

The circle of monetary policy life

Some slowing in the US economy in last year, higher credit spreads and \$US (tighter financial conditions) has seen the market back out pricing for Fed rate rises this year. There was a little more of that last night, Fed funds futures now not pricing the next hike from the Fed until August 2017. The USD have up ground against all major currencies bar Sterling last night, including the Aussie that is sitting just over 0.72 in early trade this morning. The Bloomberg spot DXY index eased 0.58%. While financial conditions have been easing in the US, conditions elsewhere through currency transmission channels are likewise tightening, something of a circular process. In the end, we expect economic performance to be the ultimate arbiter. With the USD softer, base metal prices rose (LME copper up 1.12%), as did gold (up 1.26%), though not oil signifying continued softness with WTI down \$0.63 to \$31.65 and Brent down \$0.71. Data released overnight was not especially market moving, US jobless claims up 8K to 285K ahead of payrolls; Dec factory orders fell 2.9%, in line with expectations. Equity markets have been choppy, close to net flat.

In the words of my BNZ colleague Jason Wong, not even strong words by ECB President Draghi and BOJ Governor Kuroda have been enough to talk down their currencies against the big dollar's recent dip. Draghi talked of further policy stimulus if needed: "we do not surrender to low inflation – and we certainly do not – in the steady state, it will return to levels consistent with our objective". Kuroda pledged again to cut the negative policy rate further if needed. USD/JPY is back down below last Friday's pre-BoJ decision levels. Dallas Fed President Robert Kaplan called for patience in assessing the outlook. IMF head Christine Lagarde has been speaking noting support for the weaker oil producers (Azerbaijan, Nigeria) but also that the IMF is very bullish on India, a major beneficiary of lower oil prices.

For sterling, the BOE voted 9-0 to keep rates steady, previous dissenter McCafferty voting this time with his MPC colleagues. The BOE's latest inflation report forecasts CPI at 0.8% this year and 2% not until 2018. The BOE's Carney said the MPC did not discuss cutting rates but the market remains mildly tilted in that direction. USD/GBP trades at just over 1.46 this morning after testing somewhat higher and lower levels overnight.

Coming Up

First up this morning is Fed President Mester (v) who is speaking at MNI event on the Fed's economic outlook and

monetary policy. Then there are two big local releases today 1) retail sales for December month (along with volumes for Q4 that quarter feed into GDP), and 2) the RBA's Statement on Monetary Policy with its full elucidation of the outlook for the domestic and global economy and their formal forecasts for GDP, inflation, and more. For retail sales, NAB is looking for a stronger than consensus 0.6% result for the month supported by strong industry anecdotes. The market consensus is 0.4%. As a result, our December quarter volume forecast is 1.0%, a point above the market's 0.9%.

The outlook for Australian monetary policy lies in the highly uncertain course of the global economy over the next little while together with the uncertain degree of sustainability in what proved to be an improved 2015 for the domestic economy. What can today's statement reveal about that? Probably not too much other than the risk bias evident in the RBA's views on whether they have made any material change to their growth, inflation, labour market and other forecast for the Australian economy for 2016 and beyond.

We do not expect large changes to the key forecasts given that the data flow through late last year and the first part of this year has not been materially different from the core forecasts the RBA published last November. Their outlook for the unemployment rate outlook will need to be refreshed from an expectation of a steady 6 to 6 ¼% near term outlook before "gradually declining". On the day, their more expansive language around the AUD will be minutely analysed. We expect they will stick to Tuesday's script that the currency is evolving with the economic outlook.

Tonight it's pre-much all about payrolls with the market looking for signs of any noticeable fissures in the US labour market aside from month-to-month volatility. The market is expecting headline growth of hundred 190K down from 292K and an unchanged unemployment of 5.0%. The subtext of the report, any revisions, whether the detail is worse or better than the headline, and what it says about average earnings growth will all be trawled over. Canada releases its January labour market report as well as its January Ivey manufacturing PMI.

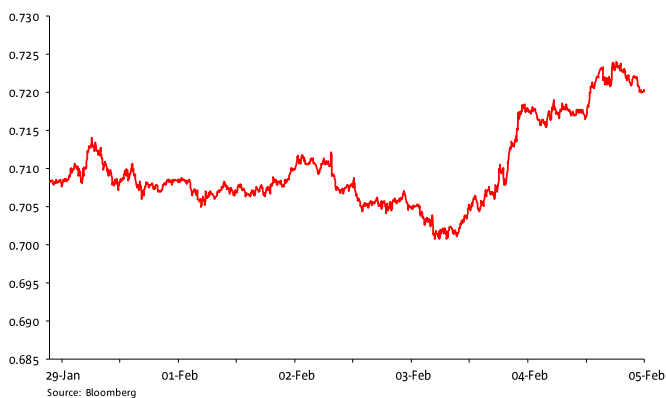
Overnight

On global stock markets, the S&P 500 was -0.20%. Bond markets saw US 10-years -2.77bp to 1.86%. On commodity markets, Brent crude oil -1.86% to \$34.39, gold+1.3% to \$1,157, iron ore +2.0% to \$45.52. AUD is at 0.72 and the range was 0.7154 to 0.7243.

Author:

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AUD/USD - past week



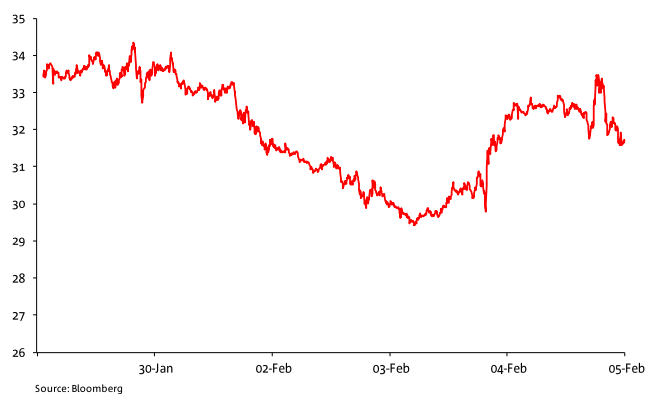
US 10 yr - past week



S&P Futures - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High	Last	% chge	
AUD	0.7200	0.4	0.7154	0.7243	HKD	7.7877	0.0
NZD	0.6733	0.1	0.6704	0.6747	CNY	6.5683	-0.1
EUR	1.1210	0.3	1.1157	1.1241	SGD	1.3967	-0.5
GBP	1.4593	-0.4	1.4530	1.4669	IDR	13,666	0.8
JPY	116.73	-0.6	116.53	117.71	THB	35.66	0.3
CAD	1.3730	0.5	1.3639	1.3754	KRW	1,192	0.2
AUD/EUR	0.6423	-0.6			TWD	33.13	0.0
AUD/JPY	84.05	-1.0			PHP	47.58	-0.1
AUD/GBP	0.4934	0.0			CHF	0.99	-0.8
AUD/NZD	1.0693	-0.5			SEK	8.40	0.3

Equities

Major Indices			
	Last	% day	% year
Dow	16,351	0.1	-7.5
S&P 500	1,908	-0.2	-6.5
Nasdaq	4,485	-0.4	-4.9
VIX Index	22.12	2.2	20.7
FTSE	5,899	1.1	-14.0
DAX	9,393	-0.4	-13.9
CAC 40	4,229	0.0	-10.0
Nikkei	17,045	-0.9	-2.6
Shanghai	2,781	1.5	-11.3
Hang Seng	19,183	1.0	-22.5
ASX 200	4,980	2.1	-14.3

Commodities*

	Last	% day
Oil (Brent)	34.39	-1.9
Oil (WTI)	31.67	-1.9
Oil (Tapis)	37.18	7.5
Gold	1156.50	1.3
CRB	163.45	-0.4
GS Metals	252.8	1.7
Aluminium	1535	0.6
Copper	4687	1.1
Nickel	8545	0.3
Zinc	1715	1.1
Ch. steel	1839	-0.2
Iron ore	45.5	2.0
St. coal	51.0	0.0
Wheat Chic	476.8	-1.4
Sugar	12.89	0.0
Cotton	60.23	-2.8
Coffee	123.2	1.4

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.50	0.62	0.79	1.75	USD 10	1.86	-0.03
AUD	2.00	2.29	2.03	2.72	AUD 10	2.57	0.05
NZD	2.50	2.66	2.64	3.32	NZD 10	3.14	0.01
EUR	0.05	0.06	-0.19	0.64	CAD 10	1.16	0.01
GBP	0.50	0.59	0.77	1.56	EUR 10	0.30	0.03
JPY	0.06	0.04	-0.12	0.23	GBP 10	1.57	0.03
CAD	0.50	1.17	0.69	1.53	JPY 10	0.06	-0.01

Overnight Futures

	Last	Chge
Australia		
3 mth bill	97.79	-0.01
3 Yr bond	98.15	-0.01
10 Yr bond	97.43	-0.01
3/10 sprd	0.73	0.00
SPI	-26.0	-0.5

CO₂ Emissions - Euros

	Last	% day
Dec-2016	5.62	-0.4
Dec-2017	5.69	-0.4
Dec-2018	5.79	-0.3

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, 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		6/7.1		22.8/7.1	13.30	0.30
CA	Int'l Merchandise Trade	Dec		-2.2		-1.99	13.30	0.30
CA	Ivey Purchasing Managers Index SA	Jan		49.5		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		1524.8		1423.5	23.50	10.50
AU	ANZ Job Advertisements MoM	Jan				-0.1	0.30	11.30
JN	Labor Cash Earnings YoY	Dec		0.7		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		0.5/-0.5		-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		185		172.965/-19.6	13.15	0.15
CA	Bloomberg Nanos Confidence	Feb 5				52.1	15.00	2.00
US	Labor Market Conditions Index Change	Jan				2.9	15.00	2.00
Tuesday, 9 February 2016								
NZ	ANZ Truckometer Heavy MoM	Jan				2.6	21.00	8.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Feb 7				111.2	22.30	9.30
NZ	QV House Prices YoY	Jan				14.2	23.00	10.00
AU	HIA New Home Sales MoM	Dec				-1.8	0.00	11.00
AU	NAB Business Conditions/Confidence	Jan				7/3	0.30	11.30
JN	Machine Tool Orders YoY	Jan P				-25.7	6.00	17.00
GE	Trade Balance	Dec		20		20.6	7.00	18.00
GE	Current Account Balance	Dec				24.7	7.00	18.00
GE	Exports SA MoM	Dec		0.5		0.4	7.00	18.00
GE	Imports SA MoM	Dec		-0.5		1.6	7.00	18.00
UK	Visible Trade Balance GBP/Mn	Dec		-10250		-10642	9.30	20.30
UK	Trade Balance Non EU GBP/Mn	Dec		-2500		-2450	9.30	20.30
UK	Trade Balance	Dec		-2700		-3170	9.30	20.30
US	NFIB Small Business Optimism	Jan		94.5		95.2	11.00	22.00
US	JOLTS Job Openings	Dec				5431	15.00	2.00
US	Wholesale Inventories MoM	Dec		-0.1		-0.3	15.00	2.00
US	Wholesale Trade Sales MoM	Dec				-1	15.00	2.00
Wednesday, 10 February 2016								
NZ	Card Spending Retail MoM/YoY	Jan		0.4		-0.2/0.1	21.45	8.45
AU	Westpac Consumer Conf Index	Feb				97.3/-3.5	23.30	10.30
UK	Industrial Production MoM/YoY	Dec		0/1		-0.7/0.9	9.30	20.30
UK	Manufacturing Production MoM	Dec		0.1/-1.4		-0.4/-1.2	9.30	20.30
US	MBA Mortgage Applications	Feb 5				-2.6	12.00	23.00
CH	Aggregate Financing CNY	Jan		2200		1820		
CH	Money Supply M2 YoY	Jan		13.5		13.3		
CH	Money Supply M1 YoY	Jan		14.15		15.2		
CH	Money Supply M0 YoY	Jan		5.2		4.9		
CH	New Yuan Loans CNY	Jan		1865		597.8		
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		10.1		-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				50	0.10	11.10
US	Initial Jobless Claims	Jan 30		278		278	13.30	0.30
CA	New Housing Price Index MoM	Dec				0.2	13.30	0.30
US	Continuing Claims	Jan 23		2240		2268	13.30	0.30
CA	New Housing Price Index YoY	Dec				1.6	13.30	0.30
US	Bloomberg Consumer Comfort	Jan 31				44.6	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				-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		3		1.8	0.30	11.30
AU	Investment Lending	Dec				0.7	0.30	11.30
AU	Owner-Occupier Loan Value MoM	Dec				2.4	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/-0.2		-0.7/1.1	10.00	21.00
EC	GDP QoQ/YoY	4Q A		0.3/		0.3/1.6	10.00	21.00
JN	Machine Tool Orders YoY	Jan P				-25.7	6.00	17.00
CA	Teranet/National Bank HPI MoM	Jan				-0.1	13.30	0.30
US	Retail sales MoM/ex autos and gas	Jan		0.1/0.4		-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	Business Inventories	Dec		0.2		-0.2	15.00	2.00
US	U. of Mich. Sentiment	Feb P		92.5		92	15.00	2.00
US	U. of Mich. 5-10 Yr Inflation	Feb P				2.7	15.00	2.00
Upcoming Central Bank Interest Rate Announcements								
UK	BOE	4-Feb				0.50%		
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%		
US	Federal Reserve	17-Mar				0.25-0.50%		

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

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