

# MARKETS TODAY

*Fed plays a straight bat; data goes Boom Boom Pow*



## Good Morning

The major event overnight was the US FOMC meeting where rates were left on hold as expected. There were very few changes to the post meeting statement with the Fed playing a straight bat. Markets were somewhat disappointed with Treasury yields and the US dollar reversing earlier gains that had occurred following stronger than expected US economic data. The strength in US economic data gives inspiration for today's title by the Black Eyed Peas: [Boom Boom Pow](#).

On the FOMC Statement itself, there were two tweaks of interest. The Fed seemingly upgraded its inflation outlook ever so slightly, noting that inflation "will rise to 2%" instead of last meeting's "is expected". The Fed also noted the recent improvement in consumer and business sentiment of late. Despite those tweaks, the market took it as slightly dovish and not providing any support to the Fed's mooted 3 rate hikes for 2017. The OIS market now places the probability of a March rate hike at 35%, down from 42% just prior to the FOMC, and is currently pricing in 2.1 rate hikes for 2017.

US Treasuries reacted similarly to the Statement, falling 2bps immediately after and ending the day almost unchanged at 2.47%. It's worth noting here that yields did actually reach 2.51% after stronger than expected US economic data. ADP Payrolls printed at 246k, well up on expectations of a 167k print and suggestive of upside risks to Friday's Non-farm Payrolls (note a 200+ print for payrolls would be enough to drop the unemployment rate by 0.1 assuming a constant participation rate). The ISM Manufacturing index also continued its surge increasing to 56.0 – the highest level in 26 months. Under the hood of the ISM, the prices paid index rose to its highest level since May 2011 to be at 69.0.

Other major sovereign yields followed the moves in Treasuries pre FOMC, with German Bund yields up 3.2 bps to 0.47% and UK Gilts also up 3.2 bps to 1.45%. Euro periphery yields rose more than Bunds with French OATs up 4.9 bps and Italian BTPs up 5.1bps – it seems the French Presidential Elections and Italian worries are starting to weigh. Movements in Australian CGS followed moves in Treasuries the previous day, up 2.4 bps to 2.74% while Kiwi bond yields fell 1.2 bps following the mixed labour market data yesterday (more on that later).

In the FX space, US dollar strength overnight also reversed on the back of the FOMC with Bloomberg's DXY ending unchanged – though note the US dollar was up almost 0.4% overnight.

On the currency leader board, the Pound was the outperformer, up 0.7% to 1.2669 following a strong UK Manufacturing PMI with the cost sub-index reaching its highest level since 1992!. That read plays into the view that the Bank of England is likely to slightly upgrade its inflation and growth forecasts tonight (see Coming up for details). Other currency pairs were unchanged to

slightly lower with the Aussie unchanged, and the Euro, Yen and CAD down 0.2% each respectively. The Kiwi was the clear underperformer, down 0.4% following a mixed labour market report. The Kiwi unemployment rate rose to 5.2% from 4.9% but that was on the back of a surge in the participation rate with employment growth still strong. In Kiwi news, the NZ PM called the general election for 23 September.

Comments yesterday on currency manipulation by Trump's adviser Peter Navarro sparked a flurry of responses across the Pacific and the Atlantic. Japan's Cabinet Secretary said it was "absolutely not the case" while German Chancellor Merkel said they do not exercise any influence on the ECB. Donald Tusk who is President of the European Council said the US was a "worrying" source of unpredictability.

Equities were mixed. US equities were lower or unchanged with the S&P500 down 0.1%. With declines in Energy (-1.0%), Real Estate (-1.1%) and Utilities (-1.6%) weighing. European equities were stronger with the EuroStoxx up 0.9% on the back of strong earnings from Siemens and Volvo.

In commodities, oil was up 1.7-2.0% with WTI at \$53.72 and Brent at 56.67. Thermal Coal fell 0.4% to \$82.7 along with Coking Coal which was down 1.3% to \$168.0.

## Coming Up

Focus today domestically is on the Trade Balance and Building Approvals. For the Trade Balance, another monthly improvement is likely with the consensus looking for a \$2bn surplus. NAB is on the high side in expecting a \$3bn surplus, which if it eventuates would make it Australia's largest ever monthly trade surplus. There are good reasons to expect a bumper outcome given soaring iron ore and coal loadings at key ports in December, along with the recent moves in commodity prices. With coking coal prices remaining at high levels, it is likely Australia will continue to record trade surpluses for at least the first half of 2017.

For Building Approvals the market is looking for some payback after last month's 7% increase and is looking for a decline of 1.5%.

Internationally it is a quiet. The Bank of England meets and releases its latest Inflation Report as well. It is expected that inflation and growth forecasts for the UK could be upgraded slightly, but this is unlikely to precipitate any change in the outlook given Brexit is yet to come. Corporate earnings seasons continues with Deutsche Bank, Amazon, and Shell reporting amongst others. In terms of other data flow, the US has Weekly Jobless Claims and Unit Labour Costs.

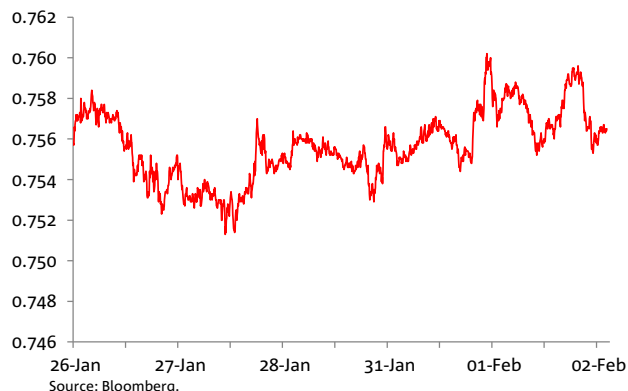
## Overnight

On global stock markets, the S&P 500 was -0.14%. Bond markets saw US 10-years +3.16bp to 2.47%. In

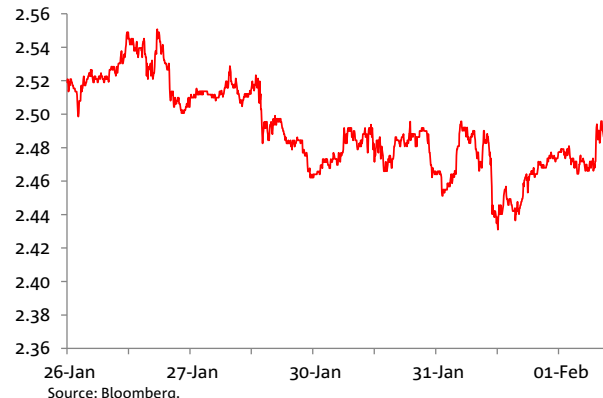
commodities, Brent crude oil +1.96% to \$56.67, gold+0.2% to \$1,211, iron ore +0.0% to \$83.34, steam coal -0.4% to \$82.70, met.coal -1.3% to \$168.00. AUD is at 0.7587 and the range since yesterday 5pm Sydney time is 0.7552 to 0.7597.

# Markets

AUD/USD - past week



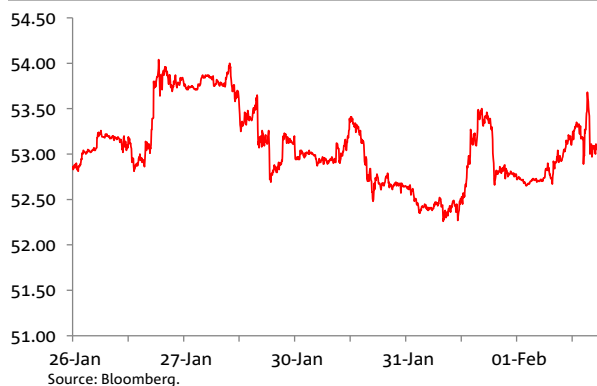
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High		Last	% chge
AUD	0.7587	0.0	0.7552	0.7597	HKD	7.7595	0.0
NZD	0.7281	-0.4	0.7243	0.7313	CNY	6.8840	0.0
EUR	1.0774	-0.2	1.0732	1.0807	SGD	1.4126	0.2
GBP	1.2669	0.7	1.2543	1.2680	IDR	13,368	0.0
JPY	113.06	0.2	112.64	113.95	THB	35.12	0.1
CAD	1.3056	0.2	1.3029	1.3102	KRW	1,158	-0.3
AUD/EUR	0.7042	0.2	0.6997	0.7047	TWD	31.19	-0.6
AUD/JPY	85.78	0.3	85.35	86.12	PHP	49.75	-0.1
AUD/GBP	0.5989	-0.7	0.5973	0.6034	CHF	0.99	0.3
AUD/NZD	1.0420	0.4	1.0374	1.0439	SEK	8.74	0.0
AUD/CNH	5.2003	-0.6	5.1604	5.1945			

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	0.75	1.03	1.50	2.39	USD 10	2.47	1.86	
AUD	1.50	1.77	1.92	2.99	AUD 10	2.74	2.40	0.27
NZD	1.75	1.98	2.43	3.57	NZD 10	3.36	-1.20	0.88
EUR	0.00	-0.33	-0.14	0.82	CAD 10	1.77	0.60	-0.71
GBP	0.25	0.36	0.71	1.48	EUR 10	0.47	3.20	-2.00
JPY	-0.06	-0.01	0.05	0.27	GBP 10	1.45	3.20	-1.02
CAD	0.50	0.96	1.11	1.97	JPY 10	0.10	1.10	-2.37

Equities

Major Indices			
	Last	% day	% y/y
Dow	19,879	0.07	20.9
S&P 500	2,276	-0.14	17.3
Nasdaq	5,638	0.42	22.0
VIX	12	-2.25	-41.3
FTSE	7,108	0.1	17.3
DAX	11,660	1.1	19.5
CAC 40	4,795	1.0	9.2
Nikkei	19,148	0.6	7.9
Shanghai	3,159	0.0	15.5
Hang Seng	23,318	-0.2	19.9
ASX 200	5,653	0.6	13.2

Commodities\*

	Last	% day
Oil (Brent)	56.67	2.0
Oil (WTI)	53.72	1.7
Oil (Tapis)	56.93	1.4
Gold	1210.50	0.2
CRB	194.34	1.2
GS Metals	326.6	0.0
Aluminium	1806.0	-0.1
Copper	5935.0	-0.8
Nickel	10203.3	3.0
Zinc	2874.5	0.8
Ch. steel	3339.0	0.0
Iron ore	83.3	0.0
St. Coal	82.7	-0.4
Met.coal	168.0	-1.3
Wheat Chic.	446.0	2.9
Sugar	20.8	1.9
Cotton	76.4	2.0
Coffee	150.2	0.4

Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.22	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.23	-0.50
3/10 sprd	0.57	3.50
SPI	5599.0	-44.0

CO2 Emissions - Euros

	Last	% day
Jun-2017	5.27	-1.9
Dec-2017	5.28	-1.5

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
<b>Wednesday, 1 February 2017</b>								
NZ	QVNZ Housing Report 3m.YoY	Jan				12.5	17.00	3.00
NZ	Employment Change QoQ/YoY	4Q	0.6	0.7/6.1		1.4/6.1	22.45	8.45
NZ	Unemployment Rate	4Q	4.8	4.8		4.9	22.45	8.45
NZ	Average Hourly Earnings/Pvte Wages ex Overtime QoQ	4Q		0.6/0.5		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	0.9			1.4	0.00	10.00
JN	Nikkei Japan PMI Mfg	Jan F				52.8	1.30	11.30
CH	Manufacturing/Non-Manufacturing PMIs	Jan		51.2/		51.4/54.5	2.00	12.00
AU	Commodity Index AUD/SDR YoY	Jan				116.8/45.5	6.30	16.30
EC	Markit Eurozone PMI Manufacturing SA	Jan F		55.1		55.1	10.00	20.00
UK	Markit UK PMI Manufacturing SA	Jan		55.9		56.1	10.30	20.30
CA	MLI Leading Indicator MoM	Dec				0.3	13.00	23.00
US	ADP Employment Change	Jan		167		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		55.1	15.45	1.45
US	ISM Manufacturing	Jan		55		54.7	16.00	2.00
US	Construction Spending MoM	Dec		0.2		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
<b>Thursday, 2 February 2017</b>								
NZ	ANZ Job Advertisements MoM	Jan				1.6	22.00	8.00
NZ	PM English gives State of Nation Address						0.30	10.30
AU	Trade Balance	Dec	3050	2000		1243.0	1.30	11.30
AU	Building Approvals MoM/YoY	Dec	2.2/-7.3	-1.5/-10.8		7.0/-4.8	1.30	11.30
JN	Consumer Confidence Index	Jan		43.4		43.1	6.00	16.00
EC	ECB Publishes Economic Bulletin						10.00	20.00
UK	Markit/CIPS UK Construction PMI	Jan		53.8		54.2	10.30	20.30
UK	Bank of England Bank Rate	Feb 2		0.25		0.3	13.00	23.00
UK	BOE Asset Purchase/Corporate Bond Target	Feb		435/10		435.0/10.0	13.00	23.00
UK	Bank of England Inflation Report						13.00	23.00
EC	ECB's Draghi speaks in Ljubljana						13.15	23.15
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		17.5		18.3		
US	Nonfarm Productivity/Unit Labour Costs	4Q P		1/1.9		3.1/0.7	14.30	0.30
US	Initial Jobless Claims	Jan 28		250		259.0	14.30	0.30
<b>Friday, 3 February 2017</b>								
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
EC	Markit Eurozone Services/Composite PMI	Jan F		53.6/54.3		53.6/54.3	10.00	20.00
UK	Markit/CIPS UK Services/Composite PMI	Jan		55.8/56		56.2/56.7	10.30	20.30
EC	Retail Sales MoM/YoY	Dec		0.3/1.8		-0.4/2.3	11.00	21.00
US	Change in Nonfarm Payrolls/Unemployment Rate	Jan		175/4.7		156.0/4.7	14.30	0.30
US	Average Hourly Earnings MoM/YoY	Jan		0.3/2.8		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 F				55.1	15.45	1.45
US	ISM Non-Manf. Composite	Jan		57		57.2	16.00	2.00
US	Factory Orders/Core Orders	Dec		0.6/		-2.4/0.1	16.00	2.00
<b>Monday, 6 February 2017</b>								
JN	Labor Cash Earnings YoY	Dec				0.2	1.00	11.00
JN	Real Cash Earnings YoY	Dec				-0.2	1.00	11.00
AU	Melbourne Institute Inflation MoM/YoY	Jan				0.5/1.8	1.00	11.00
AU	Retail Sales MoM/ex-Inflation QoQ	Dec		/		0.2/-0.1	1.30	11.30
AU	ANZ Job Advertisements MoM	Jan				-1.9	1.30	11.30
GE	Factory Orders MoM/YoY	Dec		/		-2.5/3.0	8.00	18.00
EC	Sentix Investor Confidence	Feb				18.2	10.30	20.30
EC	ECB's Smets, BIS's Caruana Speak at Conference in Brussels						11.30	21.30
CA	Bloomberg Nanos Confidence	Feb 3				56.1	16.00	2.00
US	Fed's Harker Speaks in San Diego						21.00	7.00
<b>Tuesday, 7 February 2017</b>								
US	Fed's Harker Speaks About Payment Systems in San Diego						22.30	8.30
AU	AiG Perf of Construction Index	Jan				47.0	23.30	9.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jan 29				117.0	23.30	9.30
UK	BRC Sales Like-For-Like YoY	Jan				1.0	1.10	11.10
CH	Caixin China PMI Services/Composite	Jan		/		53.4/53.5	2.45	12.45
NZ	2Yr Inflation Expectation	1Q				1.7	3.00	13.00
CH	Foreign Reserves	Jan				3010.5	3.45	13.45
AU	RBA Cash Rate Target	Feb 7	1.5	1.5		1.5	4.30	14.30
JN	Leading Index CI	Dec P				102.8	6.00	16.00
GE	Industrial Production SA MoM/YoY	Dec		/		0.4/2.2	8.00	18.00
UK	Halifax House Prices MoM/YoY	Jan				1.7/6.5	9.30	19.30
US	Trade Balance	Dec		-45		-45.2	14.30	0.30
CA	Int'l Merchandise Trade	Dec				0.5	14.30	0.30
CA	Building Permits MoM	Dec				-0.1	14.30	0.30
US	JOLTS Job Openings	Dec				5522.0	16.00	2.00
CA	Ivey Purchasing Managers Index SA	Jan				60.8	16.00	2.00
US	Consumer Credit	Dec		20		24.5	21.00	7.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
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%		
Japan, Bol		16-Mar	-0.1%	-0.1%		-0.1%		

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

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