

Australian Markets Weekly

Trump – considerations for Australia and markets

- Trump's victory should boost US growth for the next few years and inflation forever. Fed thus still on track to hike in December.
- The most instructive financial market development since Trump's victory has been the bond market moving to price higher inflation, via higher bond yields and steeper yield curves globally. As this Trump effect overlays an already negative cyclical story for bonds, we expect even higher yields in the quarters/year ahead.

Early Trump considerations

Donald Trump's victory in last week's US Presidential Election is likely to represent a change in economic direction for the United States – at least that is what he campaigned on. And as the US is for now the largest economy in the world (although second largest to China when using PPP exchange rates) the new President may also represent a change in direction for the global economy.

The key economic considerations for the President Elect are centred around:

- 1) Tax reform - reductions in both personal and company tax rates;
- 2) Increased infrastructure spending – USD 1 trillion is the number being bandied around although the reality may be more modest when we consider 1) this is 6% of US GDP, and 2) it will likely spread over a number of years as putting infrastructure in place quickly is not easy;
- 3) A wind back in free trade – tariff initiatives and the roll-back of some multi-lateral trade deals like NAFTA have been mentioned;
- 4) Financial Regulation – he wants to dismantle the Dodd-Frank Act and replace it with “new policies to encourage economic growth and job growth”.
- 5) Many other policies were mentioned during the campaigns which have the potential to impact economic outcomes – e.g. immigration, healthcare, and defence.

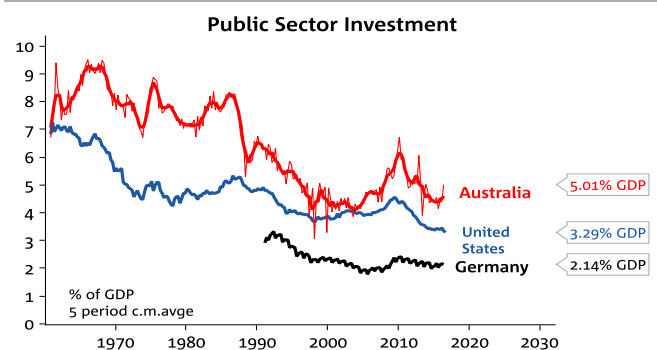
While it is reasonable to expect economic change, the degree is understandably uncertain given that in recent days some of the President Elect's policy positions have been softened and meanwhile policy initiatives will need to be approved by Congress. While we can't say too much definitively, the three questions top of my mind are what will a Trump presidency mean for: 1) economic growth and inflation; 2) the US Federal Reserve's rate decision on 12 Dec; and 3) financial markets.

Chart 1: High point for global trade past?



IMF Direction of Trade - World exports to Emerging, Developing, and Advanced economies
Source: National Australia Bank, Macrobond

Chart 2: US public sector infrastructure has been falling



Source: National Australia Bank, Macrobond

Authors:

Peter Jolly, Global Head of Research.
Tapas Strickland, Economist, Markets

Trump and the economy – growth to be boosted for next few years and inflation forever.

On growth and inflation impacts, I think it is most useful to separate these into time phases: the next quarter, the next few years, and the next decade or so:

Next quarter – there remains a risk that consumer and business confidence may be impacted negatively by the surprise Election result. That said, concerns on this front have reduced given the positive reaction of the stockmarket, while a good number of consumers and businesses must surely be delighted by the result – after all he was voted in.

Next few years – a mix of tax cuts, regulatory roll-back, and increased infrastructure spending are likely to be a cyclical positive for the US economy. With the economy already well into a growth cycle, and with the current unemployment rate of 4.9% being close to estimates of full employment which range from 4½-5%, this growth impetus will add to wage and inflation pressures.

Longer term – the potential for a wind back of free trade, trade wars, reduced immigration, and larger US fiscal deficits would all likely lower the “potential” growth for the US and global economies.

So a first cut of Trumps policies would suggest:

- From a growth perspective there are opposing forces, but on balance we’d expect the positive “cyclical” story for next few years to overshadow the lower longer term potential growth considerations.
- From an inflation perspective, there is nothing conflicting. Increased trade barriers and a pullback in globalisation can be expected to lift inflation in the long-term, as will a positive cyclical growth story over the next few years.

Trump and the Fed – on track to hike in December

During the campaign, Trump did say negative things about the Federal Reserve and its Chair Janet Yellen – many are now assuming Yellen will not be nominated for a second term in 2018. And as I’ve already noted, if some of Trump’s policies are implemented they may change the path for growth and inflation in the years ahead.

For all that, when the FOMC meet on 15 Dec they are sure to make policy on what they know now! And what they know now is that the US economy continues to grow fairly well, the labour market is at or near full employment, and wages and inflation are rising. Post-election market weakness and volatility would have been a consideration – the Fed doesn’t like a falling stockmarket - but so far at least this hasn’t happened – in fact quite the opposite with equity markets rallying.

Financial markets are 85% priced for a Dec rate hike. While the November non-farm payroll report – due on 3 Dec – may still have a say, this pricing seems fair to me.

Trump and markets – bond market prices more inflation

The reaction of financial markets to Trump’s victory can be described as positive. Commodities and stockmarkets have generally rallied, as has the US dollar.

The most instructive guide to a Trump future has been the substantial rise in bond yields, particularly longer term yields. For example, just prior to the election the US 10-year government bond yielded 1.8% and it is now 40bps higher at 2.20%. Australia’s 10-year government bond yield has risen 30bps to be 2.65%.

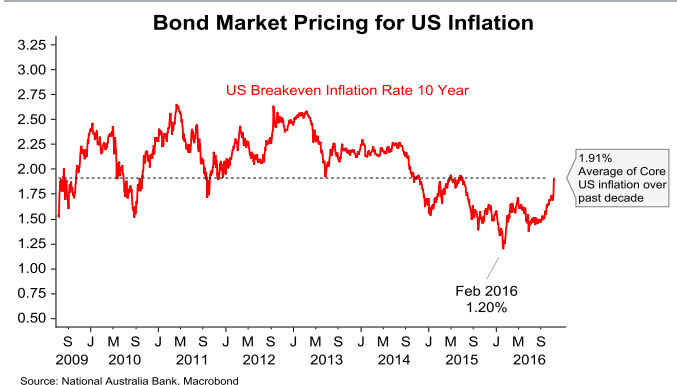
Now bond yields can rise for a max of factors: an expectation that economic growth will be stronger and the Fed may need to lift interest rates more aggressively, an expectation that inflation will be higher, and finally a concern that a Government may need to issue a lot more bonds, which can raise questions about supply indigestion as well as creditworthiness.

The lift in yields contains all of these elements, with more than half of the 40bps increase due to an increase in “inflation expectations”. This is clearly seen on Chart 3, which plots the 10 year US breakeven inflation rate. Chart 4 shows that this boost to inflation expectations has also led to steepening of yield curves across the globe, including in Australia.

Bond yields even higher ahead?

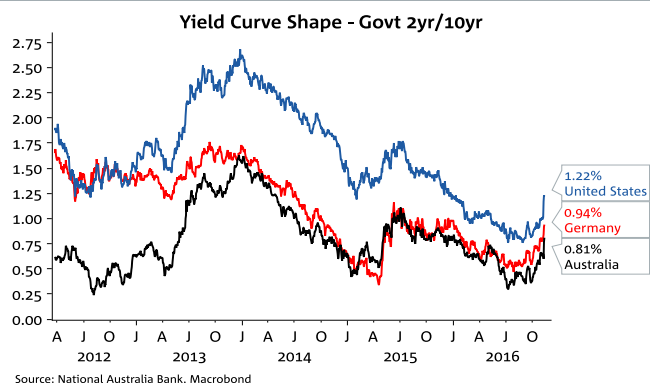
Now I wouldn’t suggest that bond yields are set to surge hundreds of basis points ahead because of Trump. However, what I would say is two things. First, this Trump effect has overlaid what was already a negative cyclical story for bonds, i.e. yields were too low in the middle of this year¹ and were likely to trend higher in the years ahead. Second, on a multi-year basis the rise in yields we’ve seen in recent days is quite modest. As chart 3 shows, the US bond market is only back to pricing US inflation at 1.9% for the next decade, the same it has averaged over the past decade – a decade which included a global financial crisis and expanding globalisation!

Chart 3: Expected inflation re-priced - can go further.



¹ See our Australian Markets Weekly from 18 July where we noted bond yields were too low and likely to rise ahead.

Chart 4: Yield curve steepens



Peter.L.Jolly@nab.com.au

Week ahead

It is another big week internationally and while markets will continue to be attuned to policy pronouncements by the incoming Trump administration, there is also plenty of top-tier international data ahead. China releases key monthly activity data today (Retail Sales and Industrial Production), while the US highlight will be Fed Chair Yellen's testimony to Congress on Thursday (there are also 18 other Fed speakers scheduled in the week, with the most notable likely being Fischer Tuesday, Brainard Thursday, and Dudley Friday). Data-wise the main emphasis will be on US Retail Sales Tuesday and US CPI Thursday, along with a heavy data week in the UK including BoE Governor Carney speaking Tuesday. Mexico's central bank sets rates Thursday where a hike is a possibility as a move to defend the peso. Finally it's Euro Finance Week this week with a plethora of speakers, including the ECB's Draghi Friday.

Domestically, there are four key risk events. On Tuesday the RBA Board Minutes from November are released, followed by a speech by Governor Lowe at 7.15pm AEDT titled 'Buffers and Options'. We also get two key pieces of labour market data, including the October Labour Force data Thursday and the Wage Price Index Wednesday.

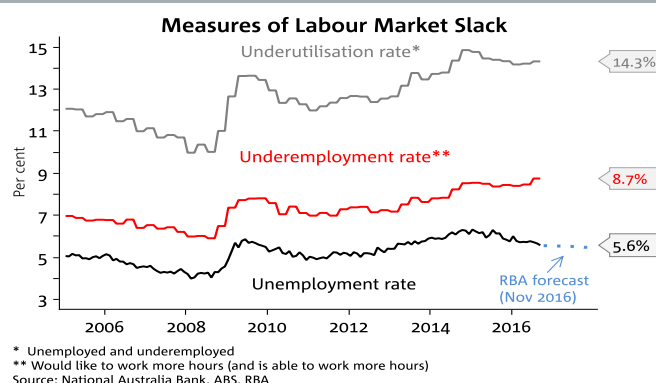
For the RBA Board Minutes, it's worth noting these are unlikely to add further light given that the RBA's comprehensive Statement on Monetary Policy was released a week and a half ago. In that Statement, the RBA made no material change to its forecasts of GDP or inflation with the flow of data over the past few months considered "consistent with earlier forecasts". The Governor's post board meeting statement also contained very few changes apart from perhaps slightly more concern being expressed around the housing market – where the term "briskly" was used when describing recent house price appreciation.

For that reason, we think Governor Lowe's speech later on Tuesday (along with Thursday's Labour Force release) is likely to be the more important one for policy with the title 'Buffers and Options' implying some discussion on the effectiveness of low interest rates and the outlook for inflation.

Thursday's Labour Force release for October (along with The Governor's speech Tuesday above) will also be important for the policy. Trend employment growth has slowed to just 3.9k a month which is well below the 15k a month needed to keep the unemployment rate from rising, while recent jobs growth has been driven by part-time employment and has helped to contribute to elevated underemployment (Chart 5).

(Along with a slowing in employment growth in the large non-mining states of NSW and Vic), there are hints that sampling issues may also be behind some of the slowdown with the ABS noting last month that the QLD sample was very unusual with the ABS forced to reduce the "influence of this rotation group for September". Consequently this month's employment data will be important in providing clarity over the labour market, and the extent to which momentum may have slowed. For this month NAB expects employment to rise 20k in October, with the unemployment rate steady at 5.6% given a one tenth increase in the participation rate (the market consensus is a bit weaker and is expecting 15k jobs and for the unemployment rate to increase to 5.7%).

Chart 5: Underemployment elevated despite fall in UR



For the Wage Price Index on Wednesday, NAB is forecasting the index rose 0.5% in the September quarter, as it has for three quarters now, with such a rise taking annual growth down from 2.1% to 2.0% – this is also the market consensus.

There is also the usual second-tier ANZ-Roy Morgan Weekly Consumer Confidence which may give some indication of Australia's reaction to the US election outcome.

Tapas.Strickland@nab.com.au

Calendar of Economic Releases

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday, 14 November 2016								
NZ	REINZ Residential Report	Oct					21.30	7.30
NZ	Performance Services Index	Oct				54.1	22.30	8.30
NZ	National Population Estimates	Sep					22.45	8.45
JN	GDP SA QoQ	3Q P		0.2		0.2	0.50	10.50
JN	BoJ's Kuroda speaks in Nagoya						2.00	12.00
CH	Industrial Production YoY/YTD	Oct		6.2/6.1		6.1/6.0	3.00	13.00
CH	Retail Sales YoY/YTD	Oct		10.7/10.4		10.7/10.4	3.00	13.00
CH	Fixed Assets Ex Rural YTD YoY	Oct		8.2/		8.2/0.0	3.00	13.00
JN	Industrial Production MoM/YoY	Sep F		/		0.0/0.9	5.30	15.30
EC	ECB's Constancio Speaks at Euro Finance Week in Frankfurt						9.30	19.30
EC	Industrial Production SA MoM/YoY	Sep		-1/0.9		1.6/1.8	11.00	21.00
CA	Bloomberg Nanos Confidence	Nov 11				55.8	16.00	2.00
US	Fed's Kaplan speaks						19.20	5.20
Tuesday, 15 November 2016								
NZ	Retail Sales Ex Inflation QoQ	3Q	0.8	0.9		2.3	22.45	8.45
US	Fed's Lacker Speaks at Washington College in Chestertown, MD						23.00	9.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Nov 13				117.8	23.30	9.30
US	Fed's Williams Speaks in San Francisco on Panel						0.30	10.30
AU	RBA Nov. Meeting Minutes						1.30	11.30
NZ	RBNZ Household Inflation Expectations						3.00	13.00
JN	Machine Tool Orders YoY	Oct F				-8.9	7.00	17.00
GE	GDP SA QoQ/YoY	3Q P		0.3/1.8		0.4/1.8	8.00	18.00
AU	RBA's Lowe Speech at CEDA Event in Melbourne						9.15	19.15
EC	ECB's Lautenschlaeger Speaks at Euro Finance Week in Frankfurt						9.30	19.30
UK	CPI MoM/YoY	Oct		0.3/1.1		0.2/1.0	10.30	20.30
UK	PPI Input NSA MoM/YoY	Oct		2/9.3		0.0/7.2	10.30	20.30
UK	House Price Index YoY	Sep		8.1		8.4	10.30	20.30
EC	Trade Balance SA	Sep		22.05		23.3	11.00	21.00
UK	BoE's Carney, Shafik, and Saunders at Treasury Select Committee						11.00	21.00
GE	ZEW Survey Current Situation/Expectations	Nov		61.6/8.1		59.5/6.2	11.00	21.00
EC	ZEW Survey Expectations	Nov				12.3	11.00	21.00
EC	GDP SA QoQ/YoY	3Q P		0.3/1.6		0.3/1.6	11.00	21.00
US	Fed's Rosengren Speaks to Portland, Maine Chamber of Commerce						13.30	23.30
US	Import Price Index MoM	Oct		0.4		0.1	14.30	0.30
US	Empire Manufacturing	Nov		-2/0.6		-6.8/0.6	14.30	0.30
US	Retail Sales Advance/Ex Autos and gas MoM	Oct		0.6		0.6	14.30	0.30
NZ	GDT Dairy auction					11.4	<i>early am NZ time</i>	
CA	Existing Home Sales MoM	Oct				0.8	15.00	1.00
US	Fed's Tarullo (Fed Governor and voter) speaks on Finance and the Economy at WSJ CEO Council						15.05	1.05
EC	Bundesbank's Dombret Speaks at Euro Finance Week in Frankfurt						15.15	1.15
US	Business Inventories	Sep		0.2		0.2	16.00	2.00
EC	Ex-ECB's Trichet Speaks at Euro Financ Week in Frankfurt						16.45	2.45
US	Fed's Fischer Speaks at Brookings Instituton Market Liquidity						19.30	5.30
US	Fed's Kaplan speaks						19.30	5.30
Wednesday, 16 November 2016								
AU	Westpac Leading Index MoM	Oct				0.1	0.30	10.30
JN	Housing Loans YoY	3Q				2.4	0.50	10.50
AU	Wage Price Index QoQ/YoY	3Q	0.5/2.0	0.5/2		0.5/2.1	1.30	11.30
AU	New Motor Vehicle Sales MoM/YoY	Oct		/		2.5/0.8	1.30	11.30
NZ	Non Resident Bond Holdings	Oct				65.0	3.00	13.00
US/UK	Fed's Bullard Speaks in London on 'Monetary Policy after QE'						9.00	19.00
EC	Bundesbank's Thiele Speaks at Euro Finance Week in Frankfurt						9.00	19.00
UK	Jobless Claims Change	Oct		2		0.7	10.30	20.30
UK	Average Weekly Earnings/AWE ex bonus 3M/YoY	Sep		2.4/2.4		2.3/2.3	10.30	20.30
UK	ILO Unemployment Rate 3Mths/Employment Change 3M/Sep			4.9/91		4.9/106.0	10.30	20.30
EC	Bundesbank's Thiele Speaks at Euro Finance Week in Frankfurt						11.00	21.00
US	Fed's Kashkari speaks on Too Big to Fail in New York						13.45	23.45
CA	Manufacturing Sales MoM	Sep		0.1		0.9	14.30	0.30
US	PPI Final Demand MoM/YoY	Oct		0.3/1.2		0.3/0.7	14.30	0.30
US	PPI Ex Food, Energy, Trade MoM/YoY	Oct		0.2/		0.3/1.5	14.30	0.30
US	Industrial Production MoM	Oct		0.2		0.1	15.15	1.15
US	NAHB Housing Market Index	Nov		63		63.0	16.00	2.00
Thursday, 17 November 2016								
US	Total/Net Long term Net TIC Flows	Sep		/		73.8/48.3	22.00	8.00
NZ	ANZ Job Advertisements MoM	Oct				0.3	22.00	8.00
NZ	PPI Output YoY	3Q	-0.7			0.5	22.45	8.45
US	Fed's Harker Speaks in Philadelphia on Purpose of Federal Reserve						23.30	9.30
NZ	ANZ Consumer Confidence Index/MoM	Nov		/		122.9/1.6	1.00	11.00
AU	Employment Change/Unemployment rate	Oct	20/5.6	15/5.7		-9.8/5.6	1.30	11.30
AU	Participation Rate	Oct	64.6	64.6		64.5	1.30	11.30
AU	RBA FX Transactions Market	Oct				673.0	1.30	11.30
EC	ECB's Mersch Speaks at Euro Finance Week in Frankfurt						9.10	19.10
UK	Retail Sales Ex Auto Fuel MoM/YoY	Oct		0.4/5.4		0.0/4.0	10.30	20.30
UK	Retail Sales Inc Auto Fuel MoM/YoY	Oct		0.5/5.3		0.0/4.1	10.30	20.30
EC	Construction Output MoM/YoY	Sep		/		-0.9/0.9	11.00	21.00
EC	CPI MoM/YoY	Oct		0.3/0.5		0.4/0.4	11.00	21.00
EC	CPI Core YoY	Oct F		0.8		0.8	11.00	21.00
US	Initial Jobless Claims	Nov 12		256.5		254.0	14.30	0.30
CA	Int'l Securities Transactions	Sep				12.7	14.30	0.30
US	Housing Starts/MoM	Oct		1155/10.3		1047.0/-9.0	14.30	0.30
US	Building Permits/MoM	Oct		1190/-2.9		1225.0/6.3	14.30	0.30
US	CPI MoM/YoY	Oct		0.4/1.6		0.3/1.5	14.30	0.30
US	CPI Ex Food and Energy MoM/YoY	Oct		0.2/2.2		0.1/2.2	14.30	0.30
US	Philadelphia Fed Business Outlook	Nov		7.8		9.7	14.30	0.30
US	Fed's Dudley (NY Fed and voter) welcome remarks to conference on International Macroeconomics						14.50	0.50
US	Fed Chair Yellen testifies to Joint Economic Committee on "The Economic Outlook"						16.00	2.00
US	Fed's Brainard (Fed Governor and voter) speaks on Evolution of Work and the Increase in Alternative Work Arrangements						18.30	4.30
MX	Banco de Mexico official overnight rate announcement					4.75%	20.00	6.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		1-Dec	1.50%	1.50%		1.50%		
Canada, BoC		7-Dec				0.50%		
Europe ECB		8-Dec				0.00%		
US Federal Reserve		15-Dec	0.25-0.50%	0.25-0.50%		0.25-0.50%		
UK BOE		15-Dec				0.25%		
Japan, BoJ		20-Dec				-0.1% to +0.1%		
New Zealand, RBNZ		9-Feb	1.75%	1.75%		1.75%		

GMT: Greenwich Mean Time; AEDT: Australian Daylight Savings Time

Contact Details

Market Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836
ivan.colhoun@nab.com.au

David de Garis
Senior Economist
+61 3 8641 3045
david.degaris@nab.com.au

Tapas Strickland
Economist
+61 2 9237 1980
tapas.strickland@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

Riki Polygenis
Head of Australian Economics
+61 3 8697 9534
riki.polygenis@nab.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.