

## Eyes towards China

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*The markets are consolidating recent moves awaiting the key economic reports from China in particular today. The ECB is toning down expectations for any hints on policy direction at its meeting later this week. Mester at the Fed and Forbes at the BoE keep rate hike expectations alive, but market views are mixed. Rate cut expectations have built up to be almost two-thirds priced-in in two weeks in Australia. We tend to agree, but it's not clear-cut that they will proceed with another cut just yet.*

### China takes the stage

The market is poised and waiting anxiously for the Chinese economic reports later today. In the lead up, commodity prices have been more stable recently. Oil prices have firmed in recent weeks, and base metals have been stable. However steel prices have dripped to new lows and the Australian rates outlook is on its lows for the year, in part because of domestic news last week. Chinese mainland equities rose last week to their highs since August.

EUR is firmer in Asia with Nowotny down-playing the prospect of near term policy changes over the weekend, back-tracking on his comments on Thursday about the ECB missing its inflation targets.

US equities continued their recovery on Friday to a high since the market rout in August. US rates recovered some poise late last week after falling to lows since January mid-week. The data is dominated by housing this week and may provide some modest support for the USD.

We expressed a view on Friday that EUR may under-perform as its attributes as a funding currency came back amid a more positive global investor mood and the prospect of some firmer US data against recent weaker indicators in Germany and the VW scandal. We also noted that the ECB raised its dovish rhetoric after the EUR rose toward 1.15.

However, The ECB may also be toning down expectations for a near term policy adjustment to keep the market from getting too hopeful ahead of the ECB meeting on Thursday this week.

Emerging market currencies overall were relatively stable last week, with some improving. Although the BRL dropped on more political risk on Friday and IDR and MYR are experiencing higher volatility than normal and fell towards the end of last week.

INR on the other hand has firmed and proving more stable after experiencing a sharp rise in foreign investment into its bond market last week, following the RBI decision late last month to raise quotas. Indian industrial production data were firmer last week, but its trade values slipped rapidly to the weakest growth rate since 2009.

New Zealand economic revival continued with the highest PMI for services reported this morning since 2007. However, after the recent strong NZD performance, the market is less inclined to continue to push it higher.

While the rates market is looking for cuts in Australia, potentially in two weeks, overall economic confidence may get a boost from the news that the new PM Turnbull has surged ahead in the polls. The contentious but large coal mining project in the state of Queensland planned by India's Adani was given environment approval by the Federal government. While it would generate a large junk of investment led activity, given the global mood against coal and weak prices, it is a mixed bag for sentiment. The RBA minutes and speech by Assistant Governor Edey this week may, but will probably not, give more hints on the rates outlook.

## What they said

- US Fed's Cleveland President Loretta Mester said that she thinks the US economy is ready for a rate increase. And said, "The more we delay, the more there'll be risks." (Voter in 2016).
- ECB Nowotny dampens prospects for a near term ECB policy change. He said, "It's too early to talk about this because we still have to wait almost a year till September next year." (When the current QE purchase program is scheduled to end). He said, "I'm sure the stance of fiscal policy is neutral, but it's clearly not growth enhancing." These comments counter to some extent his dovish comments on Thursday that contributed to a weaker EUR, when he noted that the ECB was missing its inflation target, discussed in [our report on Friday](#).
- BoE PMC Member Kristin Forbes said, "The news on the international economy has not caused me to adjust my prior expectations that the next move in UK rates will be up and that it will occur sooner rather than later."
- Niall Ferguson, Harvard Professor: "Its [Saudi Arabia's] fiscal position's a total mess. There are question marks over the king's health. And so there are big worries. It's just that they haven't impacted commodity prices, so most traders haven't noticed." ([Check out this Oil&Gas Blogger](#)). *Points to a risk of a premium in oil returning.*
- Marcel Thieliand, Japan economist at Capital Economics: "While the Bank of Japan remains upbeat about the prospects of hitting its 2% inflation target, the fact that non-energy import prices have just recorded the first fall since the launch of QQE underlines the difficulties it faces."
- MNI's Hiroshi Inoue: "The Bank of Japan leadership has no plans to expand its asset purchases unless faced with a data or financial market shock, and will likely shift again the timing to meet its inflation target instead."

## In the news

- The Australian government gave environmental approval for Indian company Adani Enterprises, to proceed with the \$A7.2bn Carmichael coal mining project, including a rail link, in the state of Queensland. The Australian minister responsible said he expects the mine to proceed.
- The Liberal National Coalition government in Australia has surged ahead of the opposition Labor Party in the latest polls since the Prime Minister was replaced by Malcolm Turnbull.
- A poll taken by Bloomberg last week reports that 81% of 53 economists surveyed expect the ECB to announce an extension of its QE by the first meeting of 2016. 56% expect such an announcement by the end of this year. ECB meets on Thursday in Malta.
- Speculation that Brazilian Finance Minister Joaquim Levy would resign contributed to 3.2% fall in BRL in afternoon trading in Americas on Friday.
- Overseas holdings of INR denominated debt rose INR162bn (\$2.5bn) last week to a record INR3.56tn, the biggest weekly gain since August 2014. This followed the RBI decision last month to allow foreigners to own a larger share of sovereign bonds and access to local government bonds for the first time as part of its monetary policy announcement on 29 Sep. {Bloomberg link to story: NSN NWBA916JTSEB<Go>}
- On Thursday, Treasury Secretary Jacob Lew told Congress that it would exhaust those emergency measures by Nov. 3. After that, it will fund the government only with daily cash flow if the debt limit isn't increased. Analysts at the Bipartisan Policy Center, a Washington think-tank, estimate that the Treasury would run out of cash between Nov. 10 and Nov 19. ([WSJ article](#))
- Some less conviction that the RBA will cut after its Financial Stability Review on Friday. RBA watcher Alan Mitchell wrote: "Only if the banks follow the lead of Westpac and raise their mortgage lending rates is the RBA likely to consider cutting its official cash rate in November or December". Deutsche Bank economist Phil O'Donoghoe said, "It would be surprising for the RBA to pour 25 basis points worth of rate cut fuel onto a fire that may still be smouldering," ([AFR article](#))

## Economic news

- New Zealand PSI rose from 58.5 to 59.3 in Sep, a high for the service sector indicator since Nov 2007. (Reported on Monday morning).
- USA JOLTS job openings fell from 5.67m to 5.37m in August, weaker than 5.58m expected. This reverses most of the gain in July to a new record high in data back to 2001, so overall the index remains strong.
- USA manufacturing production fell 0.1% m/m in Sep, a touch stronger than -0.2% expected. Capacity utilization was 77.5%, above 77.3% expected, but at a low since 2011, down from 77.8% in August, revised up from 77.6%.
- USA UoM Consumer confidence rose in the preliminary reading from 87.2 to 92.1 in October, a high since July. Down from the peak of 98.1 in January, but remaining broadly in a healthy range around its average from 2003 to 2007.

- USA UoM 5 to 10 year inflation expectations fell to 2.6%, retreating to low end of range seen four times since November 2014, around record lows. Overall probably still regarded as stable.
- Canada manufacturing sales fell by 0.2%/m/m in August, firmer than -1.0% expected, after rising 1.7%/m/m in July.
- Australia – Financial Stability Report – The RBA noted some tentative evidence that Banks' tightening of lending standards may have cooled investor lending, calming the property market. However, they also noted that lending standards were more lax and credit growth mortgage lending growth under-reported by the banks in recent years. (Not sending an all-clear to cut rates).
- NZ CPI rose 0.4%/y/y, above 0.3%/y/y expected. But non-tradeable inflation of 1.5%/y/y was lowest since Q4-2001.
- Singapore non-oil domestic exports stronger: They rose 2.8%/m/m s.a. in Sep, above 0.9%/m/m expected, up from -4.6%/m/m in Aug.
- India exports in USD terms fell 24.3%/y/y in Sep, down from -20.7%/y/y in Aug, the weakest growth since 2009. Engineering goods exports fell 23%. Imports fell 25.7%/y/y in Sep, down from -9.9%/y/y in Aug, also the weakest growth since 2009, oil imports fell 55%/y/y and gold imports fell 46%/y/y. The trade deficit narrowed from -\$12.5bn to -\$10.5bn in Sep

## On the Radar

- China – Retail sales, IP, FAI, GDP Q3
- Japan – final pricing for Japan Post IPO
- USA – NAHB Housing market index
- Canada – Federal election
- Eurozone – construction output

## Later this week

- Australia 20 Oct – RBA minutes
- Australia 22 Oct – RBA Assistant Governor Edey speech
- China 20/23 Oct – President Xi State visit to the UK
- China 23 Oct – Property Prices
- Japan 20 Oct – Department and convenience store sales
- Japan 21 Oct – Trade balance
- Japan 23 Oct – PMI flash
- New Zealand 19 Oct – PSI
- New Zealand 21 Oct – Net migration
- New Zealand 22 Oct – Job ads
- USA 20 Oct – Housing starts & Building Permits
- USA 20 Oct – Fed's Dudley and Powell speak at a market conference in NY
- USA 22 Oct – Chicago Fed National Activity Index, Existing Home Sales, Leading index, Kansas City Fed Mfg Index, Markit PMI flash
- Canada 21 Oct – BoC Rate Decision and quarterly Monetary Policy Report
- Canada 22 Oct – Retail sales

- Canada 23 Oct – CPI
- Eurozone 20 Oct – Current Account balance
- Eurozone 22 Oct – ECB
- Eurozone 22 Oct – Consumer confidence
- Eurozone 23 Oct – PMI flash for mfg and services
- Taiwan 20 Oct – Export Orders
- Taiwan 23 Oct – Commercial Sales & Industrial Production
- Malaysia 22 Oct – Foreign Reserves
- Malaysia 23 Oct – CPI
- South Korea 23 Oct – GDP Q3
- Singapore 23 Oct – CPI
- India 23/30 Oct – Eight infrastructure industries production

## Further out

- Australia 28 Oct – CPI
- Australia 3 Nov – RBA rates policy
- Australia 5 Nov – RBA Governor Stevens speaks
- Australia 6 Nov – RBA Statement on Monetary Policy
- Japan 29 Oct – IP
- Japan 30 Oct – Employment, Household spending, CPI, BoJ policy and semiannual outlook report.
- Japan 4 Nov – Japan Post IPO
- China 27 Oct – Industrial profits
- China 28/31 Oct – Leading Index
- China 1 Nov – Manufacturing and Non-Manufacturing PMI
- China 2 Nov – Caixin Mfg PMI
- China 4 Nov – Caixin Services PMI
- USA 26 Oct – New Home Sales
- USA 27 Oct – Durable goods orders
- USA 28 Oct – FOMC
- USA 29 Oct – GDP Q3
- USA 3/19 Nov – Congressional Debt ceiling approach. . ([WSJ article](#))
- USA 5 Nov – Fed Vice Chair Fischer speaks at the National Economists Club
- USA 6 Nov – Payrolls
- New Zealand 27 Oct – Trade balance
- New Zealand 29 Oct – RBNZ Official Cash rate (OCR) review
- New Zealand 30 Oct – Building Permits, ANZ business survey, Credit growth
- New Zealand 2 Nov – Treasury monthly economic indicators report
- New Zealand 4 Nov – Labour report Q3
- Eurozone 30 Oct – Unemployment and CPI first estimate

## Markets on the Move

- BRL weaker than its peers on Friday, down 3.2 on speculation that Finance minister Joaquim Levy would resign.
- INR firmed on Friday stronger than its peers, following rapid foreign investment in local debt in response to an RBI decision last month to increase the foreign investment quota.
- MYR relatively weak on Friday, displaying higher volatility than peers. IDR also remains more volatile in the last week, giving up gains early last week on Thursday and Friday. MYR and IDR were the weakest Asian currencies over the last week, strongest over two weeks.
  
- US 2yr rates swap rates firmed one bp on Friday, continuing to firm after the 5.5bp rose on Thursday from a low on Wednesday since January, but ending last week down 3.3bp.
- Eurozone 2yr swap rates fell 1.2bp on Friday, down steadily last week by 3bp to only 0.028% a new record low, lowest of the major countries, below Japanese 2yr swap rates at .108bp
- UK 2y swap rates firmed on Friday by 0.9bp, but were down last week by 4.6bp, around their lows since April.
- Australian 2yr swap rates are 1.89% on Monday, down 3bp already since Friday, down 10.7bp from Friday six days ago on the 9<sup>th</sup>, following the Westpac mortgage rate hike announcement and softer than expected employment data last week. New Zealand swap rates are relatively stable, down 1bp over six days.
  
- US Stocks rose 0.5% on Friday extending on the 1.5% rise on Thursday to another high since 21 August.
- Mining and steel sector equities in the USA have underperformed in recent sessions and were down 2.0 and 1.4% respectively on Friday
- Mainland Chinese led gains in Asia on Friday up 1.4% to a new high since 21 August.
  
- Oil prices firmed on Friday, extending the rebound from lows for the week on Thursday during in European trading and low since 5-October, starting to show signs of a stable to firmer trend since the low for the year in late-August.
- Base metals, iron ore and coal relatively stable last week. Thermal coal slipped a bit to new record lows.
- Steel prices in China continue to drip lower down around 1% last week to new long term low.



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