved (USTs -1.6bps), while equities were mixed (S&P500 -0.4%; Eurostoxx +0.1%). Speculation over the next US Fed chair also continued with Trump stating he was “very, very close” to naming a nominee.

In FX, US dollar strength continued with the DXY +0.2% following on Friday’s 0.5% rise. The US dollar has been supported following better prospects for tax reform and continued speculation on the next Fed chair being more hawkish. Last Friday President Trump said he was considering wither Powell, Taylor and Yellen, while a combination of chair/vice-chair was also a possibility. Today he said he was “very, very close” to announcing a nominee. Who he chooses remains to be seen, but betting markets still place Powell at the top (59c), followed by Taylor (15c) and Yellen (15c).

For markets, the key point is that both Taylor and Powell should be seen as more hawkish than Yellen, while Taylor is also seen as more hawkish than Powell. How hawkish? A hybrid Taylor Tule recently used by Yellen suggests the Fed funds rate should be around 2.25% - that is currently 100bps higher than it currently is. If Taylor is nominated then don’t be surprised to see a bond sell-off and further US dollar strength.

Other FX moves were largely contained. The Yen was lower (-0.2%) following the very convincing election win for PM Abe. The win is seen as supportive for ‘Abenomics’ which increases the likelihood of ongoing monetary and fiscal policy and also increases the odds for BoJ Governor Kuroda’s term being extended when his term expires in April. It is no surprise then to see Japanese stocks up with the Nikkei up 1.1% yesterday.

As for Europe, the Euro was lower (-0.3%) overnight ahead of the ECB meeting on Thursday. While concerns over Catalonia could have contributed, someone forgot to tell Spanish bond investors where bond yields actually fell (10 years down 4bps to 1.62% and 2 years flat). As for the ECB meeting Thursday, some form of a tapering announcement is expected. A Bloomberg survey suggests the ECB will reduce monthly bond purchases to €20-30bn a month, down from the current €60bn.

Across the Ditch, the NZD has found support at the 0.6965 level after having fallen 2.3% against the USD over the past couple of days. Our own short term fair value models of the currency suggest a figure of around 0.73 so we view the currency as being a bit oversold at the moment. As for how the market has interpreted the prospective government, 2-year swap rates fell 4bps to 2.17% on Friday, 10-year swap rose 1 bps to 3.21%, while

inflation breakevens rose. Pricing for the next RBNZ move was also pushed out a few months to Feb 2019. It seems therefore the rates market is expecting lower real rates, but higher inflation. As we go to print, Jacinda Ardern has confirmed that the vast majority of her initial 100 day plan will be implemented.

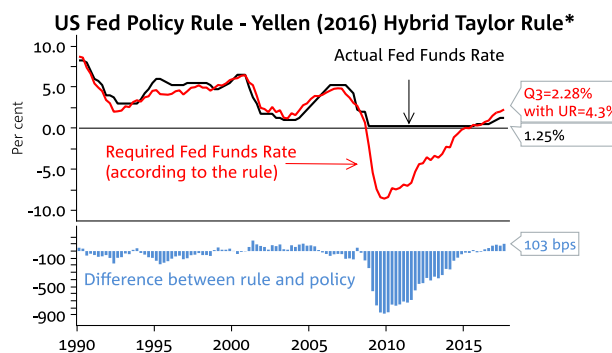
Coming Up

Domestically we get second-tier Weekly Consumer Confidence which does not tend to excite too much. The prior week was 112.4 and a small bounce could be expected in reaction to last week’s very strong employment figures.

International focus will be on the PMIs. These tend to get more traction in Europe, but are largely ignored in the US due to the more important and long-established Manufacturing ISM (release 1 Nov). As for the PMIs, first up is Japan (11.30am AEDT), then it is over to Europe (7.00pm AEDT) where the market looks for a still strong but slightly more moderate read for Manufacturing at 57.8 (from 58.1) and for Services at 55.6 (from 55.8).

Of the second-tier data, the Richmond Fed Manufacturing Index might be worth a casual observation as an indicator for the more important Manufacturing ISM next week. Company reporting season also heats up with AT&T, General Motors and McDonalds posting results. Political events will also be in focus with China’s 19th Communist Party Congress wrapping up.

Chart 1: Taylor rule suggests higher rates – 100bps more



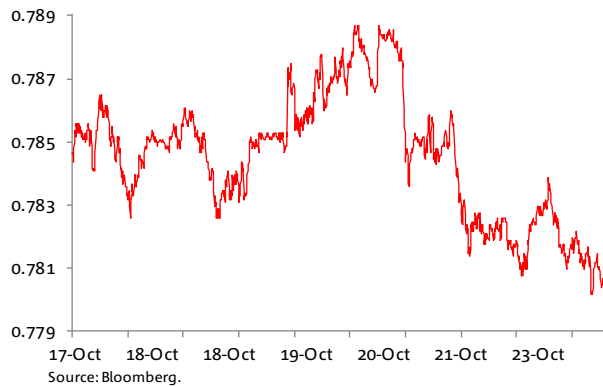
* Yellen (2016) example policy rule incorporating Laubach & Williams neutral rate of interest (R*) and the CBO's estimate of the natural rate of unemployment (U*)
Source: National Australia Bank, Macrobond

Overnight

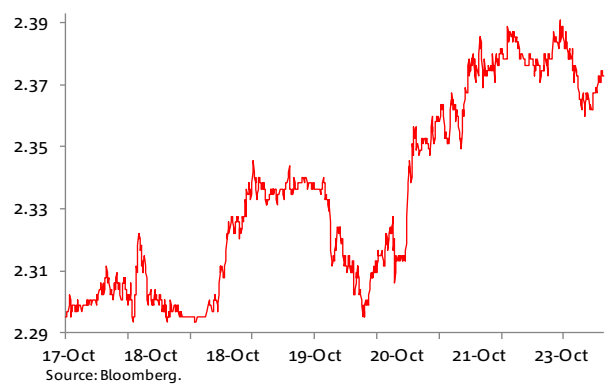
On global stock markets, the S&P 500 was -0.40%. Bond markets saw US 10-years -1.63bp to 2.37%. In commodities, Brent crude oil -0.66% to \$57.37, gold+0.3% to \$1,281, iron ore -0.7% to \$62.00, steam coal -0.6% to \$96.55, met. coal +0.3% to \$181.50. AUD is at 0.7805 and the range since yesterday 5pm Sydney time is 0.7796 to 0.7835.

Markets

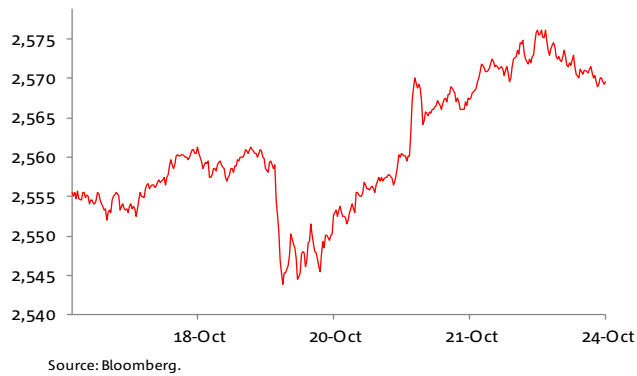
AUD/USD - past week



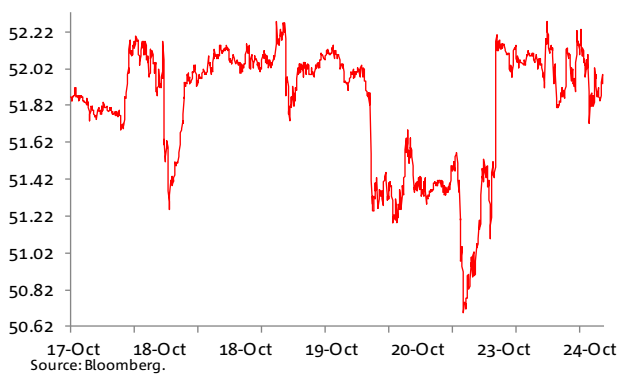
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High		Last	% chge
AUD	0.7805	-0.2	0.7796	0.7835	HKD	7.8008	0.0
NZD	0.6964	0.0	0.6932	0.6990	CNY	6.6400	0.3
EUR	1.1747	-0.3	1.1725	1.1777	SGD	1.3620	0.1
GBP	1.3199	0.1	1.3158	1.3227	IDR	13,543	0.2
JPY	113.41	-0.1	113.25	114.10	THB	33.18	0.0
CAD	1.2651	0.2	1.2614	1.2660	KRW	1,130	-0.1
AUD/EUR	0.6644	0.2	0.6629	0.6660	TWD	30.26	0.0
AUD/JPY	88.51	-0.3	88.43	89.10	PHP	51.52	0.1
AUD/GBP	0.5913	-0.3	0.5905	0.5946	CHF	0.99	0.1
AUD/NZD	1.1207	-0.2	1.1189	1.1258	SEK	8.21	0.5
AUD/CNH	5.1777	0.1	5.1717	5.2089			

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	1.25	1.36	1.80	2.35	USD 10	2.37	-1.63	
AUD	1.50	1.70	1.98	2.92	AUD 10	2.80	1.80	0.43
NZD	1.75	1.94	2.17	3.21	NZD 10	2.97	4.00	0.60
EUR	0.00	-0.33	-0.18	0.89	CAD 10	2.03	-0.30	-0.34
GBP	0.25	0.39	0.81	1.36	EUR 10	0.43	-2.00	-1.94
JPY	-0.04	-0.04	0.04	0.26	GBP 10	1.31	-1.90	-1.06
CAD	1.00	1.43	1.84	2.34	JPY 10	0.07	-0.60	-2.30

Equities

Major Indices			
	Last	% day	% y/y
Dow	23,274	-0.23	28.3
S&P 500	2,565	-0.40	19.8
Nasdaq	6,587	-0.64	25.3
VIX	10.99	10.23	-17.6
FTSE	7,524	0.0	7.2
DAX	13,003	0.1	21.4
CAC 40	5,387	0.3	18.8
Nikkei	21,697	1.1	25.9
Shanghai	3,381	0.1	8.1
Hang Seng	28,306	-0.6	19.9
ASX 200	5,894	-0.2	9.0

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.26	0.00
3 Yr bond	97.8	0.00
10 Yr bond	97.19	-2.50
3/10 sprd	0.61	2.50
SPI	5870.0	20.0

Commodities*

	Last	% day
Oil (Brent)	57.37	-0.7
Oil (WTI)	51.91	0.1
Oil (Tapis)	59.09	1.0
Gold	1280.80	0.3
CRB	184.71	0.3
GS Metals	376.7	0.6
Aluminium	2125.8	0.0
Copper	6983.8	0.8
Nickel	11810.5	1.1
Zinc	3160.0	1.1
Ch. steel	3737.0	1.6
Iron ore	62.0	-0.7
St. Coal	96.6	-0.6
Met. coal	181.5	0.3
Wheat Chic.	455.0	2.4
Sugar	13.9	-0.9
Cotton	69.7	4.2
Coffee	124.4	-0.7

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	0.2	1.0%
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

Saturday, 21 October 2017						
US	Yellen Speaks to National Economists Club in Washington				0.15	10.15
Monday, 23 October 2017						
NZ	Public Holiday					
CH	Property Prices	Sep			2.30	12.30
JN	Leading Index CI	Aug F			6.00	16.00
EC	Govt Debt/GDP Ratio	2016		#N/A N/A	10.00	20.00
UK	CBI Business Optimism	Oct		5.0	11.00	21.00
UK	CBI Trends Total Orders/Selling Prices	Oct	/	7.0/18.0	11.00	21.00
CA	Wholesale Trade Sales MoM	Aug		1.5	13.30	23.30
US	Chicago Fed Nat Activity Index	Sep	-0.1	-0.3	13.30	23.30
CA	Bloomberg Nanos Confidence	Oct 20		57.9	15.00	1.00
EC	Consumer Confidence	Oct A	-1.1	-1.2	15.00	1.00
Tuesday, 24 October 2017						
CH	19th People's Party Congress Wraps Up					
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct 22		112.4	23.30	9.30
JN	Nikkei Japan PMI Mfg	Oct P		52.9	1.30	11.30
GE	Markit/BME Germany Manufacturing/Services PMI	Oct P	60/55.6	60.6/55.6	8.30	18.30
GE	Markit/BME Germany Composite PMI	Oct P	57.7	57.7	8.30	18.30
EC	ECB Bank Lending Survey				9.00	19.00
EC	Markit Eurozone Manufacturing PMI	Oct P	57.7	58.1	9.00	19.00
EC	Markit Eurozone Services PMI	Oct P	55.8	55.8	9.00	19.00
EC	Markit Eurozone Composite PMI	Oct P	56.5	56.7	9.00	19.00
EC	Euro Area Second Quarter Government Deficit	Q2			10.00	20.00
EC	Euro Area Second Quarter Government Debt	Q2			10.00	20.00
US	Markit US Manufacturing/Services PMI	Oct P	53/55	53.1/55.3	14.45	0.45
US	Markit US Composite PMI	Oct P		54.8	14.45	0.45
US	Richmond Fed Manufact. Index	Oct	16	19.0	15.00	1.00
Wednesday, 25 October 2017						
AU	Skilled Vacancies MoM	Sep		0.3	1.00	11.00
AU	CPI QoQ	3Q	0.8/2.0	0.8/2	0.2/1.9	1.30
AU	CPI Trimmed Mean QoQ	3Q	0.5/2.0	0.5/2	0.5/1.8	1.30
AU	CPI Weighted Median QoQ	3Q	0.4/1.9	0.5/2	0.5/1.8	1.30
GE	Ifo Business Climate	Oct		115	9.00	19.00
GE	Ifo Current Assessment/Expectations	Oct	123.5/107.3	123.6/107.4	9.00	19.00
UK	UK Finance Loans for Housing	Sep		41807.0	9.30	19.30
UK	GDP QoQ/YoY	3Q A	0.3/1.5	0.3/1.5	9.30	19.30
UK	Index of Services MoM/3m rolling change	Aug	/	-0.2/0.5	9.30	19.30
US	MBA Mortgage Applications	Oct 20		3.6	12.00	22.00
US	Durable Goods Orders	Sep P	1.3	2.0	13.30	23.30
US	Cap Goods Orders Nondef Ex Air	Sep P	0.2	1.1	13.30	23.30
EC	European Commission Economic Forecasts					25 Oct - 7 Nov release
US	FHFA House Price Index MoM	Aug	0.4	0.2	14.00	0.00
CA	Bank of Canada Rate Decision	Oct 25	1	1.0	15.00	1.00
US	New Home Sales, #/MoM	Sep	550/-1.8	560.0/-3.4	15.00	1.00
CA	Bank of Canada Releases October Monetary Policy Report				15.00	1.00
CA	BOC's Poloz and Wilkins Hold Press Conference in Ottawa				16.15	2.15
Thursday, 26 October 2017						
NZ	Trade Balance NZD	Sep	-900	-1235.0	22.45	8.45
JN	PPI Services YoY	Sep	0.8	0.8	0.50	10.50
AU	Import/Export Price Index QoQ	3Q	-1.8/-4	-0.1/-5.7	1.30	11.30
CH	Swift Global Payments CNY	Oct		1.9	2.00	12.00
GE	GfK Consumer Confidence	Nov	10.8	10.8	7.00	17.00
AU	RBA's Debelle Gives Speech in Sydney				8.45	18.45
UK	CBI Retailing/Total Distributives Reported Sales	Oct		42.0/44.0	11.00	21.00
EC	ECB Main Refinancing Rate/Marginal Lending Facility Rat	Oct 26	0/0.25	0.0/0.3	12.45	22.45
EC	ECB Deposit Facility Rate/Asset Purchase Target	Oct 26	-0.4/	-0.4/60.0	12.45	22.45
US	Wholesale Inventories MoM	Sep P		0.9	13.30	23.30
US	Initial Jobless Claims	Oct 21		222.0	13.30	23.30
US	Advance Goods Trade Balance	Sep	-64	-63.3	13.30	23.30
US	Retail Inventories MoM	Sep		-999998.0	13.30	23.30
US	Bloomberg Consumer Comfort	Oct 22		51.1	14.45	0.45
US	Pending Home Sales MoM/YoY	Sep	0.25/	-2.6/-3.1	15.00	1.00
US	Kansas City Fed Manf. Activity	Oct		17.0	16.00	2.00
Friday, 27 October 2017						
JN	Natl CPI/ex Fresh Food YoY	Sep	0.7/0.7	0.7/0.7	0.30	10.30
JN	Natl CPI Ex Fresh Food, Energy YoY	Sep	0.2	0.2	0.30	10.30
AU	PPI QoQ/YoY	3Q	/	0.5/1.7	1.30	11.30
CH	Industrial Profits YoY	Sep		24.0	2.30	12.30
EC	ECB Survey of Professional Forecasters				9.00	19.00
US	GDP Annualized QoQ	3Q A	2.5	3.1	13.30	23.30
CA	CFIB Business Barometer	Oct		56.9		
US	U. of Mich. Sentiment/5-10Y Inflation expectations	Oct F	101/	101.1/2.4	15.00	1.00
US	Baker Hughes U.S. Rig Count/Oil Rigs only	Oct 20	/	928.0/743.0	18.00	4.00
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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