27 January 2017

MARKETS TODAY

Jungle

National Australia Bank

Good Morning

Sydney music producer Flume claimed the top spot in Triple Js 2016 Hottest 100 yesterday, but many will consider the moral victor to have been Melbournian busker Tash Sultana for her brilliant 'Jungle'. She is set for international stardom this year.

Besides, for us markets folk and as Burkhard Dallwitz sang in the opening credits of Underbelly, 'It's a jungle out there'.

While Australians were out doing what they do on Australia Day yesterday all was not well in the Trumpsphere, with the Mexican Peso giving back about half of Wednesday's strong rally. This was after Mexican Enrique Pena Nieto cancelled – via Twitter – a planned meeting with the U.S. President. It followed the U.S. President blasting him in a tweet earlier Thursday for saying Mexico would refuse to pay for the boarder wall, the building of which Trump signed into motion earlier this week.

The bigger global development since Australia left off on Wednesday has been the renewed rise in US bond yields. 10 year Treasuries, having traded below 2.40% on Wednesday, pushed briefly above 2. 55% overnight before easing back to 2.51% as we write. The pull-back is seen linked to a well-received 7-year U.S. Note auction as well as some (mild) NY early afternoon slippage in U.S. stocks.

The rise in U.S. yields has helped lift the U.S. dollar, with Bloomberg's BBDXY index up about 0.5% since Thursday's Wellington market open. The Japanese Yen has – true to form – fared worse in a rising US yield environment. The NZ dollar has given back all of its knee-jerk gains that followed slightly higher than expected CPI figures, to be down 0.63% and the second worse performing G10 currency of the past 24 hours. The AUD/USD rate sits mid-pack, down 0.35% to 0.7546, so still beneath Wednesday's pre-CPI levels but off Wednesday's intra-lows.

More broadly, we note that while US Treasuries are now trading at their highest yield levels of the year, the US dollar is still some 1.5% off its start-of-year levels in index terms. Key here looks to be the fact while US yields have risen, outside of Japan yields elsewhere have risen by even more. For example, the 10-year US-German benchmark yield spread has compressed by over 20bps.

The US data flow overnight has been mixed. Markit's service sector PMI rose to 55.1 from 53.9 (not widely watched) while New Home Sales fell a sharp 10.4% but for what is a very volatile number. Weekly jobless claims rose to 259k from 237k but seasonal adjustment issues are more likely behind the rise than any change in trend. The December trade deficit printed at -$65.0bn much as expected while wholesale inventories rose by a bigger than expected 1.0%.

The net effect of these latter two numbers has been to see the Atlanta Fed lift its Q4 'GDPNow' estimate to 2.9% from 2.8% (see Coming Up).

Finally, in the UK Q4 GDP was revised up to 0.6% from 0.5%, while the UK Government has issued its Brexit Bill - all 137 words of it. This says no more than that the PM may (not will) notify the EU of its intention to withdraw and that this authority will override anything in the European Communities Act of 1972 (which heralded the UK's original EU membership). Sterling has hardly moved.

Coming Up

There's nothing of the calibre of Wednesday's CPI on the local calendar today, though we'll be taking some note of the Q4 trade price indices. This tells us how the goods-only terms of trade performed in Q4 – something which feeds directly into model estimates of the equilibrium value of the AUD in (real) trade weighted terms. The numbers should pick up the jump in iron ore and coal contract prices in Q4, hence we expect a 10.7% jump in export prices (and 0.3% fall in import prices). The market consensus forecast is for an even stronger 12.1% rise in export prices (and +0.4% for import prices).

These numbers are more interesting than today's Q4 producer price data, given PPI post-dates the CPI numbers.

Internationally, there's interest in latest Japan CPI figures, for December, which come in front of next Tuesday's BoJ meeting. These are expected to show a return to deflation in the BoJ's preferred ex-food and energy measure, judging from the already released December Tokyo figures. At the very least, this should reinforce the BoJ's commitment to its existing Yield Curve Control policy designed to prevent JGB yields being above zero per cent at 10 years.

In the U.S. tonight, we get the Advance estimate of Q4 GDP, expected to show 2.2% annualised growth. Most estimates fall in the 2.0-2.5% range, though since the aforementioned Atlanta Fed's latest GDPNow forecast pegs growth at 2.9%, this suggest upside risks versus the consensus.

We'll also get US durable goods orders and the final estimates of consumer sentiment and inflation expectations from the University of Michigan.

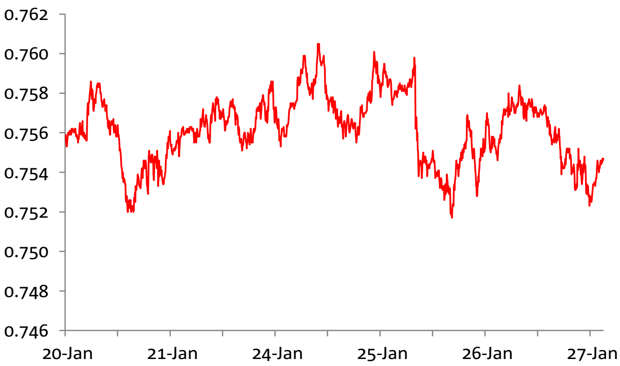
Overnight

On global stock markets, the S&P 500 was -0.01%. Bond markets saw US 10-years -0.73bp to 2.50%. In commodities, Brent crude oil +2.03% to $56.2, gold-0.8% to $1,188, iron ore +1.0% to $83.34, steam coal -0.1% to $83.60, met.coal +0.0% to $185.00. AUD is at 0.7543 and the range since yesterday 5pm Sydney time is 0.7522 to 0.7585.

Author **Ray Attrill, Global Co-Head of FX Strategy**

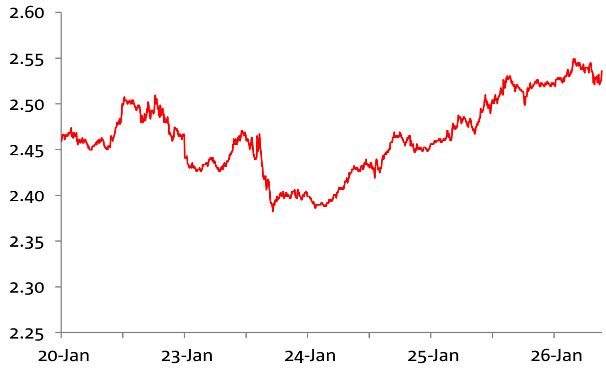
Markets

AUD/USD - past week



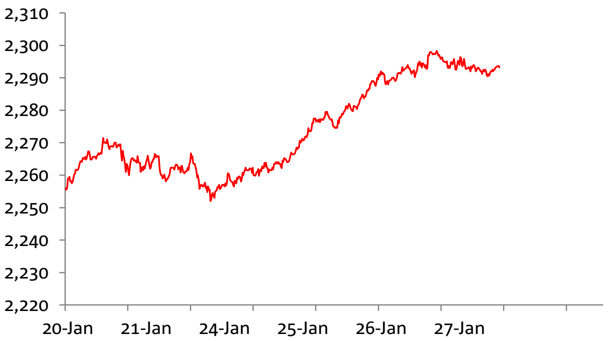
Source: Bloomberg.

US 10yr - past week



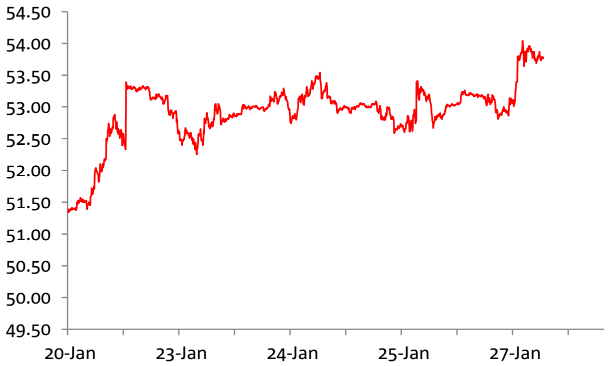
Source: Bloomberg.

S&P Future - past week



Source: Bloomberg.

WTI - past week



Source: Bloomberg.

Foreign Exchange

	Last	% chge	Indicative 24hr ranges (**) Low	High
AUD	0.7543	-0.4	0.7522	0.7585
NZD	0.7247	-0.7	0.7223	0.7313
EUR	1.0685	-0.6	1.0658	1.0766
GBP	1.2594	-0.3	1.2557	1.2673
JPY	114.50	1.1	113.05	114.86
CAD	1.3102	0.2	1.3054	1.3131
AUD/EUR	0.706	0.2	0.7028	0.7062
AUD/JPY	86.37	0.7	85.66	86.46
AUD/GBP	0.5990	-0.1	0.5964	0.6001
AUD/NZD	1.0409	0.3	1.0360	1.0426
AUD/CNH	5.1881	-0.2	5.1488	5.1897

Other FX	Last	% chge
HKD	7.7579	0.0
CNY	6.8840	0.0
SGD	1.4242	0.8
IDR	13,332	-0.2
THB	35.31	0.3
KRW	1,160	-0.6
TWD	31.34	0.1
PHP	49.73	-0.2
CHF	1.00	0.1
SEK	8.85	0.3

Equities

Major Indices	Last	% day	% y/y
Dow	20,098	0.15	24.3
S&P 500	2,298	-0.01	20.7
Nasdaq	5,656	0.00	23.8
VIX	11	-1.67	-52.8
FTSE	7,161	0.0	21.1
DAX	11,849	0.4	20.6
CAC 40	4,867	-0.2	11.7
Nikkei	19,402	1.8	13.0
Shanghai	3,159	0.3	15.5
Hang Seng	23,374	1.4	22.7
ASX 200	5,672	0.0	13.3

Commodities*

	Last	% day
Oil (Brent)	56.20	2.0
Oil (WTI)	53.76	1.9
Oil (Tapis)	56.71	0.6
Gold	1187.80	-0.8
CRB	194.26	0.1
GS Metals	325.1	0.0
Aluminium	1809.3	-0.9
Copper	5843.8	-1.4
Nickel	9366.0	-3.0
Zinc	2754.8	-1.4
Ch. steel	3339.0	1.6
Iron ore	83.3	1.0
St. Coal	83.6	-0.1
Met.coal	185.0	0.0
Wheat Chic.	440.5	0.5
Sugar	20.4	0.1
Cotton	74.2	0.4
Coffee	151.5	-0.9

CO_2 Emissions - Euros

	Last	% day
Dec-2016	5.09	Clsd
Jun-2017	5.17	4.2

* clsd = market holiday

Interest Rates

Indicative Swap Rates	Cash	3mth	2Yr	10Yr
USD	0.75	1.04	1.51	2.41
AUD	1.50	1.77	1.98	3.02
NZD	1.75	1.98	2.47	3.58
EUR	0.00	-0.33	-0.15	0.82
GBP	0.25	0.36	0.71	1.50
JPY	-0.05	-0.01	0.05	0.26
CAD	0.50	0.96	1.12	2.02

Benchmark 10 Year Bonds	Last	chge	Sprd
USD 10	2.50	-0.73	
AUD 10	2.73	3.50	0.23
NZD 10	3.36	8.40	0.85
CAD 10	1.82	-0.80	-0.69
EUR 10	0.48	2.00	-2.02
GBP 10	1.52	4.40	-0.99
JPY 10	0.09	1.70	-2.41

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.22	2.00
3 Yr bond	97.8	3.00
10 Yr bond	97.19	-2.00
3/10 sprd	0.61	5.00
SPI	5649.0	-38.0

*Change in bps

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, 27 January 2017								
JN	Natl CPI/Ex Food & Energy YoY	Dec		0.2/-0.1		0.5/0.1	0.30	10.30
AU	PPI QoQ/YoY	4Q				0.3	1.30	11.30
AU	Export/Import Price Index QoQ	4Q	10.7/-0.3	12.1/0.4		3.5/-1.0	1.30	11.30
EC	ECB's Governing Council Klaas Knot on Dutch TV						12.10	22.10
CA	CFIB Business Barometer	Jan				60.7	12.45	22.45
US	GDP Annualized QoQ	4Q A		2.2		3.5	14.30	0.30
US	Durable Goods Orders/Core Orders	Dec P		2.6/0.2		-4.5/0.9	14.30	0.30
US	U. of Mich. Sentiment/5-10 Yr Inflation	Jan F		98.1		98.1	16.00	2.00
Monday, 30 January 2017								
NZ	Trade Balance/12m NZD	Dec		/		-705.0/-3175.0	22.45	8.45
JN	Retail Sales MoM/YoY	Dec		/		0.2/1.7	0.50	10.50
US	Personal Income/Spending	Dec		0.4/0.4		0.0/0.2	14.30	0.30
US	PCE Deflator MoM/YoY	Dec		0.3/		0.0/1.4	14.30	0.30
US	PCE Core MoM/YoY	Dec		0.1/		0.0/1.6	14.30	0.30
CA	Bloomberg Nanos Confidence	Jan 27				56.4	16.00	2.00
US	Pending Home Sales MoM/YoY	Dec		1.25/		-2.5/1.4	16.00	2.00
US	Dallas Fed Manf. Activity	Jan		15		15.5	16.30	2.30
Tuesday, 31 January 2017								
NZ	Net Migration SA	Dec				6220.0	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jan 29				117.0	23.30	9.30
JN	Jobless Rate/Job-To-Applicant Ratio	Dec		/		3.1/1.4	0.30	10.30
JN	Overall Household Spending YoY	Dec				-1.5	0.30	10.30
JN	Industrial Production MoM/YoY	Dec P		/		1.5/4.6	0.50	10.50
UK	GfK Consumer Confidence	Jan				-7.0	1.10	11.10
UK	Lloyds Business Barometer	Jan		/		39.0/5.0	1.10	11.10
AU	NAB Business Conditions/Confidence	Dec				5.0/5.0	1.30	11.30
AU	Private Sector Credit MoM/YoY	Dec		0.5/6		0.5/5.4	1.30	11.30
NZ	Money Supply M3 YoY	Dec				5.9	3.00	13.00
JN	Small Business Confidence	Jan				48.8	6.00	16.00
UK	Mortgage Approvals	Dec				67.5	10.30	20.30
JN	BOJ Policy Rate	Jan 31				-0.1		
US	Employment Cost Index	4Q		0.6		0.6	14.30	0.30
CA	GDP MoM/YoY	Nov		/		-0.3/1.5	14.30	0.30
CA	Industrial Product/Raw Material Prices MoM	Dec		/		0.3/-2.0	14.30	0.30
US	S&P CoreLogic CS 20-City MoM/YoY SA	Nov		0.4/		0.6/5.1	15.00	1.00
US	Chicago Purchasing Manager	Jan		55		54.6	15.45	1.45
US	Conf. Board Consumer Confidence	Jan		112.5		113.7	16.00	2.00
Wednesday, 1 February 2017								
NZ	Employment Change QoQ/YoY	4Q		/		1.4/6.1	22.45	8.45
NZ	Unemployment Rate	4Q				4.9	22.45	8.45
NZ	Average Hourly Earnings/Pvte Wages ex Overtime QoQ	4Q		/		0.3/0.4	22.45	8.45
AU	AiG Perf of Mfg Index	Jan				55.4	23.30	9.30
AU	CoreLogic House Px MoM	Jan				1.4	0.00	10.00
JN	Nikkei Japan PMI Mfg	Jan F				52.8	1.30	11.30
CH	Manufacturing PMI	Jan		51.2		51.4	2.00	12.00
CH	Non-manufacturing PMI	Jan				54.5	2.00	12.00
AU	Commodity Index AUD/SDR YoY	Jan				116.8/45.5	6.30	16.30
UK	Markit UK PMI Manufacturing SA	Jan				56.1	10.30	20.30
CA	MLI Leading Indicator MoM	Dec				0.3	13.00	23.00
US	ADP Employment Change	Jan		160		153.0	14.15	0.15
CA	RBC Canadian Manufacturing PMI	Jan				51.8	15.30	1.30
US	Markit US Manufacturing PMI	Jan F				55.1	15.45	1.45
US	ISM Manufacturing	Jan		54.8		54.7	16.00	2.00
US	Construction Spending MoM	Dec		0.4		0.9	16.00	2.00
US	FOMC Rate Decision (Lower/Upper Bound)	Feb 1		0.5/0.75		0.5/0.8	20.00	6.00
Thursday, 2 February 2017								
NZ	ANZ Job Advertisements MoM	Jan				1.6	22.00	8.00
AU	Trade Balance	Dec		1500		1243.0	1.30	11.30
AU	Building Approvals MoM/YoY	Dec		-2.5/		7.0/-4.8	1.30	11.30
JN	Consumer Confidence Index	Jan				43.1	6.00	16.00
EC	ECB Publishes Economic Bulletin						10.00	20.00
UK	Markit/CIPS UK Construction PMI	Jan				54.2	10.30	20.30
UK	Bank of England Bank Rate	Feb 2				0.3	13.00	23.00
UK	BOE Asset Purchase/Corporate Bond Target	Feb		/		435.0/10.0	13.00	23.00
UK	Bank of England Inflation Report						13.00	23.00
US	Challenger Job Cuts YoY	Jan				42.4	13.30	23.30
CA	Carney Speaks at Inflation Report Press Conference						13.30	23.30
US	Wards Total Vehicle Sales	Jan		17.85		18.3		
US	Nonfarm Productivity/Unit Labour Costs	4Q P		0.8/2.4		3.1/0.7	14.30	0.30
US	Initial Jobless Claims	Jan 21		247		234.0	14.30	0.30
US	Bloomberg Consumer Comfort	Jan 22				45.2	15.45	1.45
Friday, 3 February 2017								
AU	AiG Perf of Services Index	Jan				57.7	23.30	9.30
JN	BoJ Minutes of Dec 19-20 meeting						0.50	10.50
NZ	ANZ Commodity Price	Jan				0.7	1.00	11.00
JN	Nikkei Japan PMI Services/Composite	Jan		/		52.3/52.8	1.30	11.30
CH	Caixin China PMI Mfg	Jan		51.8		51.9	2.45	12.45
UK	Markit/CIPS UK Services/Composite PMI	Jan		/		56.2/56.7	10.30	20.30
US	Change in Nonfarm Payrolls/Unemployment Rate	Jan		158/4.7		156.0/4.7	14.30	0.30
US	Average Hourly Earnings MoM/YoY	Jan		0.3/		0.4/2.9	14.30	0.30
US	Fed's Evans Speaks on Economy and Policy in Olympia Fields						15.15	1.15
US	Markit US Services/Composite PMI	Jan P		54.4		53.9	15.45	1.45
US	ISM Non-Manf. Composite	Jan		57		57.2	16.00	2.00
US	Factory Orders/Core Orders	Dec		1.4/		-2.4/0.1	16.00	2.00

Upcoming Central Bank Interest Rate Announcements					
Japan, BoJ	31-Jan	-0.1%	-0.1%		-0.1%
US Federal Reserve	2-Feb	0.5-0.75%	0.5-0.75%		0.5-0.75%
UK BOE	2-Feb	0.25%	0.25%		0.25%
Australia, RBA	7-Feb	1.50%	1.50%		1.50%
New Zealand, RBNZ	9-Feb	1.75%	1.75%		1.75%
Canada, BoC	2-Mar	0.5%	0.5%		0.5%
Europe ECB	9-Mar	-0.4%	-0.4%		-0.4%

GMT: Greenwich Mean Time; AEDT: Australian Daylight Savings 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

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