

# MARKETS TODAY

## Lord don't slow me down



### Good morning

Admittedly I never heard this Oasis song before this morning and I was surprised to learn that it was a top 10 hit in 2007. Noel Gallagher has described this song as "Somewhat predictably brilliant", I would say is not bad, and certainly not brilliant. So what's the link? Well, the big theme from the overnight session was the news that Trump's corporate tax cut plan from 35% to 20% could be phased in over 5 years. The USD and UST yields were already drifting lower during our Asian session yesterday, but the news was an additional factor that weighed on both assets overnight. US equities were also unimpressed with all major equity indices currently down between 0.05% and -0.35%. GBP has been the outperformer in G10 currencies and in commodities oil prices have continued to edge higher.

So while nothing is set in stone yet, it is clear that the US administration and Republican leaders are still struggling to find savings to make up for their wish to reduce the country's corporate tax. We know that the Ways and Means panel will release the text of a bill on Wednesday and now reports overnight suggest that the Committee is considering a phase in approach to reduce the corporate tax from 35% in 2018 to 20% by 2022 ( 5 years at a decline of 3% p/y).

While the USD was already on the back foot, news of the "phase in" plan was seen as an additional excuse to sell the big dollar. Both DXY (-0.43%) and BBDX (-0.27%) indices have given back some of last week's decent gains. In G10, GBP has outperformed ahead of the BoE rate decision on Thursday suggesting the market is gearing up for a hike which is currently priced at just under 90%. Somewhat surprising, CAD (-0.17%, USDCAD 1.2825) has been the only G10 currency unable to outperform the USD, despite the fact that oil prices have continued to climb with Brent up another 0.8% to \$60.91 and WTI +0.4% to \$54.13, the dovish BoC last week is seemingly still weighing on the Lonnie.

After briefly trading sub 1.16 yesterday morning, EUR has been on a steady rise despite mixed economic data releases. A soft USD has been a factor, but on the positive front there also appears to be an increase in optimism in Spain after opinion polls suggest Catalan's will vote against independence in December. Euro area economic confidence surged to its highest level in almost 17 years while German CPI data came in 0.2% points below expectations. So despite the country's very strong economic backdrop, the CPI data highlights the challenge the ECB faces in getting inflation higher in the EU area.

AUD has traded in a 32bps range over the past 24hrs and currently trades at 0.7690, marginally higher (0.10%) relative to yesterday's opening level. China's PMI data today will be important for the AUD (see more below), but ultimately US events later in the week (FOMC, ISM, Fed Chair nomination and payrolls) are the ones that will

dominate and determine whether the Aussie can make a sustain move back above 77c.

NZD is essentially unchanged at 0.6880, but it did come under pressure yesterday following headline reports that the new Finance Minister suggested in a weekend TV interview that revising the RBNZ mandate could lead to lower interest rates if an employment target were included. Jason Wong, our BNZ market strategist notes that anyone who actually watched the interview would have noted how well the new Finance Minister came across from a markets' perspective – he talked of being fiscally responsible and that the RBNZ would maintain its focus on price stability. Jason thinks the market is over playing concerns over likely changes to the RBNZ act.

As for US data releases, PCE US Sep personal income printed in line at +0.4%, while spending was solid and a tenth stronger at +1% m/m. Meanwhile the low PCE (1.3% yoy) deflator was consistent with the quarterly numbers released last week.

### Coming up

We have a pretty full calendar today with lots of second tier data releases and a few important ones too. Of note, Australia gets its weekly confidence reading, the September HIA New Home Sales report and private sector credit (Sep). Also this morning, the ANZ Business Survey is out in New Zealand (likely to be election affected?) along with building permits for September. Then at midday (AEDT) China releases its official Manufacturing and non-Manufacturing PMI's. The BoJ makes its policy announcement this afternoon and later in the day GDP and CPI data for the EU area are out in Europe. Lastly Canada releases its monthly GDP reading and the US gets Employment Cost Index, Chicago PMI and Conf. Board Consumer Confidence (Oct).

China's official manufacturing PMI is expected to ease up to 52.2 in October from 52.4 previously. So while still in expansionary mode, the consensus view suggests a bit of a slowdown in growth is expected at the start of Q4. There are no forecasts for the official Services PMI, but in September the index came at 55.4. The big question this time around is whether the likely slowdown in construction outweighed the buoyancy in the services sector. Details in the PMI's are also going to be important with the new export reading with the New Export relevant for the AUD.

As for the BoJ we don't expect any big surprises. The Bank should keep its foot firmly on the easing pedal while talks of tinkering with Yield Curve Control remain premature. The flat lining CPI seen in September (ex-fresh food 0.7% yoy and ex-fresh food and energy 0.2%) points to an increasing risk the Bank will revise lower its forecast for FY17 (median estimate at 1.1% Mar-18), but FY18 and 19 numbers should remain unchanged. IF we are right we should see little JPY reaction from the BoJ.

The market is looking for an unchanged outcome for EU inflation in October, 1.5%, but base effects from oil

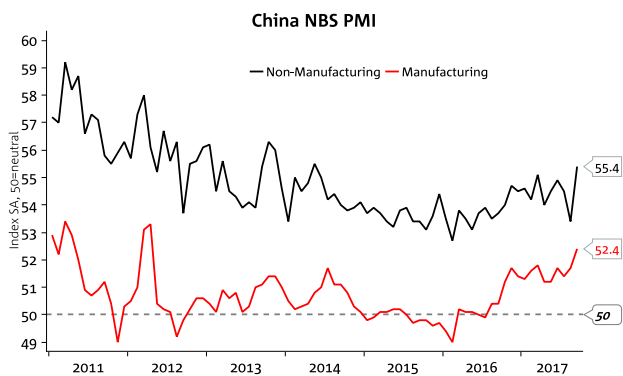
Rodrigo Catril, FX Strategist

prices and the softer German CPI suggest the risk are tilted to the downside. Meanwhile the advance reading for the EU area GDP is expected at 0.5% following an upwardly revised 0.7% outcome in Q2.

### Overnight

On global stock markets, the S&P 500 was -0.30%. Bond markets saw US 10-years -3.43bp to 2.37%. In commodities, Brent crude oil +0.73% to \$60.88, gold+0.6% to \$1,277, iron ore -2.2% to \$58.75, steam coal +0.8% to \$99.40, met. coal +0.1% to \$181.85. AUD is at 0.7679 and the range since yesterday 5pm Sydney time is 0.7656 to 0.7688.

### Chart of the day: China still on expansionary mode

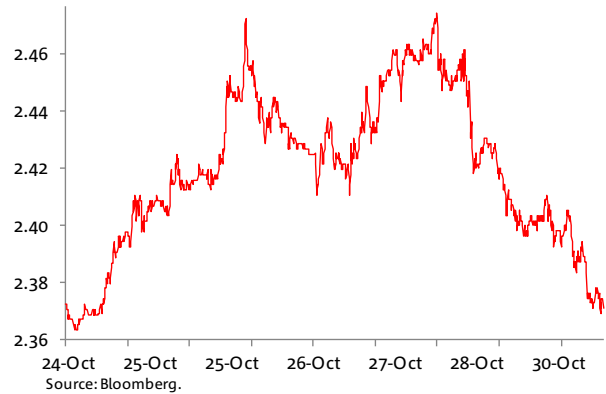


# Markets

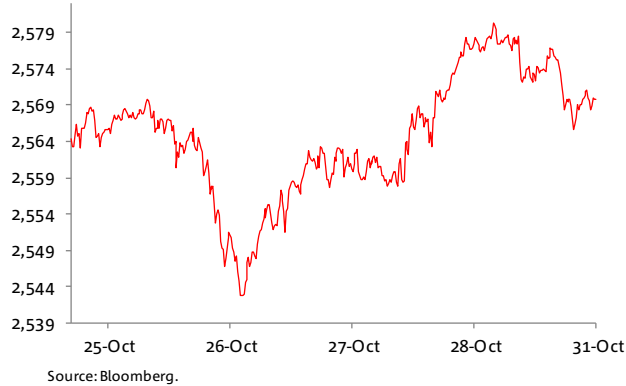
AUD/USD - past week



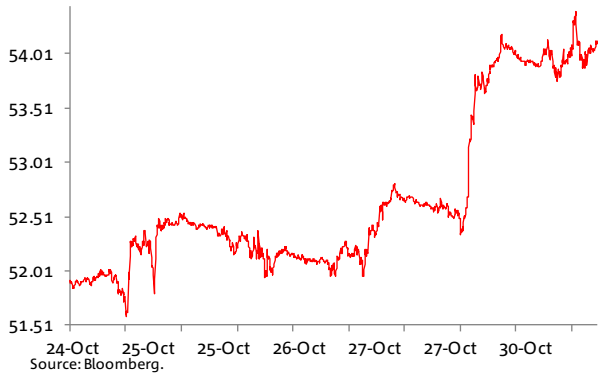
US 10yr - past week



S&P Future - past week



WTI - past week



## Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7679	0.0	0.7656	0.7688	HKD	7.7987 -0.1
NZD	0.6871	-0.1	0.6833	0.6888	CNY	6.6465 -0.1
EUR	1.1635	0.2	1.1594	1.1646	SGD	1.3613 -0.3
GBP	1.3198	0.5	1.3106	1.3215	IDR	13,582 -0.2
JPY	113.18	-0.4	113.03	113.84	THB	33.23 0.0
CAD	1.2836	0.2	1.2812	1.2861	KRW	1,125 -0.5
AUD/EUR	0.66	-0.2	0.6588	0.6619	TWD	30.20 -0.2
AUD/JPY	86.92	-0.4	86.78	87.33	PHP	51.63 -0.3
AUD/GBP	0.5819	-0.5	0.5804	0.5858	CHF	1.00 -0.3
AUD/NZD	1.1176	0.2	1.1141	1.1230	SEK	8.36 -0.2
AUD/CNH	5.0938	0.0	5.0900	5.1055		

## Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.38	1.80	2.35	USD 10	2.37	-3.43
AUD	1.50	1.69	1.92	2.86	AUD 10	2.73	-4.40 0.36
NZD	1.75	1.94	2.16	3.20	NZD 10	2.98	-5.00 0.61
EUR	0.00	-0.33	-0.20	0.84	CAD 10	1.96	-2.70 -0.41
GBP	0.25	0.43	0.83	1.38	EUR 10	0.37	-1.60 -2.01
JPY	-0.04	-0.03	0.04	0.26	GBP 10	1.34	-1.30 -1.04
CAD	1.00	1.41	1.78	2.30	JPY 10	0.07	-0.30 -2.30

## Equities

Major Indices			
	Last	% day	% y/y
Dow	23,359	-0.32	28.6
S&P 500	2,573	-0.30	21.0
Nasdaq	6,695	-0.09	29.0
VIX	10.42	6.33	-35.6
FTSE	7,488	-0.2	7.0
DAX	13,230	0.1	23.7
CAC 40	5,494	0.0	20.8
Nikkei	22,012	0.0	26.3
Shanghai	3,390	-0.8	9.3
Hang Seng	28,336	-0.4	23.6
ASX 200	5,919	0.3	11.3

## Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.29	1.00
3 Yr bond	97.8	0.00
10 Yr bond	97.29	11.00
3/10 sprd	0.52	-11.00
SPI	5903.0	-16.0

\*Change in bps

## Commodities\*

	Last	% day
Oil (Brent)	60.88	0.7
Oil (WTI)	54.12	0.4
Oil (Tapis)	61.75	2.3
Gold	1276.70	0.6
CRB	187.53	0.3
GS Metals	373.8	0.0
Aluminium	2149.3	-0.3
Copper	6846.5	0.6
Nickel	11634.5	0.8
Zinc	3254.0	1.2
Ch. steel	3546.0	-2.0
Iron ore	58.8	-2.2
St. Coal	99.4	0.8
Met.coal	181.9	0.1
Wheat Chic.	443.0	-0.5
Sugar	14.7	0.7
Cotton	68.6	0.6
Coffee	125.9	-0.6

## Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-1.0	-4.0%
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
<b>Tuesday, 31 October 2017</b>								
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		2.8/1.53		2.8/1.5	23.30	10.30
JN	Overall Household Spending YoY	Sep		0.6		0.6	23.30	10.30
JN	Industrial Production MoM/YoY	Sep P		-1.6/2		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		-10		-9.0	0.10	11.10
UK	Lloyds Business Barometer	Oct				23.0	0.10	11.10
AU	Private Sector Credit MoM/YoY	Sep	0.5/5.7	0.5/5.6		0.5/5.5	0.30	11.30
CH	Manufacturing/Non-manufacturing PMI	Oct		52/		52.4/55.4	1.00	12.00
NZ	Credit Aggregates, Household YoY	Sep				6.7	2.00	13.00
JN	BOJ Policy Balance Rate	Oct 31		-0.1		-0.1		
JN	Vehicle Production YoY	Sep				5.6	4.00	15.00
JN	Small Business Confidence	#N/A	Field Not Applicable			49.4		
JN	BOJ Kuroda speaks at press conference after MPM						6.30	17.30
EC	ECB's Visco, Finance Minister Padoan at World Saving Day Event						9.15	20.15
EC	GDP SA QoQ/YoY	3Q A		0.5/2.3		0.6/2.3	10.00	21.00
EC	CPI Estimate YoY/Core CPI	Oct		1.5/1.1		1.5/1.1	10.00	21.00
EC	Unemployment Rate	Sep		9		9.1	10.00	21.00
CA	GDP MoM/YoY	Aug		0.1/3.5		0.0/3.8	12.30	23.30
CA	Industrial Product Price/Raw Materials Price MoM	Sep		0.5/0.4		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		0.4/5.9		0.4/5.8	13.00	0.00
US	Chicago Purchasing Manager	Oct		60		65.2	13.45	0.45
US	Conf. Board Consumer Confidence	Oct		121		119.8	14.00	1.00
<b>Wednesday, 1 November 2017</b>								
NZ	Employment Change QoQ/YoY	3Q	0.7	0.8/2.5		-0.2/3.1	21.45	8.45
NZ	Unemployment Rate	3Q	4.7	4.7		4.8	21.45	8.45
NZ	Pvt Wages Ex/Incl Overtime QoQ	3Q	0.7	0.7/0.6		0.4/0.4	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				0.1	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	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		55.9	9.30	20.30
CA	MLI Leading Indicator MoM	Sep				0.2	11.00	22.00
US	ADP Employment Change	Oct		200		135.0	12.15	23.15
CA	Markit Canada Manufacturing PMI	Oct				55.0	13.30	0.30
US	Markit US Manufacturing PMI	Oct F		54.5		54.5	13.45	0.45
US	ISM Manufacturing/Prices Paid	Oct		59.4/67.3		60.8/71.5	14.00	1.00
US	Construction Spending MoM	Sep		-0.2		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
<b>Thursday, 2 November 2017</b>								
NZ	ANZ Job Advertisements MoM	Oct				0.4	21.00	8.00
AU	Trade Balance	Sep	1600	1200		989.0	0.30	11.30
AU	Building Approvals MoM/YoY	Sep	1.1	-1/-2.4		0.4/-15.5	0.30	11.30
JN	Consumer Confidence Index	Oct		43.6		43.9	5.00	16.00
GE	Unemployment Change (000's/Rate)	Oct		-10/5.6		-23.0/5.6	8.55	19.55
GE	Markit/BME Germany Manufacturing PMI	Oct F		60.5		60.5	8.55	19.55
EC	Markit Eurozone Manufacturing PMI	Oct F		58.6		58.6	9.00	20.00
UK	Markit/CIPS UK Construction PMI	Oct		48.5		48.1	9.30	20.30
US	Challenger Job Cuts YoY	Oct				-27.0	11.30	22.30
UK	Bank of England Bank Rate	Nov 2		0.5		0.3	12.00	23.00
UK	BOE Asset Purchase/Corporate Bond Target	Nov		435/10		435.0/10.0	12.00	23.00
US	Initial Jobless Claims	Oct 28		235		233.0	12.30	23.30
US	Nonfarm Productivity/Unit Labour Costs	3Q P		2.5/0.4		1.5/0.2	12.30	23.30
US	Wards Total Vehicle Sales	Oct		17.5		18.5		
US	Bloomberg Consumer Comfort	Oct 29				51.0	13.45	0.45
<b>Friday, 3 November 2017</b>								
AU	CBA Australia PMI Services/Composite	Oct		/		53.2/53.1	22.00	9.00
US	Fed's Bostic Speaks in Chicago about Government Statistics						22.15	9.15
AU	AiG Perf of Services Index	Oct				52.1	22.30	9.30
AU	Retail Sales MoM/ex inflation QoQ	Sep	0.5/0.1	0.4/0		-0.6/1.5	0.30	11.30
CH	Caixin China PMI Services/Composite	Oct		/		50.6/51.4	1.45	12.45
UK	Markit/CIPS UK Services/Composite PMI	Oct		53.3/53.8		53.6/54.1	9.30	20.30
US	Change in Nonfarm Payrolls/Unemployment Rate	Oct		310/4.2		-33.0/4.2	12.30	23.30
US	Average Hourly Earnings MoM/YoY	Oct		0.2/2.7		0.5/2.9	12.30	23.30
US	Labor Force Participation Rate/Underemployment Rate	Oct		63.1/		63.1/8.3	12.30	23.30
US	Trade Balance	Sep		-43.25		-42.4	12.30	23.30
US	ISM Non-Manf. Composite	Oct		58.5		59.8	14.00	1.00
US	Factory Orders/Ex Trans	Sep		1.2/		1.2/0.4	14.00	1.00
CA	Net Change in Employment/Unemployment Rate	Oct		15.5		10.0	12.30	23.30
CA	Participation Rate	Oct				65.6	12.30	23.30
CA	Int'l Merchandise Trade	Sep		-2.95		-3.4	12.30	23.30
US	Markit US Services/Composite PMI	Oct F		55.9/		55.9/55.7	14.45	1.45
US	Fed's Kashkari Speaks on Housing and Finance						16.15	3.15
EC	ECB's Coeure Speaks in Washington						21.15	8.15
<b>Upcoming Central Bank Interest Rate Announcements</b>								
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%	1.75%		1.75%		
Canada, BoC		7-Dec				1.00%		
Europe ECB		14-Dec	-0.4%	-0.4%		-0.4%		

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Savings Time

## CONTACT DETAILS

### Authors

David de Garis  
Director, Economics  
+61 3 8641 3045  
david.degaris@nab.com.au

Ray Attrill  
Global Co-Head of FX Strategy  
+61 2 9237 1848  
ray.attrill@nab.com.au

Rodrigo Catril  
Currency Strategist  
+61 2 9293 7109  
rodrigo.h.catril@nab.com.au

Tapas Strickland  
Economist  
+61 2 9237 1980  
tapas.strickland@nab.com.au

### Markets Research

Peter Jolly  
Global Head of Research  
+61 2 9237 1406  
peter.jolly@nab.com.au

### Group Economics

Alan Oster  
Chief Economist  
+61 3 8634 2927  
alan\_oster@national.com.au

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