

## Pushmi-pullyu

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If we had to try and summarise the best part of three hours of testimony before Congress by Fed chair Janet Yellen in one sentence, it would be something like “Janet fails to go full dove”. Certainly looking at the performance of US rates markets, that sees 2 year yields about 2bs higher on the day (though some 2.5bs lower than when Yellen commenced her testimony) it is clear that the Fed is not even close to wanting to endorse prevailing pre-testimony market pricing. This still assigns only about a 50% probability to the next quarter-point hike to the fed funds rate by year end, and doesn’t have a full hike priced in before mid-2017.

To be sure, Yellen was quick to acknowledge in her prepared testimony that “financial conditions in the United States have recently become less supportive given equity price falls, higher borrowing rates for riskier borrows (read: the blow out in high-yield credit spreads) and a further appreciation of the dollar”. She was also up-front about the risk posed to U.S. economic growth from overseas, saying “Most notably, although recent economic indicators do not suggest a sharp slowdown in Chinese growth, declines in the foreign exchange value of the renminbi have intensified uncertainty about China’s exchange rate policy and the prospects for its economy” (and, she goes on, related to that the outlook for global growth).

The ‘risk’ sections above were nevertheless prefaced with now the all too familiar positive comments about further progress towards the Fed’s objective of maximum employment, and that, despite the likelihood of inflation remaining low for a while, a repetition of FOMC confidence that inflation “will rise to its 2% objective over the medium term”. On the latter, Yellen does though acknowledge that alongside the falls in market based measures of inflation to historically low levels (but which she blames largely on change in risk and liquidity premiums) “some survey measures of longer-run inflation expectations are also at the low end of their recent ranges”.

We’d sum Yellen up – together with the commentary in the days leading up to her testimony including from Bill Dudley and Stan Fischer – as implying that the bar to a next rate rise as early as March is very high but that the Fed is still being careful not to rule anything out beyond that. Attention now focuses squarely on the forthcoming G20 meeting in Shanghai on Feb 26/27 (where we already have mutterings about discussion of G20 support for fiscal stimulus) and where clarity on China’s currency policy will doubtless be sought, and perhaps too some discussion on whether more

forward guidance on future monetary policy intentions of major central banks is once again appropriate.

Incidentally, on the subject of negative Fed rates, Yellen implied the Fed was still looking into the legalities of this and its implications for the ‘plumbing of the payments system’ but was careful to describe these actions as no more than ‘prudent planning’ in light of European (and though she didn’t day it, now of course Japanese) actions.

In other markets, European stocks rallied quite hard (Eurostoxx 50 +1.9%) led by a 10% jump in the shares of Deutsche Bank and following yesterday’s news of its planned bond buy-back. This has proved EUR/USD negative just as earlier stress had seen the euro supported on capital flight back into the Eurozone. It has by no means been a ‘risk on’ night though, with USD/JPY making new post-November 2014 lows now trading below ¥114 (¥113.59). In FX overall, the G10 leader board has a touch of schizophrenia about it, with the yen firmly at the top (+1.35%) but the normally risk-sensitive NZD, NOK and AUD (the latter back just above 0.71) covering the next few places despite generally weaker industrial commodity prices. CAD meanwhile is firmly at the bottom amid divergence between WTI crude (down) and Brent (up). Go figure.

## Coming Up

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We don’t have anything major on the calendar either locally or internationally today (save for Fed chair Yellen’s second Congressional testimony, this time in the Senate). Hong Kong re-opens after its three-day Lunar New Year holiday. The performance of the Hang Seng Index may rate a mention, as too the performance of USD/CNH.

BusinessNZ’s January manufacturing PMI is due at 08:30AEST. Our BNZ colleagues note this index did itself proud in December. At 56.7, from 54.9 in November it was well above its long-term norm of 53.0.s indicative of the economy’s strong momentum late last year.

Other than this, it’s really just weekly US jobless claims (now of more than usual interest insofar as the pick-up in January – whether or not seasonally distorted - was one indication of last week’s relatively soft US payrolls print.

## Overnight

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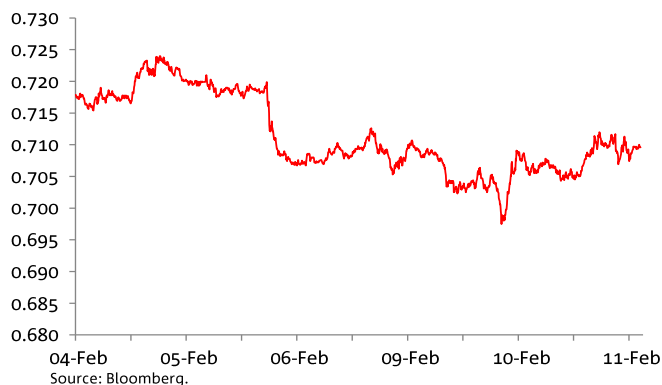
On global stock markets, the S&P 500 is currently +0.30%. Bond markets see US 10-years -2bps to 1.7050%. On commodities, Brent crude oil +2.64% to \$31.12, gold-0.5% to \$1,193, iron ore still closed. AUD is at 0.7105 and the range since yesterday’s local close has been 0.7069 to 0.7125.

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## Markets

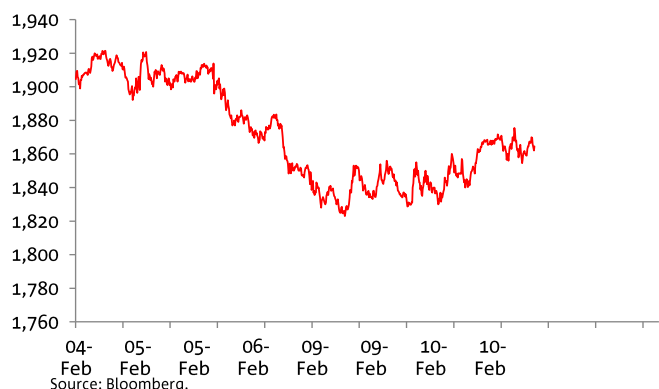
### AUD/USD - past week



### 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	0.7109	0.6	0.7038	0.7125	HKD	7.7939 -0.1
NZD	0.6678	0.6	0.6605	0.6692	CNY	6.5743 0.1
EUR	1.1266	-0.2	1.1161	1.1311	SGD	1.3919 -0.3
GBP	1.4520	0.3	1.4446	1.4578	IDR	13,455 -1.2
JPY	113.69	-1.2	113.62	115.26	THB	35.30 -0.3
CAD	1.3911	0.3	1.3821	1.3999	KRW	1,198 -0.7
AUD/EUR	0.6310	0.8			TWD	33.18 -0.6
AUD/JPY	80.87	-0.7			PHP	47.47 -0.5
AUD/GBP	0.4897	0.2			CHF	0.97 0.1
AUD/NZD	1.0639	-0.1			SEK	8.42 0.1
AUD/CNY	4.6727	0.8				

### Equities

Major Indices			
	Last	% day	% y/y
Dow	16,040	+0.2	-10.2
S&P 500	1,862	+0.5	-10.0
Nasdaq	4,328	+1.4	-9.6
VIX	26	-3.1	49.3
FTSE	5,672	+0.7	-16.9
DAX	9,017	+1.6	-16.1
CAC 40	4,061	+0.9	-13.5
Nikkei	15,713	-2.3	-11.0
Shanghai	2,763	-0.6	-10.2
Hang Seng	19,288	+0.5	-21.8
ASX 200	4,776	-1.2	-17.2

### Commodities\*

	Last	% day
Oil (Brent)	31.12	2.6
Oil (WTI)	27.63	-1.1
Oil (Tapis)	32.74	-9.5
Gold	1192.80	-0.5
CRB	156.40	-0.1
GS Metals	246.6	-1.7
Aluminium	1479	0.0
Copper	4452	-1.4
Nickel	7848	-2.6
Zinc	1713	1.6
Ch. steel	#N/A	N/A
Iron ore	45.7	0.0
Coal	50.4	-0.1
Wheat Chic.	465.0	0.7
Sugar	13.38	-0.1
Cotton	58.88	0.4
Coffee	114.8	0.0

### Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.50	0.62	0.76	1.59	USD 10	1.72	-0.01
AUD	2.00	2.28	2.01	2.58	AUD 10	2.41	0.00
NZD	2.50	2.65	2.60	3.20	NZD 10	3.04	0.01
EUR	0.05	0.06	-0.17	0.62	CAD 10	1.04	-0.01
GBP	0.50	0.59	0.76	1.43	EUR 10	0.24	0.01
JPY	0.07	0.02	-0.12	0.17	GBP 10	1.41	0.00
CAD	0.50	1.17	0.66	1.37	JPY 10	0.02	0.05

### Overnight Futures

	Last	Chge
<b>Australia</b>		
3 mth bill	97.78	-0.01
3 Yr bond	98.26	-0.01
10 Yr bond	97.58	0.03
3/10 sprd	0.68	-0.04
SPI	41.0	0.9

### CO<sub>2</sub> Emissions - Euros

	Last	% day
Jun-2016	4.87	-1.6
Dec-2016	4.89	-1.6
Jun-2017	4.92	-1.6

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
<b>Thursday, 11 February 2016</b>								
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
<b>Friday, 12 February 2016</b>								
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
<b>Monday, 15 February 2016</b>								
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		-0.2		-0.8	4.30	15.30
EC	Trade Balance NSA	Dec				23.6	10.00	21.00
CH	Trade Balance	Jan		60.75		60.09	2.00	13.00
EC	ECB's Draghi Speaks in EU Parliament Committee in Brussels						14.00	1.00
<b>Tuesday, 16 February 2016</b>								
NZ	Retail Sales Ex Inflation QoQ	4Q				1.6	21.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Feb 14				111.4	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 12				52.2	15.00	2.00
US	NAHB Housing Market Index	Feb		60		60	15.00	2.00
<b>Wednesday, 17 February 2016</b>								
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		4.9		-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		1175/2.3		1149/-2.5	13.30	0.30
US	Building Permits/MoM	Jan		1200/-0.3		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		0.3		-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
<b>Thursday, 18 February 2016</b>								
NZ	ANZ Job Advertisements MoM	Jan				1.1	21.00	8.00
NZ	PPI Input QoQ	4Q				1.6	21.45	8.45
NZ	PPI Output QoQ	4Q				1.3	21.45	8.45
JN	Trade Balance Adjusted	Jan				36.637	23.50	10.50
NZ	ANZ Consumer Confidence Index	Feb				121.4	0.00	11.00
NZ	ANZ Consumer Confidence MoM	Feb				2.3	0.00	11.00
AU	Employment Change	Jan				-1	0.30	11.30
AU	Unemployment Rate	Jan				5.8	0.30	11.30
AU	RBA FX Transactions Market	Jan				1175	0.30	11.30
US	Fed's Bullard Speaks to CFA Society St. Louis							
CH	CPI YoY	Jan		1.9		1.6	1.30	12.30
CH	PPI YoY	Jan		-5.4		-5.9	1.30	12.30
EC	ECB Current Account SA	Dec				26.4	9.00	20.00
EC	ECB account of the monetary policy meeting						12.00	23.00
AU	RBA's Edey Speech in Sydney							
CA	Wholesale Trade Sales MoM	Dec				1.8	13.30	0.30
US	Philadelphia Fed Business Outlook	Feb		-2.9		-3.5	13.30	0.30
US	Initial Jobless Claims	Feb 6		280		285	13.30	0.30
US	Leading Index	Jan		-0.2		-0.2	15.00	2.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
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

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