

It must have been supply

When the IEA released its monthly report last month, it caused quite a flurry warning “the oil market could drown in over-supply”. More of the same last night in essence with estimates of continuing stockpile builds, higher OPEC output in Jan cf Dec and trimming oil demand estimates. In essence, the fundamentals continue to weigh on prices, and that’s pretty much what happened on the market last night with WIT trading with a \$28 handle this morning with Brent below \$31/bbl. European banks came in for more selling, with the E600 Banks index down a cool 3.97% and the wider E600 index off 1.58%, setting the tone for the US market. S&P 500 US energy stocks are down 2.45% into the last hour of trade with the wider market currently tracking toward a net gain for the session.

The US Small Business Optimism eased further in January to the lowest in two years but JOLTs Job Openings (something Yellen tracks) revealed more hirings (positive labour demand) and increased job quitters, a sign of confidence in the ability to get other work. On the other side of the Atlantic, German Industrial production surprised on the low side in December. Any signs of industrial sector weakness will not be lost on the ECB; French ECB Governing Council Member Villeroy on the wires overnight implicitly talking prospects of more ECB action saying that it’s too risky to give in to deflationary forces.

For Euro-zone deflation risk, the further weakness in oil prices is being compounded right now by the rebound in the Euro in this “risk-off” environment, trading up toward 1.13 in the overnight session. Similarly, USD/JPY is trading below 115 this morning in what’s been a seven big figure range in the past 10 days. The Nikkei and Topix were crushed by 5½% yesterday. There has also been buying of the Swiss Franc, notwithstanding the SNB’s Jordan saying the central bank is not yet at the rock bottom on deposit rates and that the Franc is overvalued. (Of course, for all three, the drop in oil will, in time, have a positive economic growth/income benefit, through a higher terms of trade.)

It’s been an interesting whipsaw session for commodity currencies that were initially sold lower as has been the case in like commodity/oil sell downs but recovered later in the session. The AUD traded below 0.70, but is sitting back at around 0.7055/60 as this goes to print.

Bloomberg headlines also cited seeing an EU/G20 planning document that among other things called for more use of fiscal policy, presumably also to reassure markets given

Yellen tonight is not going to be over-blowing downside risks.

Coming Up

First up this morning we have the NZ card spending data, followed by the monthly Westpac consumer sentiment index for February (another smallish hit from market volatility?), followed by HIA new home sales for December (sales have been more sluggish through late 2015, especially for apartments), and NAB’s Commercial Property survey for the December quarter, the market sensitive a very handy reading on non-residential property sentiment and conditions across sectors and the country.

It’s still the Lunar Year celebrations, so it’s all aboard the Yellen train with the first of her two part Congressional testimony (House tonight), kicking off at 2 AM. San Francisco Fed President John Williams’ also speaks, later.

We imagine that she will be, as usual, very careful with the words that she selects, noting that there are various uncertainties and risks around the outlook for the US and global economy that have been generally accumulating this year. Even so, this writer expects her to note that while the momentum of the US economy slowed late last year, she remains cautiously optimistic about prospects for US economic growth, of some further gradual improvement in the labour market together with the likelihood that US consumer inflation will move towards 2%, the Fed’s target.

The market knows that she is taking guidance from the flow of hard economic data (and certainly not overreacting to market volatility on a daily basis) and not wanting to scuttle market sentiment, a difficult balance. One aspect of recent financial market volatility that the Fed will be watching closely is some tightening in US financial conditions (a higher US dollar and increased credit spreads) that could impinge on economic growth prospects. The bottom line is that she will not wish to lock the Fed in or out of any particular policy options, and thus there will be something in the testimony and the following Q&A session for those looking for a fed worried about the outlook and those expecting more monetary tightening this year, NAB’s view.

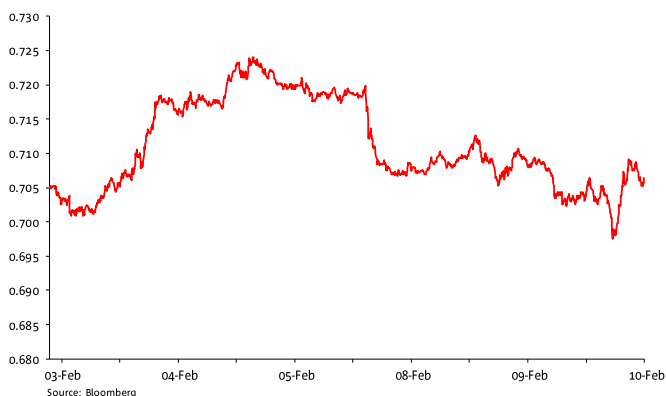
Overnight

On global stock markets, the S&P 500 was +0.40%. Bond markets saw US 10-years -1.72bp to 1.73%. On commodity markets, Brent crude oil -6.63% to \$30.71, gold-0.7% to \$1,190, iron ore closed. AUD is at 0.7058 and the range was 0.6974 to 0.7096.

Author:

David de Garis, Senior Economist

AUD/USD - past week



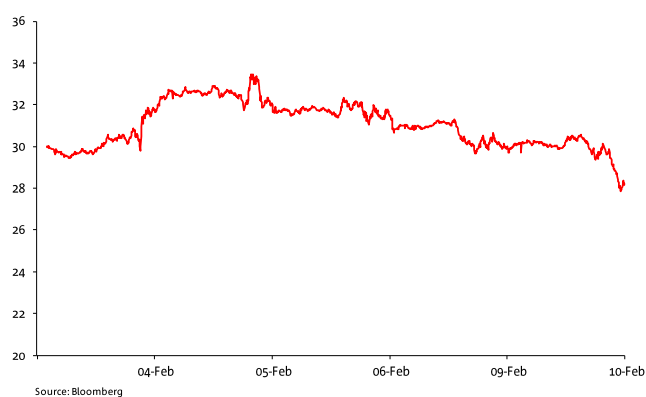
US 10 yr - past week



S&P Futures - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7058	-0.4	0.6974	0.7096	HKD	7.7990 0.1
NZD	0.6633	0.3	0.6563	0.6669	CNY	6.5739 0.0
EUR	1.1285	0.7	1.1206	1.1339	SGD	1.3978 -0.3
GBP	1.4452	-0.1	1.4378	1.4517	IDR	13,618 -0.1
JPY	115.12	-0.2	114.32	115.40	THB	35.41 -0.1
CAD	1.3880	0.1	1.3787	1.3941	KRW	1,200 -0.6
AUD/EUR	0.6255	-0.5			TWD	33.24 -0.2
AUD/JPY	81.26	0.0			PHP	47.68 0.0
AUD/GBP	0.4884	0.3			CHF	0.97 -0.8
AUD/NZD	1.0640	-0.1			SEK	8.42 -0.6

Equities

Major Indices			
	Last	% day	% year
Dow	16,073	0.3	-9.3
S&P 500	1,861	0.4	-9.1
Nasdaq	4,299	0.3	-9.0
VIX Index	26.38	1.5	42.2
FTSE	5,632	-1.0	-17.6
DAX	8,879	-1.1	-16.7
CAC 40	3,998	-1.7	-14.1
Nikkei	16,085	-5.4	-8.9
Shanghai	2,763	-0.6	-10.2
Hang Seng	19,288	0.5	-21.8
ASX 200	4,832	-2.9	-16.7

Commodities*

	Last	% day
Oil (Brent)	30.70	-6.6
Oil (WTI)	28.17	-5.1
Oil (Tapis)	36.16	-2.7
Gold	1189.70	-0.7
CRB	156.58	-2.5
GS Metals	251.0	0.4
Aluminium	1481	-1.4
Copper	4509	-2.2
Nickel	8090	-1.5
Zinc	1684	-2.3
Ch. steel	#N/A	N/A
Iron ore	45.7	0.5
St. coal	51.1	0.0
Wheat Chic	461.8	-0.3
Sugar	13.39	-0.4
Cotton	58.64	-1.6
Coffee	114.8	-0.9

Interest Rates

Indicative Swap Rates				Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.50	0.62	0.76	1.63	USD 10	1.73	-0.02
AUD	2.00	2.28	2.03	2.62	AUD 10	2.41	-0.18 0.68
NZD	2.50	2.65	2.58	3.21	NZD 10	3.02	0.01 1.28
EUR	0.05	0.06	-0.16	0.61	CAD 10	1.06	0.01 -0.67
GBP	0.50	0.59	0.73	1.41	EUR 10	0.23	0.02 -1.50
JPY	0.07	0.03	-0.17	0.11	GBP 10	1.41	0.00 -0.32
CAD	0.50	1.17	0.66	1.41	JPY 10	-0.03	-0.07 -1.76

Overnight Futures

	Last	Chge
Australia		
3 mth bill	97.81	-0.01
3 Yr bond	98.24	-0.04
10 Yr bonc	97.55	0.00
3/10 sprd	0.69	-0.05
SPI	20.0	0.4

CO₂ Emissions - Euros

	Last	% day
Dec-2016	4.97	-5.3
Dec-2017	5.02	-5.5
Dec-2018	5.10	-5.6

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
Wednesday, 10 February 2016								
NZ	Card Spending Retail MoM/YoY	Jan	0.3	0.3		-0.2/0.1	21.45	8.45
AU	Westpac Consumer Conf Index	Feb				97.3/-3.5	23.30	10.30
AU	HIA new home sales	Dec				-1.8	0.00	11.00
AU	NAB Commercial Property Survey	Q4					0.30	11.30
UK	Industrial Production MoM/YoY	Dec		-0.1/1		-0.7/0.9	9.30	20.30
CH	Agg Financing CNY (these released from 10/2)	Jan		2200		1820		
CH	New Yuan Loans CNY	Jan		1900		597.8		
EC	ECB's Praet speaks in Washington on "Lender of Last Resort"						14.00	1.00
UK	NIESR GDP Estimate	Jan				0.6	15.00	2.00
US	Fed's Yellen to Appear Before House Financial Services Committee						15.00	2.00
US	Fed's Williams Speaks on Health and the Economy in LA						18.30	5.30
US	Monthly Budget Statement	Jan		42.5		-14.4	19.00	6.00
Thursday, 11 February 2016								
NZ	BusinessNZ Manufacturing PMI	Jan				56.7	21.30	8.30
AU	Consumer Inflation Expectation	Feb				3.6	0.00	11.00
UK	RICS House Price Balance	Jan		52		50	0.10	11.10
AU	NAB SME Business Survey	Q4					0.30	11.30
UK	BoE's Cunliffe and Bailey at House of Lords for the inquiry into the EU						11.30	22.30
US	Initial Jobless Claims	Feb 6		280		285	13.30	0.30
CA	New Housing Price Index MoM	Dec		0.2		0.2	13.30	0.30
CA	New Housing Price Index YoY	Dec				1.6	13.30	0.30
US	Bloomberg Consumer Comfort	Feb 7				44.2	14.45	1.45
US	Fed's Yellen to Appear Before Senate Banking Committee						15.00	2.00
Friday, 12 February 2016								
NZ	Food Prices MoM	Jan	1.3			-0.8	21.45	8.45
AU	RBA Governor's appearance before the House of Representatives' Standing Committee on Economics						22.30	9.30
AU	Home Loans MoM	Dec	1.2	3		1.8	0.30	11.30
AU	Investment Lending	Dec				0.7	0.30	11.30
GE	CPI MoM/YoY	Jan F		-0.8/0.5		-0.8/0.5	7.00	18.00
GE	GDP QoQ/YoY	4Q P		0.3/1.4		0.3/1.7	7.00	18.00
EC	Industrial production MoM/YoY	Dec		0.3/0.8		-0.7/1.1	10.00	21.00
EC	GDP QoQ/YoY	4Q A		0.3/1.5		0.3/1.6	10.00	21.00
CA	Teranet/National Bank HPI MoM	Jan				-0.1	13.30	0.30
US	Retail sales MoM/ex autos and gas	Jan		0.1/0.3		-0.1/0	13.30	0.30
US	Import prices MoM/YoY	Jan		-1.5/-6.8		-1.2/-8.2	13.30	0.30
US	Fed's Dudley press briefing on household borrowing and indebtedness						15.00	2.00
US	Business Inventories	Dec		0.1		-0.2	15.00	2.00
US	U. of Mich. Sentiment	Feb P		92.3		92	15.00	2.00
Monday, 15 February 2016								
NZ	REINZ House Sales YoY	Jan				3.5	22.05	9.05
NZ	Performance Services Index	Jan				58.9	21.30	8.30
JN	GDP SA QoQ	4Q P		-0.2		0.3	23.50	10.50
JN	GDP Annualized SA QoQ	4Q P		-0.7		1	23.50	10.50
UK	Rightmove House Prices MoM	Feb				0.5	0.10	11.10
UK	Rightmove House Prices YoY	Feb				6.5	0.10	11.10
AU	New Motor Vehicle Sales MoM	Jan				-0.5	0.30	11.30
AU	New Motor Vehicle Sales YoY	Jan				2.2	0.30	11.30
NZ	Non Resident Bond Holdings	Jan				67.4	2.00	13.00
JN	Industrial Production MoM	Dec F				-1.4	4.30	15.30
JN	Industrial Production YoY	Dec F				-1.6	4.30	15.30
JN	Tertiary Industry Index MoM	Dec				-0.8	4.30	15.30
EC	Trade Balance NSA	Dec				23.6	10.00	21.00
CH	Trade Balance	Jan		60.9		60.09	2.00	13.00
EC	ECB's Draghi Speaks in EU Parliament Committee in Brussels						14.00	1.00
Tuesday, 16 February 2016								
NZ	Retail Sales Ex Inflation QoQ	4Q				1.6	21.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Feb 7				111.2	22.30	9.30
AU	RBA Feb. Meeting Minutes						0.30	11.30
NZ	2Yr Inflation Expectation	1Q				1.85	2.00	13.00
JN	Tokyo Condominium Sales YoY	Jan				-34.1	4.00	15.00
UK	CPI MoM	Jan				0.1	9.30	20.30
UK	PPI Input NSA MoM	Jan				-0.8	9.30	20.30
GE	ZEW Survey Current Situation	Feb				59.7	10.00	21.00
GE	ZEW Survey Expectations	Feb				10.2	10.00	21.00
EC	ZEW Survey Expectations	Feb				22.7	10.00	21.00
CA	Manufacturing Sales MoM	Dec				1	13.30	0.30
US	Fed's Harker Speaks on Economy at University of Delaware						13.30	0.30
US	Empire Manufacturing	Feb		-10		-19.37	13.30	0.30
CA	Existing Home Sales MoM	Jan				-0.6	14.00	1.00
CA	Bloomberg Nanos Confidence	Feb 5				52.2	15.00	2.00
US	NAHB Housing Market Index	Feb		60		60	15.00	2.00
Wednesday, 17 February 2016								
US	Net Long-term TIC Flows	Dec				31.4	21.00	8.00
AU	Westpac Leading Index MoM	Jan				-0.3	23.30	10.30
JN	Machine Orders MoM	Dec				-14.4	23.50	10.50
JN	Machine Orders YoY	Dec				1.2	23.50	10.50
US	Fed's Rosengren Speaks at Colby College						0.00	11.00
UK	Jobless Claims Change	Jan				-4.3	9.30	20.30
UK	Average Weekly Earnings 3M/YoY	Dec				2	9.30	20.30
US	Housing Starts/MoM	Jan		1173/2		1149/-2.5	13.30	0.30
US	Building Permits/MoM	Jan		1203/-0.1		1232/-3.9	13.30	0.30
US	PPI Final Demand MoM	Jan		-0.2		-0.2	13.30	0.30
CA	Int'l Securities Transactions	Dec				2.58	13.30	0.30
US	Industrial Production MoM	Jan		0.35		-0.4	14.15	1.15
US	Manufacturing (SIC) Production	Jan		0.2		-0.1	14.15	1.15
US	U.S. Fed Releases Minutes from Jan. 26-27 FOMC Meeting						19.00	6.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		1-Mar	2.00%	2.00%		2.00%		
New Zealand, RBNZ		10-Mar	2.50%	2.50%		2.50%		
Europe ECB		10-Mar				0.05%		
Canada, BoC		10-Mar				0.50%		
Japan, BoJ		15-Mar	-0.1% to +0.1%	-0.1% to +0.1%		-0.1% to +0.1%		
UK BOE		17-Mar				0.50%		
US Federal Reserve		17-Mar				0.25-0.50%		

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

Contact Details

Authors

David de Garis
Senior Economist
+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

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

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.