

Are you ready? (The market is)

It's been a rather uneventful night as the offshore markets did some more final positioning ahead of tomorrow morning's FOMC meeting. The USD has been whipped around a little, rallying earlier in the session, sold lower, but then making a comeback later in the session.

The one piece of meaty news out of the US was the NFIB Small Business Optimism Index for November, and it was strong, the strongest in fact for almost two years. You could be forgiven for thinking that US small business think that the economy is "going to be great". (I had to use that line somewhere and sometime.) The Index came in at 98.4, up from 94.9 when the market was expecting an improvement, but to 96.7. Most of the report's inner metrics were better, with the exception of "net compensation" and "net compensation plans" that pulled back, if still at higher levels and countered by "plans to hire" that rose to +15% from +10%. The one detail that really stood out was "expect a better economy" that swung up from -7% to +12%, having averaged -4% in the previous six months.

The Pound was bought in the aftermath of the November CPI report that saw headline inflation pick up to a stronger than expected 1.2% (1.1% expected), the highest for two years and with core inflation also ticking higher to 1.4% from 1.2% (1.3% expected). Pound strength persisted into the US session when some appetite for the USD returned, taking Sterling down from over 1.27, currently trading at 1.2655. US bond yields have also been pushing back up late in the session later in the session, lending some support to the big dollar.

The US bond market is as well aligned for the FOMC as it has been for quite some time. Through this year, the market (rightly) has been much more cautious on the extent of Fed tightening (zero to date). This time last year, the median FOMC Fed funds projection for the end of this year was 1.4%. It will close the year at 0.5-0.75%. The market is expecting that this time next year the Fed funds rate will be 1-1¼% which was the median Fed dot point projection in their September forecasts, a forecast that embodies two more rate hikes in 2017, an expectation that also aligns with NAB's forecast. We'll either be all right or all wrong! The market continues to fully price in a hike for tomorrow.

The AUD this morning is continuing to hug 0.75, having tested the 0.7520 area overnight. Yesterday's NAB Business Survey for November and the Chinese November economic data came and went without too much market fanfare, the Survey revealing some slowing in Business Conditions (to

average levels) but Chinese growth in industrial production, retail sales and fixed assets investment mostly a little better than expectations. The AU bulk resource prices overnight showed iron ore down 15 cents and steaming coal up 30 cents, but met coal off a larger \$7.50. We did note in the Chinese data that the early sizeable annual declines in Chinese coking coal production are now beginning to ease up on more lenient production guidance.

Coming up

Ahead of the FOMC tomorrow morning, there will be some interest in today's W-MI Consumer Sentiment Index (10.30 AEDT) and the BoJ Tankan Survey (10.50 AEDT), the latter previously a big indicator when Japan was absolutely Australia's number one trading partner. The Tankan Survey is expected to reveal some improvement in the main large and small company net balance indexes, the Large Manufacturers' Index to improve from 6 to 10, aided no doubt by the stronger USD/weaker yen over recent weeks.

Tonight in the London session, there is the UK labour market report for October/November, then EC Industrial Production for October, but likely more interest in BoE Governor Mark Carney's speech and any comments on the economy. Then comes US Retail Sales for November, PPI, Industrial production and Business Inventories. T

For the FOMC, the market will be looking to see the rate hike and then turn its attention to the details of the Statement and the forecasts. Likely, its forecasts for two further hikes in 2017 (the September forecasts) will not be altered much at all and its longer term forecast of 3.0%. Then, the tone and tempo of Fed Chair Yellen's comments on the economy, inflation and policy at her press conference 30 minutes after the release of the FOMC Statement and Projection Materials (forecasts) at 6.00AM AEDT. Markets will be interested in her comments on the economy's growth and inflation tempo, tolerance to the rise in the USD as well as their thinking on the appropriateness and possible reaction to Trump fiscal stimulus.

Overnight

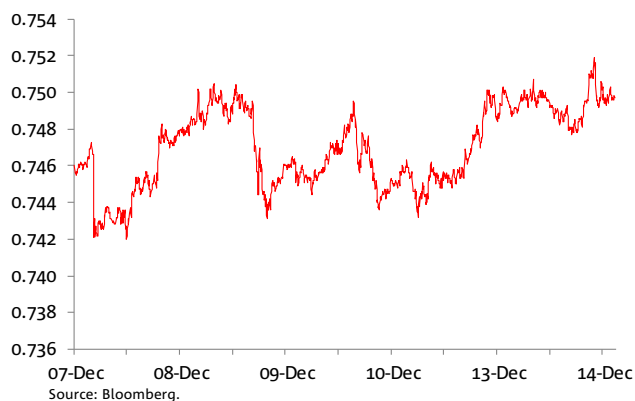
On global stock markets, the S&P 500 was +0.69%. Bond markets saw US 10-years +0.93bp to 2.48%. In commodities, Brent crude oil -0.14% to \$55.61, gold -0.7% to \$1,156, iron ore -0.2% to \$83.42, St. Coal +0.4% to \$86.00, Met. Coal -2.7% to \$270.00. AUD is at 0.7497 and the range since yesterday 5pm Sydney time is 0.7477 to 0.7519.

Good luck.

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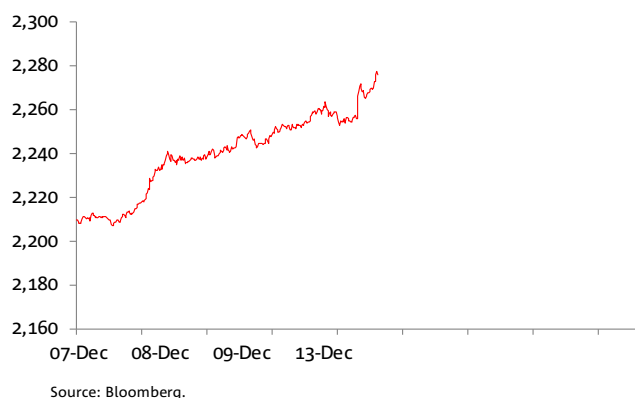
AUD/USD - past week



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	0.7497	0.0	0.7476	0.7523	HKD	7.7560 0.0
NZD	0.7197	0.5	0.7187	0.7234	CNY	6.8922 -0.3
EUR	1.0621	0.1	1.0604	1.0668	SGD	1.4244 -0.3
GBP	1.2666	0.6	1.2660	1.2729	IDR	13,255 -0.6
JPY	115.25	-0.5	114.96	115.48	THB	35.56 -0.3
CAD	1.3125	0.0	1.3103	1.3131	KRW	1,164 -0.5
AUD/EUR	0.7059	0.2	0.7036	0.7079	TWD	31.77 -0.2
AUD/JPY	86.40	-0.2	86.29	86.60	PHP	49.77 0.0
AUD/GBP	0.5919	-0.3	0.5887	0.5922	CHF	1.01 -0.3
AUD/NZD	1.0418	-0.2	1.0384	1.0419	SEK	9.17 0.0
AUD/CNH	5.1672	0.0	5.1841	5.2031		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.50	0.96	1.39	2.34	USD 10	2.48	0.93
AUD	1.50	1.77	1.92	3.01	AUD 10	2.82	-3.50 0.34
NZD	1.75	2.05	2.31	3.45	NZD 10	3.29	-1.70 0.81
EUR	0.00	-0.32	-0.16	0.77	CAD 10	1.77	2.00 -0.71
GBP	0.25	0.38	0.65	1.40	EUR 10	0.36	-3.90 -2.12
JPY	-0.05	-0.06	0.03	0.26	GBP 10	1.44	-2.60 -1.04
CAD	0.50	0.90	1.09	1.92	JPY 10	0.09	-0.20 -2.39

Equities

Major Indices	Last	% day	% y/y
	Dow	19,916	0.60
S&P 500	2,272	0.69	12.9
Nasdaq	5,471	1.09	10.9
VIX	13	3.01	-46.6
FTSE	6,969	1.1	17.1
DAX	11,285	0.8	9.1
CAC 40	4,804	0.9	5.6
Nikkei	19,251	0.5	1.9
Shanghai	3,155	0.1	-10.4
Hang Seng	22,447	0.1	5.3
ASX 200	5,545	-0.3	12.5

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.23	-1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.20	5.00
3/10 sprd	0.60	-2.00
SPI	5585.0	-10.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	55.61	-0.1
Oil (WTI)	52.81	0.0
Oil (Tapis)	56.56	-2.0
Gold	1155.60	-0.7
CRB	193.46	0.1
GS Metals	317.0	0.0
Aluminium	1749.3	0.7
Copper	5678.0	-1.3
Nickel	11342.0	0.8
Zinc	2689.3	-1.0
Ch. steel	3409.0	-0.8
Iron ore	83.4	-0.2
St. Coal	86.0	0.4
Met.coal	270.0	-2.7
Wheat Chic.	428.3	0.1
Sugar	18.6	-3.4
Cotton	72.0	0.5
Coffee	142.9	0.6

CO₂ Emissions - Euros

	Last	% day
Dec-2016	4.78	-1.6
Jun-2017	4.79	-1.8

* cisd = market holiday

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, 14 December 2016								
AU	Westpac Consumer Conf Index/MoM	Dec		/		101.3/-1.1	0.30	10.30
JN	Tankan Large Mfg Index/Outlook	4Q		10/18		6.0/16.0	0.50	10.50
AU	New Motor Vehicle Sales MoM/YoY	Nov		/		-2.4/1.2	1.30	11.30
JN	Industrial Production MoM/YoY	Oct F		/		0.1/-1.3	5.30	15.30
JN	Capacity Utilization MoM	Oct				-2.0	5.30	15.30
UK	Jobless Claims Change	Nov		6.5		9.8	10.30	20.30
UK	Average Weekly Earnings/ex bonus 3M/YoY	Oct		2.3/2.6		2.3/2.4	10.30	20.30
EC	Industrial Production SA MoM/YoY	Oct		0.1/0.8		-0.8/1.2	11.00	21.00
US	Retail Sales Advance/ex autos and gas MoM	Nov		0.3/0.4		0.8/0.6	14.30	0.30
US	Retail Sales Control Group	Nov		0.3		0.8	14.30	0.30
US	PPI Final Demand MoM/YoY	Nov		0.1		0.0	14.30	0.30
CA	Teranet/National Bank HPI MoM/YoY	Nov				0.3	14.30	0.30
US	Industrial Production MoM	Nov		-0.2		0.0	15.15	1.15
US	Business Inventories	Oct		-0.1		0.1	16.00	2.00
US	FOMC Rate Decision (Lower/Upper Bound)	Dec 14	0.5/0.75	0.5/0.75		0.25/0.50	20.00	6.00
Thursday, 15 December 2016								
NZ	BusinessNZ Manufacturing PMI	Nov				55.2	22.30	8.30
NZ	Value of All Buildings SA QoQ	3Q	2.5	2.1		5.5	22.45	8.45
AU	Consumer Inflation Expectation	Dec				3.2	1.00	11.00
AU	Employment Change/Unemployment rate	Nov	13/5.6	17.5/5.6		9.8/5.6	1.30	11.30
AU	Participation Rate	Nov	64.5	64.5		64.4	1.30	11.30
AU	RBA FX Transactions Market	Nov				439.0	1.30	11.30
JN	Machine Tool Orders YoY	Nov F				-5.6	7.00	17.00
GE	Markit/BME Germany Manufacturing/Services PMI	Dec P		54.5/54.9		54.3/55.1	9.30	19.30
GE	Markit/BME Germany Composite PMI	Dec P		54.9		55.0	9.30	19.30
EC	Markit Eurozone Manufacturing/Services PMI	Dec P		53.7/53.8		53.7/53.8	10.00	20.00
EC	Markit Eurozone Composite PMI	Dec P		53.9		53.9	10.00	20.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Nov		0/6		2.0/7.6	10.30	20.30
UK	Bank of England Bank Rate	Dec 15	0.25	0.25		0.3	13.00	23.00
UK	BOE Asset Purchase/Corporate Bond Target	Dec	435/10	435/10		435/10	13.00	23.00
CA	Manufacturing Sales MoM	Oct		0.4		0.3	14.30	0.30
US	Current Account Balance	3Q		-111.6		-119.9	14.30	0.30
US	Empire Manufacturing	Dec		4		1.5	14.30	0.30
US	CPI MoM/YoY	Nov		0.2/1.7		0.4/1.6	14.30	0.30
US	CPI Ex Food and Energy MoM/YoY	Nov		0.2/2.2		0.1/2.1	14.30	0.30
US	Initial Jobless Claims	Dec 10		255		258.0	14.30	0.30
US	Philadelphia Fed Business Outlook	Dec		9.1		7.6	14.30	0.30
CA	Existing Home Sales MoM	Nov				2.4	15.00	1.00
US	Markit US Manufacturing PMI	Dec P		54.5		54.1	15.45	1.45
US	NAHB Housing Market Index	Dec		63		63.0	16.00	2.00
Friday, 16 December 2016								
US	Total/Long term Net TIC Flows	Oct		/		-152.9/-26.2	22.00	8.00
NZ	ANZ Consumer Confidence Index/MoM	Dec		/		127.2/3.5	1.00	11.00
EC	Trade Balance SA	Oct		24.5		24.9	11.00	21.00
EC	Labour Costs YoY	3Q				1.0	11.00	21.00
EC	CPI MoM/YoY	Nov		-0.1/0.6		0.2/0.5	11.00	21.00
EC	CPI Core YoY	Nov F		0.8		0.8	11.00	21.00
UK	CBI Trends Total Orders/Selling Prices	Dec		-5/20		-3.0/19.0	12.00	22.00
US	Housing Starts/MoM	Nov		1230/-7		1323/25.5	14.30	0.30
US	Fed's Lacker, Bank of America's Moynihan to Speak in Charlotte						18.30	4.30
Monday, 19 December 2016								
NZ	Westpac Consumer Confidence	4Q				108.0	22.00	8.00
NZ	Performance Services Index	Nov				56.3	22.30	8.30
NZ	Building Permits MoM	Oct				0.2	22.45	8.45
AU	Budget MYEFO							
JN	Trade Balance Adjusted	Nov				474.3	0.50	10.50
JN	Exports/Imports YoY	Nov		/		-10.3/-16.5	0.50	10.50
NZ	ANZ Activity Outlook/Business Confidence	Dec		/		37.6/20.5	1.00	11.00
UK	Rightmove House Prices MoM/YoY	Jan		/		-2.1/3.4	1.10	11.10
CH	Property Prices	Nov						
GE	IFO Business Climate	Dec				110.4	10.00	20.00
GE	IFO Current Assessment/Expectations	Dec		/		115.6/105.5	10.00	20.00
EC	Construction Output MoM/YoY	Oct		/		-0.9/1.8	11.00	21.00
US	Markit US Services PMI	Dec P				54.6	15.45	1.45
CA	Bloomberg Nanos Confidence	Dec 9				56.2	16.00	2.00
Tuesday, 20 December 2016								
NZ	Food Prices MoM	Nov				-0.8	22.45	8.45
AU	RBA Dec. Meeting Minutes						1.30	11.30
EC	ECB Current Account SA	Oct				25.3	10.00	20.00
UK	CBI Retailing Reported Sales	Dec				26.0	12.00	22.00
JN	BOJ Policy Rate	Dec 20				-0.1		
JN	BOJ Monetary Policy Statement							
CA	Wholesale Trade Sales MoM	Oct				-1.2	14.30	0.30
Upcoming Central Bank Interest Rate Announcements								
US Federal Reserve		15-Dec	0.5-0.75%	0.5-0.75%		0.25-0.50%		
UK BOE		15-Dec	0.25%	0.25%		0.25%		
Japan, BoJ		20-Dec		-0.1% to +0.1%		-0.1% to +0.1%		
Europe ECB		19-Jan		0.00%		0.00%		
Canada, BoC		19-Jan				0.50%		
Australia, RBA		7-Feb	1.50%	1.50%		1.50%		
New Zealand, RBNZ		9-Feb	1.75%	1.75%		1.75%		

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

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