

MARKETS TODAY

Rumour mill



Good morning

Equity markets hit a jittery patch overnight with selling seen across Europe and the US. The USD is softer across the board with safe haven currencies the outperformers. Notably, however, core global yields did not enjoy a safe haven bid with 10y Bunds yields closing higher while UST yields are little changed.

Signs of market nervousness emerged yesterday late in our Asian session with a sharp drop in Japanese equities, seemingly driven by technicals and profit taking. The Nikkei at one stage was down just over 3.5% intraday, but then recovered to the end the day at -0.2%. Europe opened with a negative tone with the resources sector leading the slide and then speculation over the US Senate tax bill aiming to delay the corporate tax rate cut to 20% until 2019 provided an additional excuse to sell equities. Like Rudimental would sing, a tax delay is “on a rumour mill, the word is on the street”.

Now that we are about to press the send button, the Senate Republicans have released their “vision” for a tax plan. As expected, the outline includes a corporate tax rate cut to 20% with one year delay to 2019, it retains the seven income tax brackets at slightly different rates relative to the House proposal and it preserves existing mortgage-interest deduction for home purchases with up to \$1 million of debt. The estate tax would also be preserved, but double the current \$5.49 million exemption for individuals. Market reaction to the proposal has been pretty muted given Republican Senator Cassidy had already alluded to the details earlier in the session.

As a reminder there are still many rivers to cross before US Tax Reform sees the light of day. Once Republican Senators agree the text of the bill, amendments will follow ahead of a vote aimed on the week starting November 20. Meanwhile the House should vote on its own bill next week and then once both Houses have voted the most likely outcome is that process of reconciliation will need to take place. So, given the apparent differences between the two bills, the implementation of tax reform before the end of the year looks pretty challenging and achieving it before Thanksgiving (November 23rd) seems close to impossible. The US tax saga still has a long way to go.

Moving on to currencies now, the USD was already struggling yesterday, but softness in equities overnight triggered a bid in safe haven currencies. CHF and JPY are the top performers, up 0.62% and 0.51% respectively. After briefly trading above ¥114 during the day yesterday, the drop in the Nikkei triggered a 50pips selloff in USD/JPY and then the softness in equities overnight dragged the pair down to ¥113.33, where it currently trades.

The CAD (+0.44%) benefited from a rise in oil prices amid reports of fresh arrests in Saudi Arabia’s crackdown on corruption, adding to geopolitical concerns in the region.

Rodrigo Catril, FX Strategist

The Euro is back trading above 1.16 (+0.43%) following upward growth revisions by the European Commission. Output this year is now seen at 2.2% and 2.1% in 2018, versus expectations for a 1.7% increase this year and 1.8% next year. The upward revisions were also seen as the catalyst for the jump in EU sovereign yields with 10y Bunds closing at 0.373%, up 5bps on the day.

Closer to home, NZD has held up well, sustaining the modest rally we saw after yesterday’s RBNZ MPS announcement. NZD is currently trading at 0.6956, 30pips higher relative to levels seen before the RBNZ announcement. Meanwhile, AUD is essentially unchanged at 0.7682, after trading in a 44bps range overnight.

Lastly GBP is up 0.27% and now trades at 1.3150 after hitting an overnight low of 1.3088. The FT reports this morning that PM May is ready to increase Britain’s offer to the EU over the Brexit divorce bill, after signs that the hard Eurosceptics in her party will tolerate paying more money to break the deadlock in negotiations.

Coming up

The RBA Statement on Monetary Policy (SoMP) is today’s highlight in what is an otherwise pretty light economic calendar. The five day window for China’s reporting of loans and financing numbers starts today, but this release rarely occurs on the first day of the window. The US will be observing Veterans Day and the University of Michigan releases its consumer sentiment report (US markets will be open, but we expect a quiet day).

As for the SoMP, on Tuesday’s Policy Statement the RBA noted that the Bank’s updated forecasts for the economy remain for growth to pick up and average around 3% over the next few years (largely unchanged), while inflation and wages are expected to pick up gradually (as the economy strengthens). The unemployment outlook is improved and is expected to decline gradually from its current level of around 5.5%.

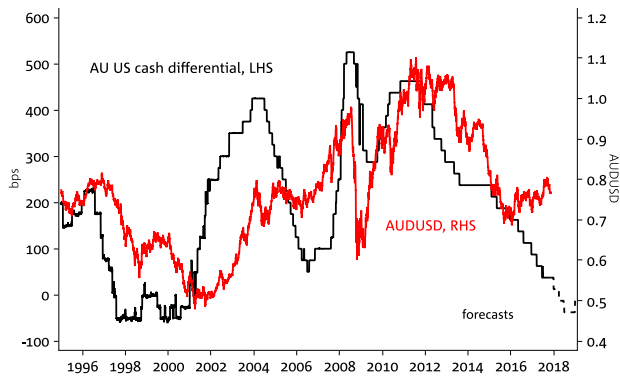
So although the Bank has a pretty positive outlook on the economy, inflation is below target and unemployment is above full employment. Hence for now the RBA looks set to retain its neutral policy for a few more months. That being said, NAB expects the RBA to begin a gradual lifting of interest rates in the second half of 2018 as the unemployment rate falls more convincingly. Our economists expect unemployment to be around 5.25% at the end of Q1 next year.

Incidentally with the RBA seen on hold at least until H2 2018, this means that there is a meaningful risk that US policy rates will rise above the RBA in H1 2018. This represents downside risk to our AUD/USD forecast for 0.75 by end 2017 and 0.73 next year (see chart of the day below).

Overnight

On global stock markets, the S&P 500 was -0.64%. Bond markets saw US 10-years -0.86bp to 2.33%. In commodities, Brent crude oil +0.66% to \$63.91, gold+0.3% to \$1,287, iron ore +0.1% to \$62.32, steam coal -0.5% to \$98.00, met. coal +0.0% to \$186.75. AUD is at 0.7683 and the range since yesterday 5pm Sydney time is 0.765 to 0.7694.

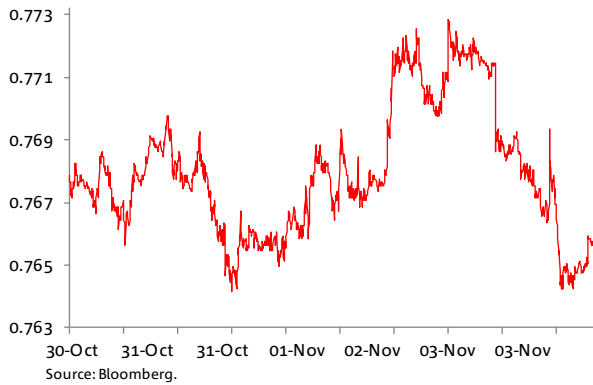
Chart of the day: AUD/USD vs cash spread



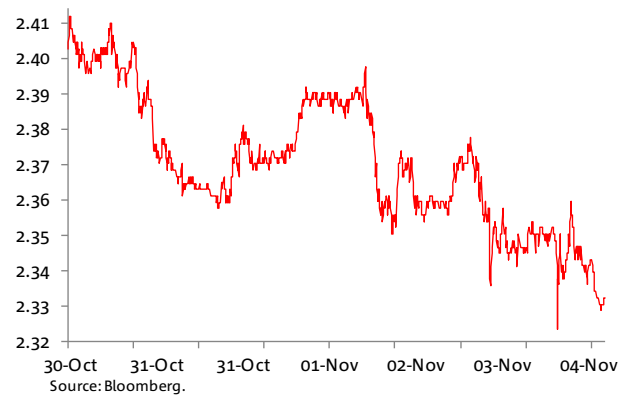
Source: National Australia Bank, Macrobond

Markets

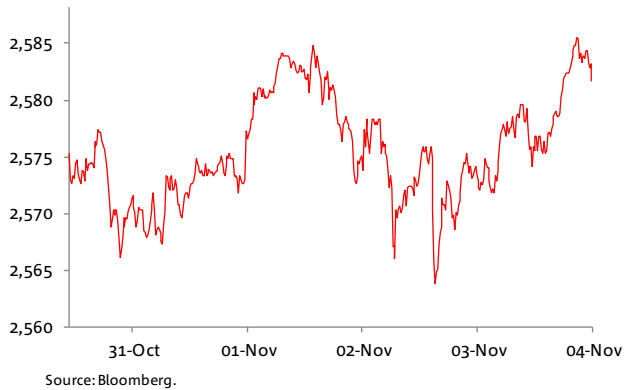
AUD/USD - past week



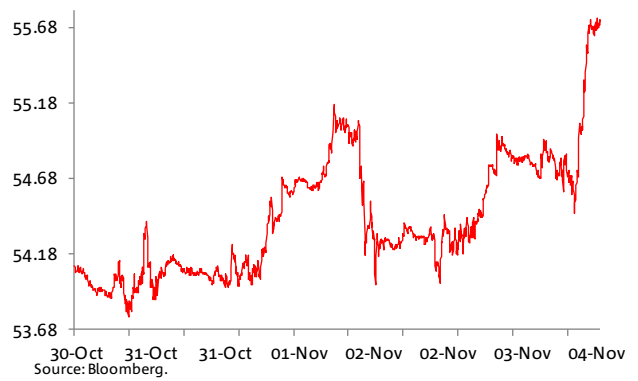
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

	Indicative 24hr ranges (**)				Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7661	-0.7	0.7639	0.7716	HKD	7.8014 0.0
NZD	0.6912	0.0	0.6894	0.6951	CNY	6.6390 0.4
EUR	1.1616	-0.4	1.1599	1.1690	SGD	1.3647 0.4
GBP	1.3081	0.2	1.3040	1.3132	IDR	13,498 -0.4
JPY	114.05	0.0	113.64	114.43	THB	33.14 0.2
CAD	1.2755	-0.4	1.2715	1.2836	KRW	1,114 0.0
AUD/EUR	0.6591	-0.4	0.6575	0.6620	TWD	30.20 0.0
AUD/JPY	87.31	-0.8	87.20	88.03	PHP	51.18 -0.4
AUD/GBP	0.5856	-0.8	0.5846	0.5910	CHF	1.00 0.1
AUD/NZD	1.1079	-0.7	1.1049	1.1164	SEK	8.44 0.5
AUD/CNH	5.0762	-0.5	5.0703	5.1038		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.39	1.82	2.31	USD 10	2.33	-1.25
AUD	1.50	1.70	1.87	2.77	AUD 10	2.57	-8.20 0.24
NZD	1.75	1.94	2.11	3.12	NZD 10	2.85	-4.60 0.51
EUR	0.00	-0.33	-0.20	0.84	CAD 10	1.96	-0.20 -0.38
GBP	0.50	0.52	0.80	1.32	EUR 10	0.36	-0.80 -1.97
JPY	-0.04	-0.05	0.03	0.25	GBP 10	1.26	0.20 -1.07
CAD	1.00	1.41	1.80	2.28	JPY 10	0.06	0.00 -2.28

Equities

Major Indices			
	Last	% day	% y/y
Dow	23,539	0.10	31.6
S&P 500	2,588	0.31	24.1
Nasdaq	6,764	0.74	34.0
VIX	9.14	-7.96	-59.4
FTSE	7,560	0.1	13.0
DAX	13,479	0.3	31.4
CAC 40	5,518	0.1	26.1
Nikkei	22,539	0.0	31.5
Shanghai	3,372	-0.3	7.9
Hang Seng	28,604	0.3	26.3
ASX 200	5,960	0.5	15.0

Overnight Futures

Australia		
	Last	Chge*
3 mth bill	98.28	0.00
3 Yr bond	97.8	0.00
10 Yr bond	97.41	12.00
3/10 sprd	0.39	-12.00
SPI	5955.0	-35.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	62.07	2.4
Oil (WTI)	55.64	2.0
Oil (Tapis)	62.26	0.7
Gold	1269.20	-0.7
CRB	189.38	0.7
GS Metals	379.1	-0.1
Aluminium	2170.0	0.5
Copper	6870.0	-0.5
Nickel	12683.0	0.9
Zinc	3247.0	-1.3
Ch. steel	3713.0	1.5
Iron ore	59.9	0.2
St. Coal	99.0	-1.2
Met.coal	179.5	1.4
Wheat Chic.	444.5	0.0
Sugar	14.4	1.1
Cotton	68.7	-0.5
Coffee	124.0	-1.9

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	0.0	0.0%
FED	22	86.0%

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
Friday, 10 November 2017								
NZ	Card Spending Total/Retail MoM	Oct	0.4	/0.5		-0.1/0.1	21.45	8.45
AU	RBA Statement on Monetary Policy						0.30	11.30
JN	Tertiary Industry Index MoM	Sep		-0.1		-0.2	4.30	15.30
CH	New Yuan Loans/Aggregate financing CNY	Oct		783/1100		1270.0/1820.0	10-15 Nov release	
US	U. of Mich. Sentiment/5-10 Yr Inflation expectations	Nov P		100.9/		100.7/2.5	15.00	2.00
US	Baker Hughes U.S. Rig Count/Oil Rfing Count	Nov 10		/		898.0/729.0	18.00	5.00
US	Monthly Budget Statement	Oct		-50		8.0	19.00	6.00
Monday, 13 November 2017								
CH	Foreign Direct Investment YoY CNY	Oct				17.3		
CH	New Yuan Loans/Aggregate financing CNY	Oct		783/1100		1270.0/1820.0	10-15 Nov release	
NZ	REINZ House Sales YoY	Oct				-26.2		
NZ	Food Prices MoM	Oct				-0.2	21.45	8.45
AU	RBA's Debelle Gives Speech in Sydney						22.15	9.15
JN	PPI MoM/YoY	Oct		0.1		0.2	23.50	10.50
JN	Machine Tool Orders YoY	Oct P				45.0	6.00	17.00
CA	Bloomberg Nanos Confidence	Nov 10				58.0	15.00	2.00
JN	BOJ Governor Kuroda scheduled to speak in Zurich						17.45	4.45
Tuesday, 14 November 2017								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Nov 12				112.6	22.30	9.30
AU	NAB Business Conditions/Confidence	Oct		/		14.0/7.0	0.30	11.30
CH	Retail Sales YoY/YTD YoY	Oct		10.4/10.4		10.3/10.4	2.00	13.00
CH	Fixed Assets Ex Rural YTD YoY	Oct		7.3		7.5	2.00	13.00
CH	Industrial Production YoY/YTD YoY	Oct		6.3/6.7		6.6/6.7	2.00	13.00
GE	GDP SA QoQ/YoY	3Q P		/		0.6/2.1	7.00	18.00
GE	CPI EU Harmonized MoM/YoY	Oct F		/		-0.1/1.5	7.00	18.00
US	Fed's Evans Speaks at ECB Conference						8.05	19.05
UK	CPI MoM/YoY	Oct		/		0.3/3.0	9.30	20.30
UK	CPI Core YoY	Oct		/		2.7	9.30	20.30
UK	PPI Input NSA MoM/YoY	Oct		/		0.4/8.4	9.30	20.30
UK	PPI Output NSA MoM/YoY	Oct		/		0.2/3.3	9.30	20.30
UK	PPI Output Core NSA MoM/YoY	Oct		/		0.0/2.5	9.30	20.30
UK	House Price Index YoY	Sep		/		5.0	9.30	20.30
EC	Industrial Production SA MoM/YoY	Sep		/		1.4/3.8	10.00	21.00
GE	ZEW Survey Current Situation/Expectations	Nov		/		87.0/17.6	10.00	21.00
EC	ZEW Survey Expectations	Nov		/		26.7	10.00	21.00
US	Yellen Speaks on ECB Panel with Draghi, Kuroda, and Carney						10.00	21.00
EC	GDP SA QoQ/YoY	3Q P		/		0.6/2.5	10.00	21.00
EC	GDP SA YoY	3Q P		/		2.5	10.00	21.00
US	NFIB Small Business Optimism	Oct		104.5		103.0	11.00	22.00
US	Fed's Bullard Speaks on U.S. Economy in Louisville						13.15	0.15
EC	ECB's Benoit Coeure Speaks in Brussels						13.30	0.30
US	PPI Final Demand MoM/YoY	Oct		0.1/		0.4/2.6	13.30	0.30
US	Fed's Bostic Speaks on Economic Outlook and Monetary Policy						18.05	5.05
Wednesday, 15 November 2017								
AU	Westpac Consumer Conf Index/MoM	Nov		/		101.4/3.6	23.30	10.30
JN	GDP SA QoQ/YoY	3Q P		0.4/1.5		0.6/2.5	23.50	10.50
UK	Average Weekly Earnings 3M/YoY	Sep		/		2.2	9.30	20.30
AU	Wage Price Index QoQ/YoY	3Q		/		0.5	0.30	11.30
AU	New Motor Vehicle Sales MoM/YoY	Oct		/		-0.5/-0.8	0.30	11.30
JN	Industrial Production MoM/YoY	Sep F		/		-1.1/2.5	4.30	15.30
JN	Capacity Utilization MoM	Sep		/		3.3	4.30	15.30
AU	RBA's Ellis Gives Speech in Melbourne						7.00	18.00
US	Fed's Evans Speaks at European Conference in London						8.00	19.00
UK	Jobless Claims Change/Earnings ex bonus 3M YoY	Oct		/		1.7/2.1	9.30	20.30
UK	Employment Change 3M/3M/Unemployment rate	Sep		/		94.0/4.3	9.30	20.30
EC	Trade Balance SA	Sep		/		21.6	10.00	21.00
CA	Teranet/National Bank HPI MoM/YoY	Oct		/		-0.8/11.4	13.30	0.30
US	CPI MoM/YoY	Oct		0.1/2		0.5/2.2	13.30	0.30
US	CPI Ex Food and Energy MoM/YoY	Oct		0.2/1.7		0.1/1.7	13.30	0.30
US	Empire Manufacturing	Nov		26.2		30.2	13.30	0.30
US	Retail Sales Advance/Ex autos and gas MoM	Oct		0.1/0.3		1.6/0.5	13.30	0.30
CA	Existing Home Sales MoM	Oct		/		2.1	14.00	1.00
US	Business Inventories	Sep		0		0.7	15.00	2.00
Thursday, 16 November 2017								
US	Total Net TIC Flows	Sep		/		125.0	21.00	8.00
US	Net Long-term TIC Flows	Sep		/		67.2	21.00	8.00
CA	Bank of Canada's Wilkins Gives Speech in New York						23.45	10.45
JN	Housing Loans YoY	3Q		/		3.3	23.50	10.50
NZ	ANZ Consumer Confidence Index/MoM	Nov		/		126.3/-2.8	0.00	11.00
AU	Consumer Inflation Expectation	Nov		/		4.3	0.00	11.00
UK	Carney, Broadbent, Haldane at BOE Future Forum, Liverpool						0.00	11.00
AU	Employment Change/Unemployment rate	Oct		/		19.8/5.5	0.30	11.30
AU	Participation Rate	Oct		/		65.2	0.30	11.30
AU	RBA FX Transactions Market	Oct		/		731.0	0.30	11.30
NZ	Non Resident Bond Holdings	Oct		/		60.4	2.00	13.00
JN	Machine Tool Orders YoY	Oct P		/		45.0	6.00	17.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Oct		/		-0.7/1.6	9.30	20.30
UK	Retail Sales Inc Auto Fuel MoM/YoY	Oct		/		-0.8/1.2	9.30	20.30
EC	CPI MoM/YoY	Oct		/		0.4/1.5	10.00	21.00
EC	CPI Core YoY	Oct F		/		0.9	10.00	21.00
CH	FX Net Settlement - Clients CNY	Oct		/		21.8		
CA	Manufacturing Sales MoM	Sep		/		1.6	13.30	0.30
CA	Int'l Securities Transactions	Sep		/		9.9	13.30	0.30
US	Initial Jobless Claims	Nov 4		231.5		229.0	13.30	0.30
US	Philadelphia Fed Business Outlook	Nov		24.05		27.9	13.30	0.30
US	Import Price Index MoM	Oct		0.4		0.7	13.30	0.30
US	Export Price Index MoM	Oct		0.4		0.8	13.30	0.30
US	Export Price Index YoY	Oct		/		2.9	13.30	0.30
UK	BOE's Carney, Broadbent, Cunliffe, Haldane Speak in Liverpool						14.00	1.00
US	Industrial Production MoM	Oct		/		0.3	14.15	1.15
US	Capacity Utilization	Oct		76.3		76.0	14.15	1.15
US	Manufacturing (SIC) Production	Oct		/		0.1	14.15	1.15
US	NAHB Housing Market Index	Nov		67		68.0	15.00	2.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		5-Dec	1.50%	1.50%		1.50%		
Canada, BoC		7-Dec				1.00%		
US Federal Reserve		14-Dec	1.25-1.50%	1.25-1.50%		1.00-1.25%		
UK BOE		14-Dec	0.5%			0.50%		
Europe ECB		14-Dec	-0.4%	-0.4%		-0.4%		
Japan, BoJ		21-Dec	-0.1%	-0.1%		-0.1%		
New Zealand, RBNZ		8-Feb				1.75%		

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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