

MARKETS TODAY

Nobody's baby now



Good morning

After a sleepy start to the week markets have awakened over the past 24hrs. US equities are softer amid disappointing earnings results and Republican tensions threatening the prospects for tax reform. US Data has helped push UST yields higher and rate hike expectations have weighing on the AUD and CAD while GBP has outperformed.

Like Nick Cave and the bad seeds would sing, the AUD and CAD are nobody's babies now with both currencies struggling to find any loving. The AUD is down just over 1% over the past 24 hrs after yesterday's weaker than expected Q3 CPI print (0.6% headline vs. 0.8% estimate and 0.4%/0.3% for the trimmed mean/weighted median measures vs a pair of 0.5% expected). The AUD reached a 2 year and four month high of 0.8125 early in September amid a softer USD and buoyant commodity prices. Since then, however, the AUD has come under pressure following a resurgence in USD strength, softness in key commodity exports (in particular iron ore, but also coal and gold) and more recently a pullback in RBA rate hike expectations which intensified yesterday following a softer than expected Q3 CPI. At the start of the week the market was eyeing the probability of a second RBA hike at just under 40% at the November meeting next year, now the market is only pricing one hike in a year's time.

Our modelling of the AUD suggests that the recent decline in the currency is consistent with what you would expect based on fundamentals. The AUD is currently trading at just under the 77c mark and fair value is seen at just under 78c, so the pair is well inside its 2.6c fair value range. Also this means that despite the recent decline, the AUD is not stretched based on fundamentals suggesting there is still downside risk for the currency. Focus now is on key technical support levels with the trend line support from 2016 and early 2017 peaks and the 200dma suggesting a break below 0.7690 could well see the AUD trading with a 0.75 handle (see chart of the day below). The domestic story is likely to take a back seat after the CPI release, so near term further AUD weakness will likely depend on how the USD performs and a break above the 94 mark in DXY will be crucial in that regard. Looking towards the end of the year we still see the AUD heading down to 75c and then 73c in H1-18 amid our expectations of further strength in the USD aided by solid data releases and a Fed that hikes in December and retains it view for further hikes next year. We don't think the AUD is likely to find much support from commodity prices over the coming months and the big question is whether risk appetite can remain buoyant, US tax reform will be important too, but our best guess is that some reform will be achieved supporting US equities and the USD.

Moving on to other currencies, AD was also the other underperformer down 1% and currently trading at 1.2804, its highest level since early July. Overnight the BoC was unchanged as expected, but the sentence that it

will be 'cautious' with future rate increases weighed on the Loonie as the market pushed out the expectations of further BoC hikes.

Meanwhile GBP has been the winner in the overnight session, up 0.38% and currently trading at 1.3254. UK Q3 GDP growth was 0.1% points higher than expected (0.4%qoq vs. 0.3 exp.), but that was enough to cement in expectations that the BoE would hike rates next month. 10y UK gilts jumped up 5bps to an 8-month high of 1.40% and now a November BoE hike is priced at 90% up from 80% yesterday.

UST yields are currently trading at 2.43%, about 2bps higher relative to Sydney's closing levels boosted by the stronger than expected UK GDP and US durable goods and home sales data.

Coming up

Today is all about the ECB announcing its tapering plan for its bond buying programme, but tensions between Spain and Cataluña could also be important for market amid the senate vote on triggering Article 155 of the constitution. Ahead of the big events, this morning Australia gets import and export prices for Q3, which for some of us is an important stat that can give a good guide on how the terms of trade performed over the quarter. Also this morning New Zealand gets its trade data for September and tonight RBA Deputy Governor Debelle will be speaking about "uncertainty" at the University of Sydney.

The CBI retailing report is out in the UK, the Riskbank and Norges Bank also have policy announcements, but an unchanged outcome is expected in both instances. The US gets its weekly jobless claims reading along with Wholesale Inventories, Advance Goods Trade Balance, Pending Home Sales and Kansas City Fed Manufacturing Index.

As for the ECB tonight, expectations are for the Bank to announce an extension to its Asset Purchases programme (APP), but at a slower buying pace relative to the current €60bn p/m. The big uncertainty is not just about how much slower the buying run rate is going to be, but also for how much longer the APP will run for.

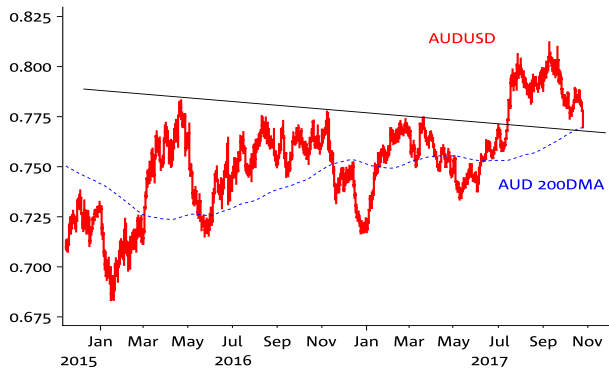
While Euro strength and higher EU bond yields should be expected as the ECB slowly removes the stimulatory punchbowl, the 13% rise in the EUR so far this year has undoubtedly ruffled a few feathers within the Bank, particularly given its impact on the inflation outlook. A week or so ago the market was looking for the programme to run for 6 to 9 month at a pace between €40 or €30bn p/m. But based on recent ECB stories our sense is that the Bank will aim to strike a dovish tapering strategy, stressing the programme could run for longer if needed while also reiterating that the deposit and repo rate will not rise until well after QE ends. We think the EUR/USD ought to hold a 1.1675-1.1875 range near-term, ultimately however tapering is tapering, therefore our bias is still for the EUR to eventually head higher, but

while further forays to 1.20 or so may well be seen between now and the end of 2017, we're not forecasting a more sustained move above 1.20 until 2018.

Overnight

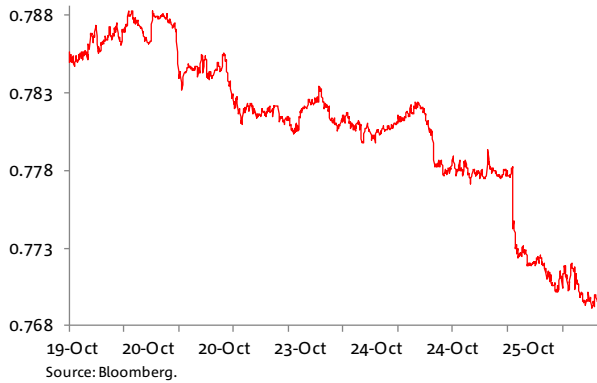
On global stock markets, the S&P 500 was -0.55%. Bond markets saw US 10-years +2.19bp to 2.44%. In commodities, Brent crude oil +0.09% to \$58.38, gold-0.0% to \$1,275, iron ore -0.3% to \$62.24, steam coal -0.1% to \$97.15, met. coal +0.0% to \$181.50. AUD is at 0.7695 and the range since yesterday 5pm Sydney time is 0.769 to 0.7784.

Chart of the day: Watching support level for AUD

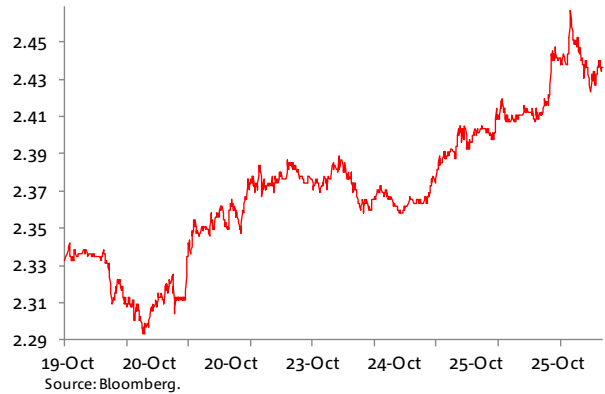


Markets

AUD/USD - past week



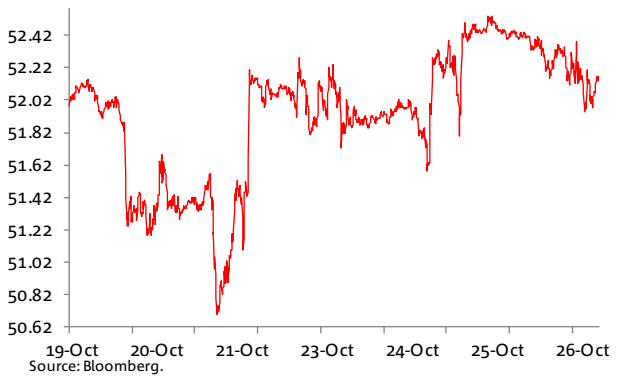
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7695	-1.0	0.7690	0.7784	HKD	7.8035 0.0
NZD	0.6870	-0.6	0.6861	0.6913	CNY	6.6391 0.0
EUR	1.1808	0.4	1.1753	1.1818	SGD	1.3607 -0.1
GBP	1.3254	0.9	1.3110	1.3272	IDR	13,578 0.3
JPY	113.70	-0.2	113.48	114.24	THB	33.19 0.0
CAD	1.2813	1.1	1.2640	1.2817	KRW	1,128 0.0
AUD/EUR	0.6517	-1.4	0.6514	0.6619	TWD	30.27 0.0
AUD/JPY	87.49	-1.2	87.33	88.67	PHP	51.81 0.3
AUD/GBP	0.5806	-1.9	0.5802	0.5929	CHF	0.99 -0.2
AUD/NZD	1.1201	-0.5	1.1181	1.1270	SEK	8.23 0.1
AUD/CNH	5.1131	-0.9	5.1077	5.1888		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.37	1.83	2.42	USD 10	2.44	2.19
AUD	1.50	1.70	1.96	2.94	AUD 10	2.76	-1.40 0.32
NZD	1.75	1.94	2.17	3.24	NZD 10	3.01	2.90 0.57
EUR	0.00	-0.33	-0.17	0.92	CAD 10	2.04	-2.50 -0.40
GBP	0.25	0.40	0.84	1.43	EUR 10	0.48	0.60 -1.96
JPY	-0.04	-0.03	0.04	0.26	GBP 10	1.40	4.70 -1.04
CAD	1.00	1.43	1.82	2.35	JPY 10	0.07	0.10 -2.37

Equities

Major Indices			
	Last	% day	% y/y
Dow	23,321	-0.52	28.4
S&P 500	2,555	-0.55	19.2
Nasdaq	6,554	-0.67	24.0
VIX	12.15	8.87	-9.7
FTSE	7,447	-1.1	6.1
DAX	12,953	-0.5	20.4
CAC 40	5,375	-0.4	18.4
Nikkei	21,708	-0.4	24.8
Shanghai	3,397	0.3	9.0
Hang Seng	28,303	0.5	21.3
ASX 200	5,906	0.1	10.2

Commodities*

	Last	% day
Oil (Brent)	58.38	0.1
Oil (WTI)	52.14	-0.6
Oil (Tapis)	59.33	0.9
Gold	1274.50	0.0
CRB	185.40	-0.2
GS Metals	379.1	0.0
Aluminium	2176.8	1.5
Copper	6991.3	-0.3
Nickel	11825.0	-1.0
Zinc	3241.0	0.8
Ch. steel	3667.0	-1.7
Iron ore	62.2	-0.3
St. Coal	97.2	-0.1
Met.coal	181.5	0.0
Wheat Chic.	453.8	-0.5
Sugar	14.2	-0.7
Cotton	69.3	-0.3
Coffee	124.1	0.7

Overnight Futures

Australia		
	Last	Chge*
3 mth bill	98.28	2.00
3 Yr bond	97.8	3.00
10 Yr bond	97.19	-0.50
3/10 sprd	0.61	3.50
SPI	5877.0	6.0

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

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Thursday, 26 October 2017								
NZ	Trade Balance NZD	Sep		-900		-1235.0	21.45	8.45
JN	PPI Services YoY	Sep		0.8		0.8	23.50	10.50
AU	Import/Export Price Index QoQ	3Q		-1.5/-4		-0.1/-5.7	0.30	11.30
CH	Swift Global Payments CNY	Oct				1.9	1.00	12.00
GE	GfK Consumer Confidence	Nov		10.8		10.8	6.00	17.00
AU	RBA's Debelle Gives Speech in Sydney						7.45	18.45
UK	CBI Retailing/Total Distributives Reported Sales	Oct		14		42.0/44.0	10.00	21.00
EC	ECB Main Refinancing Rate/Marginal Lending Facility Rate	Oct 26		0/0.25		0.0/0.3	11.45	22.45
EC	ECB Deposit Facility Rate/Asset Purchase Target	Oct 26		-0.4/		-0.4/60.0	11.45	22.45
US	Wholesale Inventories MoM	Sep P		0.4		0.9	12.30	23.30
US	Initial Jobless Claims	Oct 21		235		222.0	12.30	23.30
US	Advance Goods Trade Balance	Sep		-64		-63.3	12.30	23.30
US	Bloomberg Consumer Comfort	Oct 22				51.1	13.45	0.45
US	Pending Home Sales MoM/YoY	Sep		0.3/-4.2		-2.6/-3.1	14.00	1.00
US	Kansas City Fed Manf. Activity	Oct		16.5		17.0	15.00	2.00
Friday, 27 October 2017								
JN	Natl CPI/ex Fresh Food YoY	Sep		0.7/0.7		0.7/0.7	23.30	10.30
JN	Natl CPI Ex Fresh Food, Energy YoY	Sep		0.2		0.2	23.30	10.30
AU	PPI QoQ/YoY	3Q		/		0.5/1.7	0.30	11.30
CH	Industrial Profits YoY	Sep				24.0	1.30	12.30
EC	ECB Survey of Professional Forecasters						8.00	19.00
US	GDP Annualized QoQ	3Q A		2.5		3.1	12.30	23.30
CA	CFIB Business Barometer	Oct				56.9		
US	U. of Mich. Sentiment/5-10Y Inflation expectations	Oct F		100.7/		101.1/2.4	14.00	1.00
US	Baker Hughes U.S. Rig Count/Oil Rigs only	Oct 27		/		913.0/736.0	17.00	4.00
Monday, 30 October 2017								
UK	Nationwide House PX MoM/YoY	Oct		0.2/2.2		0.2/2.0	28 Oct-4 Nov release	
JN	Retail Sales MoM/YoY	Sep		/		-1.7/1.7	23.50	10.50
JN	Dept. Store, Supermarket Sales	Sep				0.6	23.50	10.50
UK	Net Consumer Credit/Mortgage approvals	Sep		/		1.6/66.6	9.30	20.30
EC	Business Climate Indicator	Oct				1.3	10.00	21.00
US	Personal Income/Spending	Sep		0.4/0.8		0.2/0.1	12.30	23.30
US	Real Personal Spending	Sep				-0.1	12.30	23.30
US	PCE Deflator MoM/YoY	Sep		0.4/		0.2/1.4	12.30	23.30
US	PCE Core MoM/YoY	Sep		0.1/		0.1/1.3	12.30	23.30
GE	CPI EU Harmonized MoM/YoY	Oct P		/		0.0/1.8	13.00	0.00
CA	Bloomberg Nanos Confidence	Oct 27				57.7	14.00	1.00
US	Dallas Fed Manf. Activity	Oct		21		21.3	14.30	1.30
Tuesday, 31 October 2017								
NZ	Building Permits MoM	Sep				10.2	21.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Oct 29				113.3	22.30	9.30
JN	Jobless Rate/Job-ro-Applicant Ratio	Sep		/		2.8/1.5	23.30	10.30
JN	Overall Household Spending YoY	Sep				0.6	23.30	10.30
JN	Industrial Production MoM/YoY	Sep P		/		2.0/5.3	23.50	10.50
NZ	ANZ Activity Outlook/Business Confidence	Oct		/		29.6/0.0	0.00	11.00
AU	HIA New Home Sales MoM	Sep				9.1	0.00	11.00
UK	GfK Consumer Confidence	Oct				-9.0	0.10	11.10
UK	Lloyds Business Barometer	Oct				23.0	0.10	11.10
AU	Private Sector Credit MoM/YoY	Sep		/		0.5/5.5	0.30	11.30
CH	Manufacturing/Non-manufacturing PMI	Oct		52.2/		52.4/55.4	1.00	12.00
JN	BOJ Outlook Report							
JN	BOJ Policy Balance Rate	Oct 31				-0.1		
JN	BOJ 10-Yr Yield Target	Oct 31				0.0		
JN	Vehicle Production YoY	Sep				5.6	4.00	15.00
JN	Small Business Confidence	Oct				49.4	5.00	16.00
JN	BOJ Kuroda speaks at press conference after MPM						6.30	17.30
EC	ECB's Visco, Finance Minister Padoa-Schioppa at World Saving Day Event						9.15	20.15
EC	GDP SA QoQ/YoY	3Q A		/		0.6/2.3	10.00	21.00
EC	CPI Estimate YoY/Core CPI	Oct		/		1.5/1.1	10.00	21.00
EC	Unemployment Rate	Sep				9.1	10.00	21.00
CA	GDP MoM/YoY	Aug		/		0.0/3.8	12.30	23.30
CA	Industrial Product Price/Raw Materials Price MoM	Sep		/		0.3/1.0	12.30	23.30
US	Employment Cost Index	3Q		0.7		0.5	12.30	23.30
US	S&P CoreLogic CS 20-City MoM SA/YoY	Aug		/		0.4/5.8	13.00	0.00
US	S&P CoreLogic CS US HPI YoY NSA	Aug				5.9	13.00	0.00
US	Chicago Purchasing Manager	Oct		60		65.2	13.45	0.45
US	Conf. Board Consumer Confidence	Oct		120.75		119.8	14.00	1.00
Wednesday, 1 November 2017								
NZ	Employment Change QoQ/YoY	3Q		/		-0.2/3.1	21.45	8.45
NZ	Unemployment Rate	3Q				4.8	21.45	8.45
NZ	Participation Rate	3Q				70.0	21.45	8.45
NZ	Pvt Wages Ex/Incl Overtime QoQ	3Q		/		0.4/0.4	21.45	8.45
NZ	Average Hourly Earnings QoQ	3Q				0.8	21.45	8.45
AU	CBA Australia PMI Mfg	Oct				53.8	22.00	9.00
AU	AiG Perf of Mfg Index	Oct				54.2	22.30	9.30
AU	CoreLogic House Px MoM	Oct				0.3	23.00	10.00
UK	BRC Shop Price Index YoY	Oct				-0.1	0.10	11.10
JN	Nikkei Japan PMI Mfg	Oct F				52.5	0.30	11.30
CH	Caixin China PMI Mfg	Oct		51		51.6	1.45	12.45
JN	Vehicle Sales YoY	Oct				0.4	5.00	16.00
JN	BOJ Nakaso speaks at FinTech Forum						5.00	16.00
AU	Commodity Index AUD/SDR YoY	Oct		/		120.8/18.3	5.30	16.30
UK	Markit UK PMI Manufacturing SA	Oct				55.9	9.30	20.30
US	MBA Mortgage Applications	Oct 20				3.6	11.00	22.00
CA	MLI Leading Indicator MoM	Sep				0.2	11.00	22.00
US	ADP Employment Change	Oct		185		135.0	12.15	23.15
JN	Official Reserve Assets	Oct				1266.3		
CA	Markit Canada Manufacturing PMI	Oct				55.0	13.30	0.30
US	Markit US Manufacturing PMI	Oct F				54.5	13.45	0.45
US	ISM Manufacturing/Prices Paid	Oct		59/		60.8/71.5	14.00	1.00
US	ISM New Orders/Employment	Oct		/		64.6/60.3	14.00	1.00
US	Construction Spending MoM	Sep		-0.5		0.5	14.00	1.00
NZ	QV House Prices YoY	Oct				4.3	16.00	3.00
US	FOMC Rate Decision (Lower/Upper Bound)	Nov 1		1/1.25		1.00/1.25	18.00	5.00
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%		

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