17 March 2016

Markets Today

National Australia Bank

Cautious Fed

As expected by most, US Fed Officials left the Fed funds rate unchanged at 0.25%- 0.5% and lower their projections of futures rate hikes (Kansas City Fed President Esther George was the only dissenter). The median of policy maker's projections now sees the funds rate at 0.875% at the end of 2016, implying two 25bps hikes in 2016 compared to four hikes in December. Rate hike projections were also lowered in the outer years. By the end of 2017, the funds rate is now seen at 1.875% vs. 2.375% previously and median forecast for the end of 2018 is now at 3.0% compared to 3.25% in December. The longer run projection was also lowered to 3.25% from 3.5%. The lower rate forecast projections are predicated on the view that growth will remain sluggish. Now growth for 2016 is seen at 2.2% down from 2.4% in December. For this year, unemployment is expected to fall only marginally to 4.7% and somewhat surprisingly PCE inflation is expected to decline to 1.6% compared to its current level of 1.7%.

The statement also gave a sense of a more dovish tone. Previous comments in relation to balance of risks to the outlook were dropped and instead a new sentence was added noting that "global economic and financial developments continue to pose risks".

Ahead of the FOMC announcement and in a light trading environment, the USD was well bid while equity markets and core global bond yield traded mostly sideways. Pre-FOMC the DXY index was up 0.25%, with the USD strong against almost all the major currencies. The CAD was the one exception, aided by a rally in oil prices.

Post the announcement reaction to a more dovish Fed has boosted risk assets and this has also been aided by press conference comments from Fed Chair Yellen emphasising the fact that" Caution is appropriate". US Equity indices are closed between 0.4%- 0.8% and the USD dollar is weaker across the board. Commodity related currencies are the outperformers with NZD sitting at the top of the leader board, up 2.03% over the past 24 hrs. The AUD has gained 1.27% and is back above 75cents.

US Treasury yields have also reacted positively, 10y UST yields rallied nearly 8bps immediately after the announcement and now they are currently trading at 1.92%, about 0.5bps higher.

A more dovish Fed is no doubt risk positive, but as we learned earlier in the overnight session, US core CPI rose to 2.3% from 2.2%yoy, reaching its highest level since May 2012. The new projections show the Fed expects a gradual path to 2% in core PCE inflation by the end of 2018. However, if the recent upward trend in core inflation is any guide, that 2% target will be reach a lot sooner than expected.

In other news/data releases, US Housing starts came in better than expected (Jan 1178k vs 1150k exp, whilst Industrial production fell lower than forecast (Feb -0.5 vs -0.3 exp). The UK Budget showed downgraded economic forecasts and weaker fiscal metrics. Both tax cuts spending cuts were pledged amidst a promise to return to budget surplus by 2019/2020.

Coming Up

In Australia this morning and ahead of the labour force report (11.30 AEDT) we have RBA Debelle speaking in Sydney.But given that his speech is on regulatory issues, we would suggest that his comments are unlikely to be market moving.

As for the Labour force report, our economists have noted that the RBA seems more prepared to ease monetary policy if the improvement in Australian employment does not continue (or if financial market turbulence leads to slower global or local demand).

For this month, the market consensus is for the unemployment rate to be unchanged at 6.0% and for employment growth to be +13.5k. NAB expects the unemployment rate to fall to 5.9% and for employment to print stronger at +18k.

The market is currently pricing around 21bps of RBA rate cuts over the coming year and when considering the global and local risks, pricing is probably more vulnerable to a weaker than expected employment print rather than a strong one. For the AUD, we would note that the unemployment rate should have the more enduring impact relative to the change in employment, even if the latter continues to draw the initial (knee-jerk) response - a result of 'algorithmic traders' programming to react to any significant surprise on headline employment.

Looking at offshore markets, this morning Japan releases its trade data for February. On a seasonally-adjusted basis, the trade surplus is expected to improve to ¥235bn from ¥119.4 bn. Later in Europe, we also get the Eurozone trade balance along with the final CPI reading for February. Across the Channel, the BoE makes its policy rate announcement and while no change is expected, the committee's views on the

Author:
Rodrigo Catril – FX Strategist

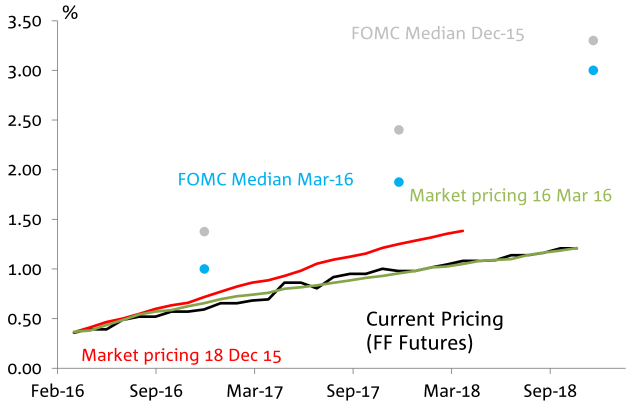
outlook will be closely monitored, particularly given the fiscal tightening heralded by the Chancellor overnight.

The US has a busy calendar with the Philly fed survey, current account(Q4), initial jobless claims , Jolts job openings (Jan) and leading index (Feb) all due for release. Following the better than expected Empire State survey released earlier in the week, the market will probably look at the Philly Fed survey for confirmation of this improvement in the manufacturing sector. Given the strong jobless claims print last week (259k), a partial payback is expected with the consensus anticipating a reading of 268k for this week.

Overnight

On global stock markets, the S&P 500 was +0.60%. Bond markets saw US 10-years -5.30bp to 1.92%. On commodity markets, Brent crude oil +4.00% to $40.29, gold+2.6% to $1,262, iron ore +1.3% to $53.57. AUD is at 0.7555 and the range was 0.7415 to 0.7561.

Chart of the day: Fed dots points vs market pricing



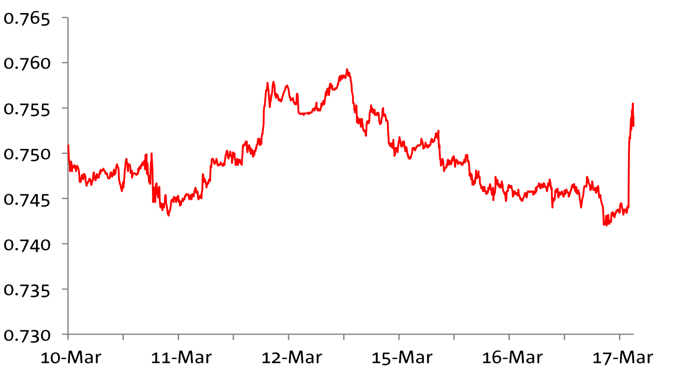
Source: FOMC,NAB

Good luck

Rodrigo

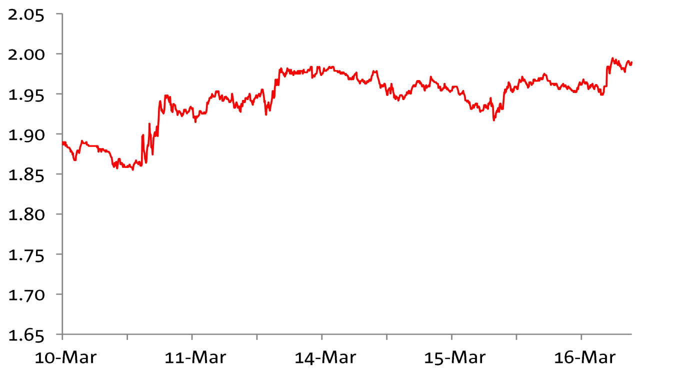
Markets

AUD/USD - past week



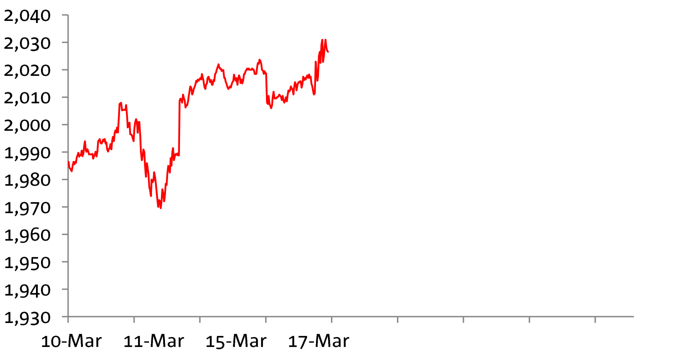
Source: Bloomberg.

US 10 yr - past week



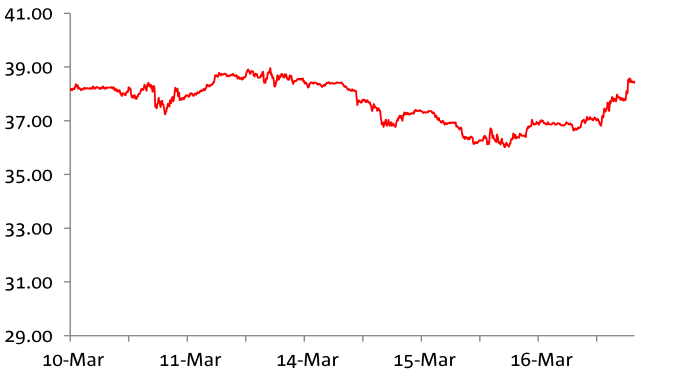
Source: Bloomberg.

S&P Futures - past week



Source: Bloomberg.

WTI - past week



Source: Bloomberg.

Foreign Exchange

			Indicative 24hr ranges (**)	
	Last	% chge	Low	High
AUD	0.7556	1.3	0.7415	0.7561
NZD	0.6724	1.9	0.6576	0.6740
EUR	1.1224	1.0	1.1058	1.1242
GBP	1.4264	0.8	1.4053	1.4274
JPY	112.61	-0.5	112.3300	113.8200
CAD	1.3121	-1.8	1.3114	1.3405
AUD/EUR	0.6731	0.3		
AUD/JPY	85.09	0.8		
AUD/GBP	0.5296	0.5		
AUD/NZD	1.1244	-0.5		
AUD/CNY	4.8512	-0.1		

Other FX	Last	% chge
HKD	7.7583	0.0
CNY	6.5220	0.1
SGD	1.3668	-1.1
IDR	13,267	0.8
THB	34.91	-0.6
KRW	1,193	0.5
TWD	32.81	0.0
PHP	46.78	0.0
CHF	0.98	-1.1
SEK	8.22	-1.1

Equities

Major Indices	Last	% day	% y/y
Dow	17,326	+0.4	-3.6
S&P 500	2,027	+0.6	-2.6
Nasdaq	4,764	+0.7	-3.4
VIX	15	-11.0	-4.0
FTSE	6,175	+0.6	-9.2
DAX	9,983	+0.5	-18.0
CAC 40	4,463	+0.3	-11.8
Nikkei	16,974	-0.8	-12.7
Shanghai	2,870	+0.2	-18.1
Hang Seng	20,258	-0.2	-15.2
ASX 200	5,119	+0.1	-12.4

Commodities*

	Last	% day
Oil (Brent)	40.29	4.0
Oil (WTI)	38.49	5.9
Oil (Tapis)	40.53	0.7
Gold	1262.40	2.6
CRB	173.76	1.6
GS Metals	259.6	-0.3
Aluminium	1519	-1.5
Copper	4961	0.1
Nickel	8533	-0.6
Zinc	1736	-2.4
Ch. steel	2045	2.6
Iron ore	53.6	1.3
Coal	51.6	-0.1
Wheat Chic.	478.3	-1.3
Sugar	15.47	1.0
Cotton	58.32	0.1
Coffee	129.1	2.7

Interest Rates

Indicative Swap Rates	Cash	3mth	2Yr	10Yr
USD	0.50	0.64	0.93	1.76
AUD	2.00	2.33	2.11	2.69
NZD	2.25	2.38	2.25	3.07
EUR	0.00	0.06	-0.14	0.62
GBP	0.50	0.59	0.85	1.52
JPY	0.00	0.00	-0.09	0.15
CAD	0.50	1.17	0.84	1.54

Benchmark 10 Year Bonds	Last	chge	Sprd
USD 10	1.92	-0.05	
AUD 10	2.63	-0.04	0.72
NZD 10	3.11	0.00	1.19
CAD 10	1.31	-0.02	-0.61
EUR 10	0.31	-0.01	-1.61
GBP 10	1.52	-0.01	-0.39
JPY 10	-0.08	-0.07	-2.00

Overnight Futures

	Last	Chge
Australia		
3 mth bill	97.79	0.02
3 Yr bond	98.07	0.08
10 Yr bond	97.43	0.09
3/10 sprd	0.64	-0.01
SPI	34.0	0.7

CO_2 Emissions - Euros

	Last	% day
Jun-2016	4.95	-2.6
Dec-2016	4.97	2.1
Jun-2017	4.99	2.0

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, 16 March 2016								
US	Total Net TIC Flows	Feb				118.4	19.00	6.00
US	Net Long-term TIC Flows	Feb				-12.0	19.00	6.00
NZ	Current Account GDP Ratio YTD	4Q	-3.2	-3.3		-3.1	21.45	8.45
AU	Westpac Leading Index MoM	Feb				0.0	23.30	10.30
JN	Machine Tool Orders YoY	Feb F				-22.6	6.00	17.00
UK	Jobless Claims Change	Feb		-9.1		-14.8	9.30	20.30
UK	Average Weekly Earnings 3M/YoY	Jan		2		1.9	9.30	20.30
UK	ILO Unemployment Rate 3Mths	Jan		5.1		5.1	9.30	20.30
UK	Osborne Makes Budget Speech to Parliament							
CA	Manufacturing Sales MoM	Jan		0.5		1.2	12.30	23.30
US	Housing Starts/MoM	Feb		1150/4.6		1099.0/-3.8	12.30	23.30
US	Building Permits/MoM	Feb		1200/-0.2		1202.0/-0.2	12.30	23.30
US	CPI MoM/YoY	Feb		-0.2/0.9		0.0/1.4	12.30	23.30
US	CPI Ex Food and Energy MoM/YoY	Feb		0.2/2.2		0.3/2.2	12.30	23.30
CA	Int'l Securities Transactions	Jan				-1.4	12.30	23.30
US	Real Avg Weekly Earnings YoY	Feb				1.2	12.30	23.30
US	Industrial Production MoM	Feb		-0.3		0.9	13.15	0.15
US	Manufacturing (SIC) Production	Feb		0.1		0.5	13.15	0.15
US	FOMC Rate Decision	Mar 16		0.25		0.25	18.00	5.00
Thursday, 17 March 2016								
NZ	GDP SA QoQ/YoY	4Q	0.7/2.1	0.7/2.1		0.9/2.3	21.45	8.45
AU	RBA's Debelle Speech in Sydney							
JN	Trade Balance	Feb		400.2		-645.9	23.50	10.50
AU	Employment Change	Feb	18	13.5		-7.9	0.30	11.30
AU	Labour Force Report (unemployment)	Feb	5.9	6		6.0	0.30	11.30
AU	Participation Rate	Feb		65.2		65.2	0.30	11.30
AU	RBA FX Transactions Market	Feb				728.0	0.30	11.30
EC	Trade Balance SA	Jan		19.5		21.0	10.00	21.00
EC	CPI MoM/YoY	Feb		0.1/-0.2		-1.4/0.3	10.00	21.00
UK	Bank of England Bank Rate	Mar 17		0.5		0.5	12.00	23.00
UK	BOE Asset Purchase Target	Mar		375		375.0	12.00	23.00
CA	Wholesale Trade Sales MoM	Jan		0.1		2.0	12.30	23.30
US	Current Account Balance	4Q		-118		-124.1	12.30	23.30
US	Philadelphia Fed Business Outlook	Mar		-1.5		-2.8	12.30	23.30
US	Initial Jobless Claims	Mar 12		268		259.0	12.30	23.30
US	JOLTS Job Openings	Jan		5500		5607.0	14.00	1.00
US	Leading Index	Feb		0.2		-0.2	14.00	1.00
Friday, 18 March 2016								
NZ	ANZ Job Advertisements MoM	Feb				-3.2	21.00	8.00
AU	RBA's Ellis Speech in Sydney						22.30	9.30
NZ	ANZ Consumer Confidence Index/MoM	Mar				119.7/-1.4	0.00	11.00
CH	Property Prices	Feb					1.30	12.30
GE	PPI MoM	Feb		-0.1/-2.6		-0.7/-2.4	7.00	18.00
GE	PPI YoY	Feb		-2.6		-2.4	7.00	18.00
EC	Labour Costs YoY	4Q				1.1	10.00	21.00
CA	Retail Sales MoM	Jan		0.6		-2.2	12.30	23.30
CA	Retail Sales Ex Auto MoM	Jan		0.4		-1.6	12.30	23.30
CA	CPI NSA MoM/YoY	Feb		0.4/1.5		0.2/2.0	12.30	23.30
CA	CPI Core MoM/YoY	Feb		0.5/2		0.3/2.0	12.30	23.30
US	Fed's Dudley Gives Opening Remarks at Supervision Conference							
US	U. of Mich. Sentiment	Mar P		92.2		91.7	14.00	1.00
US	U. of Mich. 5-10 Yr Inflation	Mar P				2.5	14.00	1.00
US	Fed's Rosengren Speaks on a Panel at Supervision Conference							2.00
US	Fed's Bullard Speaks in Frankfurt at a monety policy forum							2.00
Monday, 21 March 2016								
NZ	Net Migration SA	Feb				6130.0	21.45	8.45
UK	Rightmove House Prices MoM	Mar				2.9	0.10	11.10
CH	MNI Business Indicator	Mar				49.9	1.45	12.45
NZ	Credit Card Spending MoM	Feb				2.3	2.00	13.00
EC	Current Account NSA	Jan				41.4	9.00	20.00
UK	CBI Trends Total Orders	Mar				-17.0	11.00	22.00
US	Chicago Fed Nat Activity Index	Feb				0.3	12.30	23.30
NZ	Westpac Consumer Confidence	1Q				110.7		
CA	Bloomberg Nanos Confidence	Mar 18				54.0	14.00	1.00
US	Existing Home Sales MoM	Feb		-2.38		0.4	14.00	1.00
US	Fed's Lockhart Speaks on U.S. Economy in Savannah, Georgia							
Tuesday, 22 March 2016								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Mar 20				116.4	22.30	9.30
US	Fed's Bullard Speaks at Washington University in St. Louis						0.30	11.30
AU	House Price Index QoQ	4Q				2.0	0.30	11.30
AU	House Price Index YoY	4Q				10.7	0.30	11.30
US	RBA's Edey Panel Participation in Sydney						0.45	11.45
JN	All Industry Activity Index MoM	Jan				-0.9	4.30	15.30
JN	Small Business Confidence	Mar				47.9	5.00	16.00
AU	RBA's Stevens Speech at ASIC Forum in Sydney						5.30	16.30
JN	Convenience Store Sales YoY	Feb				1.0	7.00	18.00
GE	IFO Business Climate	Mar				105.7	9.00	20.00
GE	IFO Current Assessment	Mar				112.9	9.00	20.00
UK	CPI MoM	Feb				-0.8	9.30	20.30
UK	CPI YoY	Feb				0.3	9.30	20.30
UK	CPI Core YoY	Feb				1.2	9.30	20.30
UK	PPI Output Core NSA MoM	Feb				0.1	9.30	20.30
UK	PPI Output Core NSA YoY	Feb				0.0	9.30	20.30
UK	ONS House Price YoY	Jan				6.7	9.30	20.30
UK	Public Finances (PSNCR)	Feb				-24.9	9.30	20.30
GE	ZEW Survey Current Situation	Mar				52.3	10.00	21.00
GE	ZEW Survey Expectations	Mar				1.0	10.00	21.00
EC	ZEW Survey Expectations	Mar				13.6	10.00	21.00
EC	Bank of France's Villeroy de Galhau at Breugel Institute						12.00	23.00
US	FHFA House Price Index MoM	Jan		0.5		0.4	13.00	0.00
US	Richmond Fed Manufact. Index	Mar		-2		-4.0	14.00	1.00
US	Fed's Evans Speaks in Chicago						17.30	4.30
US	Fed's Harker Speaks in New York						23.00	10.00
Wednesday, 23 March 2016								
AU	Skilled Vacancies MoM	Feb				0.4	0.00	11.00
US	MBA Mortgage Applications	Mar 11				0.2	11.00	22.00
US	New Home Sales	Feb		502		494.0	14.00	1.00
US	New Home Sales MoM	Feb		1.6		-9.2	14.00	1.00
EC	Consumer Confidence	Mar A				-8.8	15.00	2.00

Upcoming Central Bank Interest Rate Announcements				
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%
Australia, RBA	5-Apr	2.00%	2.00%	2.00%
Canada, BoC	14-Apr			0.50%
Europe ECB	21-Apr			0.05%
New Zealand, RBNZ	28-Apr			2.25%

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