

2 February 2016

Markets Today



Stalled

Friday's BoJ powered equity rally stalled overnight with disappointing data releases and fading hopes of output cuts in oil weighted down on sentiment.

Yesterday's disappointing PMI reading from China set the tone at the start of the overnight session and although initially European equities managed to post small gains, the drop in oil prices and a new soft US ISM manufacturing print soured the initial positive mood.

January's US ISM manufacturing rose trivially to 48.2 from 48.0. New orders rose to 51.5 from 48.8, suggesting the headline index could rise over the next couple of months, however the employment index was disappointing falling from 45.9 from 48.0. Meanwhile oil prices gave back some of the gains from last week after concerns that Iran will raise its export targets, despite comments from Saudi Arabia willingness to cooperate.

In the end, the Eurstoxx index finished the day down 0.79%, the DAX was -0.70% and the FTSE 100 outperformed at -0.39%, aided by a better than expected manufacturing PMI print. As we type, US equities look set to end the day marginally lower between -0.1 and -0.4%. WTI oil is trading at \$31.6 (-6%) and Brent is at \$34.13 (-5.2%).

Data also drove the move in currencies overnight. The USD is weaker against most G10 with GBP the outperformer boosted by a stronger than expected manufacturing PMI print (52.9 vs 51.7). The NZD is also close to the top of leader board with our BNZ currency strategist noting that the move reflects portfolio flows, rather than fundamentals. The AUD has traded sideways and the AUDNZD has dropped below 1.09 suggesting some longs got squared up ahead of the RBA today.

In commodities, gold is up 1.1% to \$1129, copper has managed to post some gains (+0.7%) despite the softness in Chinese's equity markets and iron ore is up 3% currently trading at \$43.

Looking at other data releases, European PMIs painted a mixed picture of fortunes in the Eurozone. Italy's PMI fell to 53.2 from 55.6, well below consensus expectations of 54.8. France's PMI was unchanged at 50 and Germany's flash estimate of 52.3 narrowly beat expectations (52.3) leaving the Eurozone overall unchanged at 52.3

In the US, December personal income rose 0.3%, a bit above consensus (0.2%). Nominal consumption and the core PCE deflator were unchanged, but real spending - the direct GDP component - rose by 0.1%, in line with consensus'.

Just a couple of hours ago, Fed Vice Chair Fisher was speaking in New York and he noted that it was too difficult to gauge the impact from recent turmoil in financial markets and uncertainty over China on the U.S. economy, which meant that policy makers undecided about what to do next.

Coming Up

In Australia this morning and ahead of the RBA cash rate announcement this afternoon, we get the weekly consumer confidence reading. In terms of the RBA while no change is unanimously expected, markets attention is likely to be focused on the tone of the Governor's statement.

Early in December the market was pricing around 15bps of RBA rate cuts for the year ahead. In January, the sharp fall in the renminbi along equity markets instability and renewed downward pressures in oil prices have weighted down on RBA rate expectation with the market currently pricing 32bps of cuts for the year ahead. This has occurred despite the fact that domestic data releases over this period have continued to point to healthy improvements in the non-mining domestic economy.

Given this background our economists have noted that the key question will be whether the bank still sees prospects for a pick-up in growth. For now, the Board has time to continue reviewing domestic economic signals as global economic/financial developments evolve. As such, while we expect the board will retain a mild easing bias, today's statement is unlikely support to current market rate cut expectations. As for the currency, notwithstanding our view that the AUD still needs to fall further to better reflect commodity price falls, we doubt the RBA will choose to materially change its view that the currency 'is adjusting to the significant declines in key commodity prices'. Any acknowledgement of a more uncertain outlook due to international developments should temper any AUD-positive impact

In offshore markets it is a relatively quiet Tuesday. In Europe we get PPI for the Euro area (Dec) along with German unemployment (Jan). Later in the US we get the IBD/TIPP economic optimism print followed by vehicle. And in terms of US earnings, after today's close we get Google and Exxon Mobil reports.

Overnight

On global stock markets, the S&P 500 was +0.20%. Bond markets saw US 10-years +3.98bp to 1.96%. On commodity markets, Brent crude oil -5.47% to \$34.02, gold +1.1% to \$1,129, iron ore +3.1% to \$43.02. AUD is at 0.7104 and the range was 0.7043 to 0.7104.

Author:

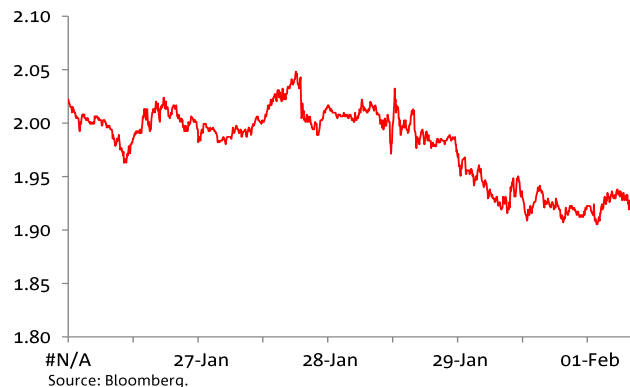
Rodrigo Catril, Currency Strategist

Markets

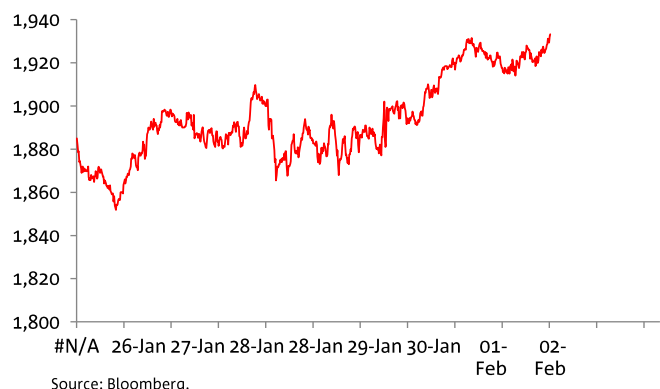
AUD/USD - past week



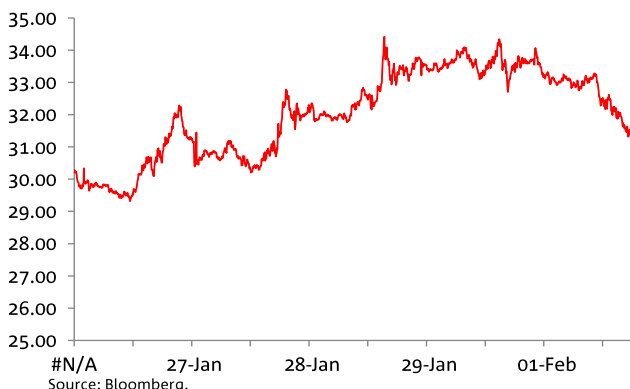
US 10 yr - past week



S&P Futures - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High		Last	% chge
AUD	0.7105	0.3	0.7043	0.7105	HKD	7.7799	-0.1
NZD	0.6527	0.7	0.6450	0.6527	CNY	6.5784	0.0
EUR	1.0894	0.6	1.0815	1.0913	SGD	1.4229	-0.1
GBP	1.4438	1.4	1.4229	1.4445	IDR	13,632	-1.1
JPY	121.13	0.0	120.68	121.49	THB	35.60	-0.3
CAD	1.3931	-0.3	1.3913	1.4062	KRW	1,200	0.1
AUD/EUR	0.6522	-0.3			TWD	33.41	0.3
AUD/JPY	86.05	0.3			PHP	47.64	-0.2
AUD/GBP	0.4921	-1.1			CHF	1.02	-0.4
AUD/NZD	1.0885	-0.4			SEK	8.53	-0.5

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	0.50	0.61	0.87	1.84	USD 10	1.96	0.04	
AUD	2.00	2.27	2.04	2.77	AUD 10	2.62	-0.02	0.66
NZD	2.50	2.70	2.60	3.38	NZD 10	3.19	0.01	1.23
EUR	0.05	0.06	-0.17	0.69	CAD 10	1.24	0.02	-0.72
GBP	0.50	0.59	0.82	1.63	EUR 10	0.35	0.03	-1.61
JPY	0.08	0.05	-0.08	0.25	GBP 10	1.62	0.06	-0.34
CAD	0.50	1.17	0.71	1.61	JPY 10	0.06	-0.05	-1.91

Equities

Major Indices

	Last	% day	% y/y
Dow	16,490	+0.1	-3.9
S&P 500	1,944	+0.2	-2.5
Nasdaq	4,631	+0.4	-0.1
FTSE	6,060	-0.4	-10.2
DAX	9,758	-0.4	-8.8
CAC 40	4,392	+0.1	-4.6
Nikkei	17,865	+2	1.7
Shanghai	2,689	-1.8	-14.0
Hang Seng	19,596	-0.4	-20.0
ASX 200	5,044	+0.8	-10.3

Commodities*

	Last	% day
Oil (Brent)	34.06	-5.4
Oil (WTI)	31.44	-6.5
Oil (Tapis)	37.27	8.9
Gold	1128.50	1.1
CRB	163.49	-2.0
GS Metals	249.2	0.9
Aluminium	1521	0.3
Copper	4569	0.7
Nickel	8592	0.4
Zinc	1627	3.1
Ch. steel	1818	-0.7
Iron ore	43.0	3.1
Coal	50.0	-0.9
Wheat Chic.	480.5	-0.9
Sugar	12.83	-2.4
Cotton	61.79	1.1
Coffee	117.8	1.2

Overnight Futures

	Last	Chge
Australia		
3 mth bill	97.81	0.01
3 Yr bond	98.13	-0.01
10 Yr bond	97.35	-0.03
3/10 sprd	0.78	0.02
SPI	5.0	0.1

CO₂ Emissions - Euros

	Last	% day
Jun-2016	5.69	-6.0
Dec-2016	5.71	-5.9
Jun-2017	5.74	-5.9

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
Tuesday, 2 February 2016								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jan 31				112.2	22.30	9.30
NZ	ANZ Commodity Price	Jan				-1.8	0.00	11.00
AU	RBA Cash Rate Target	Feb 2	2	2		2	3.30	14.30
GE	Unemployment change/rate	Jan		-8/6.3		-14/6.3	8.55	19.55
EC	PPI MoM/YoY	Dec		-0.55		-0.2/-3.2	10.00	21.00
EC	Unemployment Rate	Dec		10.5		10.5	10.00	21.00
NZ	World Dairy Auction, GDT price index (early AM, NZT time)					-1.40%		
US	ISM New York	Jan				62	14.45	1.45
US	Fed's George Speaks on U.S. Economy in Kansas City						18.00	5.00
Wednesday, 3 February 2016								
NZ	Unemployment Rate	4Q	6.1	6.1		6	21.45	8.45
NZ	Employment Change QoQ	4Q	0.5	0.8		-0.4	21.45	8.45
NZ	Average Hourly Earnings QoQ	4Q		0.5		0.9	21.45	8.45
AU	AiG Perf of Services Index	Jan				46.3	22.30	9.30
NZ	RBNZ Governor Wheeler Speaks "The Global Economy, New Zealand's Economic Outlook, and the Policy Targets Agreement"						0.00	11.00
AU	NAB Residential Property Survey	Q4					0.30	11.30
AU	Trade Balance	Dec	-2500	-2450		-2906	0.30	11.30
AU	Building Approvals MoM/YoY	Dec	4.9/-7.2	4.5/-7.2		-12.7/-8.4	0.30	11.30
CH	Caixin PMI Services/Composite	Jan		/		50.2/49.4	1.45	12.45
JN	Nikkei PMI Services/Composite	Jan				51.5/52.2	2.00	13.00
JN	Consumer Confidence Index	Jan		42.5		42.7	5.00	16.00
GE	Markit Services/Composite PMI	Jan F		55.4/54.5		55.4/54.5	8.55	19.55
EC	Markit Services/Composite PMI	Jan F		53.6/53.5		53.6/53.5	9.00	20.00
UK	Markit/CIPS UK Services/Composite PMI	Jan		55.4/55		55.5/55.3	9.30	20.30
EC	Retail Sales MoM	Dec		0.3		-0.3	10.00	21.00
US	ADP Employment Change	Jan		190		257	13.15	0.15
US	Markit Services/Composite PMI	Jan F		53.7		53.7	14.45	1.45
US	Markit US Composite PMI	Jan F		/55.2		53.7/55.3	14.45	1.45
US	ISM Non-Manufacturing	Jan		55.2		55.3	15.00	2.00
Thursday, 4 February 2016								
NZ	RBNZ Assistant Governor John McDermott speaks (from Sydney) "Forward Guidance – Enhancing Monetary Policy in New Zealand"						22.30	9.30
AU	NAB Business Confidence (Quarterly survey)	4Q				0.47	0.30	11.30
AU	NAB Online Retail Sales Index MoM/YoY	Dec				0.7%/11.4%	0.30	11.30
GE	Markit Germany Construction PMI	Jan				55.5	8.30	19.30
UK	New Car Registrations YoY	Jan				8.4	9.00	20.00
EC	ECB Publishes Economic Bulletin						9.00	20.00
UK	Bank of England Bank Rate	Feb 4		0.5		0.5	12.00	23.00
UK	BOE Asset Purchase Target	Feb		375		375	12.00	23.00
UK	Bank of England Inflation Report						12.00	23.00
US	Challenger Job Cuts YoY	Jan				-27.6	12.30	23.30
US	Nonfarm Productivity	4Q P		-2		2.2	13.30	0.30
US	Initial Jobless Claims	Jan 30		280		278	13.30	0.30
US	Bloomberg Consumer Comfort	Jan 31				44.6	14.45	1.45
US	Factory Orders	Dec		-2.8/		-0.2/-0.3	15.00	2.00
US	Factory Orders Ex Trans	Dec				-0.3	15.00	2.00
US	Durable Goods Orders	Dec F				-5.1	15.00	2.00
Friday, 5 February 2016								
AU	AiG Perf of Construction Index	Jan				46.8	22.30	9.30
AU	Retail Sales MoM	Dec	0.6	0.4		0.4	0.30	11.30
AU	Retail Sales Ex Inflation QoQ	4Q	1.0	0.9		0.6	0.30	11.30
AU	RBA Statement on Monetary Policy						0.30	11.30
JN	Leading Index CI	Dec P		102.7		103.5	5.00	16.00
GE	Factory Orders MoM	Dec		-0.5		1.5	7.00	18.00
US	Trade Balance	Dec		-43.2		-42.37	13.30	0.30
US	Change in Nonfarm Payrolls/Unemployment rate	Jan		190/5		292/5	13.30	0.30
US	Average Hourly Earnings MoM/YoY	Jan		0.3/2.2		0/2.5	13.30	0.30
CA	Net Change in Employment/Unemployment rate	Jan		6.5/7.1		22.8/7.1	13.30	0.30
CA	Int'l Merchandise Trade	Dec		-2.25		-1.99	13.30	0.30
CA	Ivey Purchasing Managers Index SA	Jan		50.25		49.9	15.00	2.00
US	Consumer Credit	Dec		16		13.951	20.00	7.00
Sunday, 7 February 2016								
CH	Foreign Reserves	Jan				3330		
Monday, 8 February 2016								
JN	BoP Current Account Adjusted	Dec				1423.5	23.50	10.50
AU	ANZ Job Advertisements MoM	Jan				-0.1	0.30	11.30
JN	Labor Cash Earnings YoY	Dec				0	1.30	12.30
JN	Real Cash Earnings YoY	Dec				-0.4	1.30	12.30
JN	Bankruptcies YoY	Jan				1.89	4.30	15.30
JN	Eco Watchers Survey Current/Outlook	Jan				48.7/48.2	6.00	17.00
GE	Industrial Production SA MoM/YoY	Dec		/		-0.3/0.1	7.00	18.00
EC	Sentix Investor Confidence	Feb				9.6	9.30	20.30
CA	Housing Starts/Building permits	Jan				172.965/-19.6	13.15	0.15
CA	Bloomberg Nanos Confidence	Jan 29				52.3	15.00	2.00
US	Labor Market Conditions Index Change	Jan				2.9	15.00	2.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		2-Feb	2.00%	2.00%		2.00%		
UK BOE		4-Feb				0.50%		
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%		
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

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.