

# MARKETS TODAY

## *Livin' on a European Prayer*



### Good Morning

Strong European data failed to excite markets – the exception being equities – as the upcoming French Presidential elections take centre stage. Betting markets now ascribe Eurosceptic Le Pen a 34.2% chance of winning, while a poll by Elable for L'Express magazine overnight puts her within striking distance in a run-off with Fillion with 44% of the vote – inspiration for today's title "[Livin' on a Prayer](#)" by Bon Jovi. The uncertainty is being reflected in government bond yields, particularly the shorter end. The German Shatz two year yield made a new record low, down 2 bps to -0.86%, while French two year yield rose 2 bps to -0.41%. It's also showing up in the currency market where the Euro was down 0.6% despite strong European data. Equity markets in contrast are more positive, with the EuroStoxx up 0.8% overnight, driven largely by German names with the DAX up 1.2%, while the CAC40 was up 0.5%.

European data was very strong overnight with the Euro PMI surging to its highest level since 2011 at 56 and beating expectations of a 54.3 print. Importantly, the strength is coming from the big two economies of France and Germany. The French composite was at 56.7 (from 54.1) - the highest since 2011, while the German Manufacturing numbers continue their move higher to 57 – the highest in almost three years. Importantly for the ECB, average input costs rose at the steepest rate since May 2011. The only cautionary component was average selling prices which were lower for service firms, but importantly for manufacturers were sharply higher – the highest since June 2011.

On the other side of the Atlantic, the Fed's Harker (hawkish) reiterated that a rate hike at the March meeting was a possibility, helpin lift the USD dollar overnight. Harker said he "would not take March off the table" and that while the Fed was not behind the curve "it is something I am worried about". He still sees three rate hikes in 2017 as appropriate, and importantly his forecasts are yet to encompass additional fiscal policy changes – so if Trump did implement his fiscal policies that could be an upside risk. To argue for a March rate hike, Harker is looking for inflationary pressures in wages which puts the focus firmly on average hourly earnings out of the Payrolls report. The Fed's Kashkari (dovish) was also out, but played down prospects of an impending rate hike arguing the Fed is still a little short of its inflation goal.

The net of the comments saw pricing for March rate hike broadly unchanged at around 42% with 2.2 rate hikes priced in for 2017. US Treasury yields were also were little changed, up 1 bps to 2.43%. A soft Market PMI for the US may have also contributed to the subdued moves. Moves in other major sovereign yields followed with German Bunds up 0.5 bps to 0.30% and UK Gilts up 0.8% to 1.24%.

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In the FX market, the US dollar was up by around 0.5% across the board. Other currency pairs were broadly lower by a similar magnitude with the Euro -0.6% and Yen -0.4%. Commodity currency outperformed, with the Aussie and Norwegian Krone down just 0.1% respectively – helped along by moves higher in iron ore and oil.

Equities were buoyant with the S&P500 up 0.5% and again a new record high. Financial globally underperformed following the results of HSBC and the FTSE was down 0.3%, with financials down a staggering 2.8%.

The oil price rose 0.9-1.2% on the day with Brent at \$56.67. The rise comes as OPEC notes it intends on achieving full compliance with supply cuts. Importantly, Russia also said it will abide by its cuts. In terms of Australia's major commodities, iron ore rose 2.7% to \$94.9 a tonne – its highest level since mid-2014. Higher steel prices are driving and it is speculated that Chinese steel mills are seeking to accelerate production ahead of likely production cuts in the lead up to the National Party Congress. In contrast coal prices were largely unchanged.

In terms of other news, BoE Governor Carney spoke in Parliament declining to give forward guidance on interest rates – playing into the view that the Bank of England is uncertain rates ahead of Brexit. The BoJ's Kuroda implied Japan would keep its long-run yield target of around zero, even as global rates rise – "it is premature for Japan to raise short or long-term interest rate targets, even if interest rates are raised overseas".

### Coming Up

An action packed morning coming up for Australia. First up is RBA Governor Lowe speaking on "Australia and Canada – shared Experiences" at 8.30am AEDT. Although much has come from Martin Place over the past few weeks, the Q&A always leaves open the possibility for a few additional insights.

The focus will then shift to Wage and Construction numbers at 11.30am AEDT. The Construction numbers will take on greater than usual importance given they will help reveal the extent to which Q4 GDP is expected to bounce back after September's weather-affected read. The market consensus for Construction Work Done is for a 0.5% q/q increase. NAB is expecting a somewhat larger than consensus rise of 1.5% q/q, with residential and non-residential building expected to bounce strongly following unusually sharp falls last quarter, while engineering construction is expected to continue its decline on the back of lower mining investment.

The Wage Price Index will also be observed to see whether wages growth has stabilised after unexpectedly falling last quarter. The market consensus for the WPI is to increase 0.5% q/q, while NAB is a touch softer at 0.4%.

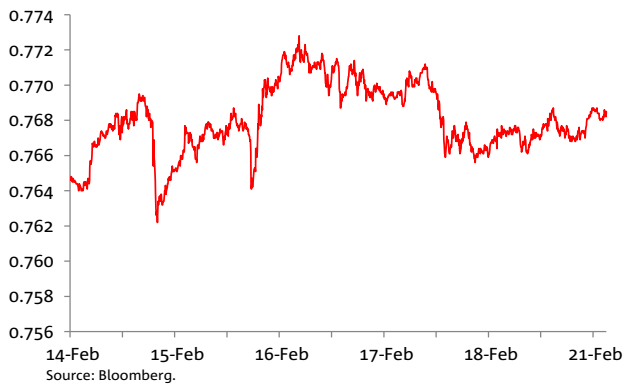
Internationally, the focus will be on the Fed Minutes to see whether anything can be gleaned on the possibility of a March rate hike (currently 41% priced according to the OIS market). Otherwise, the other major event is UK GDP, where the market expects growth of 0.6% q/q and 2.2% y/y.

The Fed's Powell (voter, dovish) also speaks on the economic outlook and monetary policy in New York.

## Overnight

On global stock markets, the S&P 500 was +0.44%. Bond markets saw US 10-years +0.71bp to 2.43%. In commodities, Brent crude oil +0.87% to \$56.67, gold-0.0% to \$1,238, iron ore +2.7% to \$94.86, steam coal +0.1% to \$80.15, met.coal -0.3% to \$161.00. AUD is at 0.7679 and the range since yesterday 5pm Sydney time is 0.765 to 0.7691.

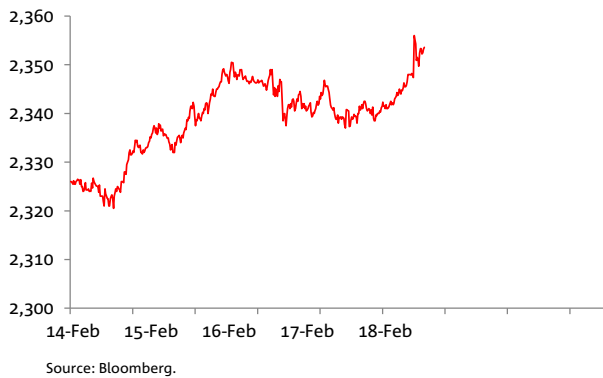
AUD/USD - past week



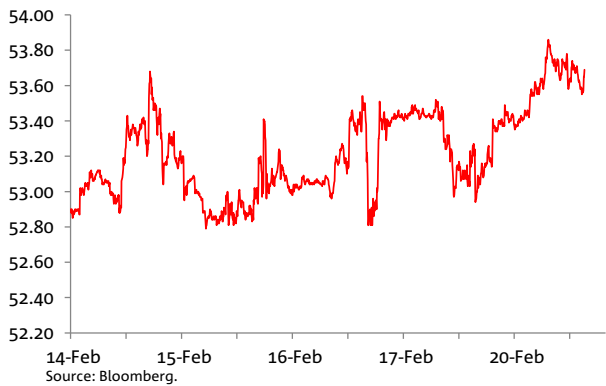
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High		Last	% chge
AUD	0.7679	-0.1	0.7650	0.7691	HKD	7.7611	0.0
NZD	0.7161	-0.4	0.7130	0.7190	CNY	6.8840	0.1
EUR	1.0546	-0.6	1.0526	1.0616	SGD	1.4203	0.2
GBP	1.2461	0.0	1.2402	1.2481	IDR	13,372	0.1
JPY	113.58	0.4	113.09	113.78	THB	35.03	0.0
CAD	1.3159	0.4	1.3100	1.3165	KRW	1,146	-0.1
AUD/EUR	0.7282	0.5	0.7239	0.7286	TWD	30.79	0.0
AUD/JPY	87.22	0.3	86.85	87.24	PHP	50.30	-0.1
AUD/GBP	0.6163	-0.1	0.6147	0.6175	CHF	1.01	0.6
AUD/NZD	1.0723	0.3	1.0690	1.0738	SEK	8.97	0.4
AUD/CNH	5.2797	-0.1	5.2533	5.2738			

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	0.75	1.05	1.58	2.40	USD 10	2.43	1.07	
AUD	1.50	1.78	1.95	3.05	AUD 10	2.80	1.00	0.37
NZD	1.75	2.02	2.34	3.54	NZD 10	3.30	-0.10	0.88
EUR	0.00	-0.33	-0.15	0.76	CAD 10	1.72	0.50	-0.71
GBP	0.25	0.36	0.61	1.28	EUR 10	0.30	0.50	-2.12
JPY	-0.03	-0.02	0.05	0.29	GBP 10	1.24	0.80	-1.19
CAD	0.50	0.95	1.11	1.94	JPY 10	0.10	-0.70	-2.33

Equities

Major Indices			
	Last	% day	% y/y
Dow	20,729	0.51	26.5
S&P 500	2,362	0.44	23.1
Nasdaq	5,857	0.31	30.0
VIX	12	2.61	-42.6
FTSE	7,275	-0.3	22.3
DAX	11,967	1.2	27.5
CAC 40	4,889	0.5	15.8
Nikkei	19,381	0.7	20.3
Shanghai	3,253	0.4	11.1
Hang Seng	23,964	-0.8	23.1
ASX 200	5,791	-0.1	15.8

Commodities\*

	Last	% day
Oil (Brent)	56.67	0.9
Oil (WTI)	54.02	1.2
Oil (Tapis)	57.75	0.8
Gold	1237.50	0.0
CRB	192.30	0.1
GS Metals	329.3	0.0
Aluminium	1878.5	-0.7
Copper	6052.0	-0.2
Nickel	10814.5	-2.7
Zinc	2875.3	-0.4
Ch. steel	3549.0	0.9
Iron ore	94.9	2.7
St. Coal	80.2	0.1
Met.coal	161.0	-0.3
Wheat Chic.	450.3	-1.2
Sugar	20.8	2.5
Cotton	73.9	0.5
Coffee	151.9	1.5

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-1.0	-4.0%
FED	#N/A	#N/A

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.21	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.18	-1.00
3/10 sprd	0.62	4.00
SPI	5764.0	-12.0

\*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
<b>Tuesday, 21 February 2017</b>								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Feb 19				116.4	23:30	9:30
JN	Nikkei Japan PMI Mfg	Feb P				52.7	1:30	11:30
AU	RBA Feb. Meeting Minutes						1:30	11:30
JN	All Industry Activity Index MoM	Dec		-0.2		0.3	5:30	15:30
GE	Markit/BME Germany Manufacturing PMI	Feb P		56		56.4	9:30	19:30
GE	Markit Germany Services/Composite PMI	Feb P		53.6/54.8		53.4/54.8	9:30	19:30
EC	Markit Eurozone Manufacturing PMI	Feb P		55		55.2	10:00	20:00
EC	Markit Eurozone Services/Composite PMI	Feb P		53.7/54.3		53.7/54.4	10:00	20:00
UK	Public Finances (PSNCR)/Public Sector Net Borrowing	Jan		/-14.45		36.3/6.4	10:30	20:30
UK	BoEs Carney speaks at Parliament						11:00	21:00
US	Fed's Kashkari (v) speaks in Golden Valley, MN						14:50	0:50
US	Markit US Manufacturing PMI	Feb P		55.3		55.0	15:45	1:45
US	Markit US Services/Composite PMI	Feb P		55.8/		55.6/55.8	15:45	1:45
US	Fed's Harker (v) speaks on Economic Outlook						18:00	4:00
US	Fed's Williams (nv) speaks to students in Boise, Idaho						21:00	7:00
NZ	Global Dairy Auction, GDT-weighted price index (early AM)					1.3		
<b>Wednesday, 22 February 2017</b>								
AU	RBA Governor Lowe Speech in Sydney to Australia-Canada Economic Leadership Forum, Sydney						22:30	8:30
AU	Westpac Leading Index MoM	Jan				0.4	0:30	10:30
AU	Skilled Vacancies MoM	Jan				0.2	1:00	11:00
AU	Wage Price Index QoQ/YoY	4Q	0.4/1.8	0.5/1.9		0.4/1.9	1:30	11:30
AU	Construction Work Done	4Q	1.5	0.5		-4.9	1:30	11:30
CH	Property prices	Jan					2:30	12:30
NZ	Credit Card Spending MoM/YoY	Jan		109.6		3.1/8.5	3:00	13:00
GE	IFO Business Climate	Feb		109.6		109.8	10:00	20:00
GE	IFO Current Assessment/Expectations	Feb		116.6/103		116.9/103.2	10:00	20:00
UK	GDP QoQ/YoY	4Q P		0.6/2.2		0.6/2.2	10:30	20:30
UK	Index of Services MoM/ 3M/3M	Dec		0.1/0.8		0.3/1.0	10:30	20:30
UK	Total Business Investment QoQ/YoY	4Q P		0/0.2		0.4/-2.2	10:30	20:30
EC	CPI MoM/YoY	Jan		-0.8/1.8		0.5/1.1	11:00	21:00
EC	CPI Core YoY	Jan F		0.9		0.9	11:00	21:00
US	MBA Mortgage Applications	Feb 17				-3.7	13:00	23:00
CA	Retail Sales/ex autos MoM	Dec		0/0.6		0.2/0.1	14:30	0:30
CH	Conference Board Leading Economic Index	Jan					15:00	1:00
US	Existing Home Sales #/MoM	Jan		5.54/0.91		5.5/-2.8	16:00	2:00
US	Fed's Powell speaks on Economic Outlook in New York						19:00	5:00
US	FOMC Meeting Minutes	Feb 1					20:00	6:00
<b>Thursday, 23 February 2017</b>								
JN	PPI Services YoY	Jan		0.5		0.4	0:50	10:50
AU	Private Capital Expenditure	4Q	-3.2	-0.5		-4.0	1:30	11:30
AU	Capex intentions, 2016-17 (5th estimate)/2017-18 (first estimate)		107/74	../84		106.9/..	1:30	11:30
JN	BOJ Kiuchi speaks in Kofu						2:00	12:00
CH	Swift Global Payments, CNY YoY	Jan				1.68		
JN	Leading Index CI	Dec F				105.2	6:00	16:00
GE	GDP SA QoQ/WDA YoY	4Q F		0.4/1.7		0.4/1.7	8:00	18:00
GE	GfK Consumer Confidence	Mar		10.1		10.2	8:00	18:00
UK	CBI Total Dist./Retailing Reported Sales	Feb		24/2		26.0/-8.0	12:00	22:00
US	Chicago Fed Nat Activity Index	Jan		-0.025		0.1	14:30	0:30
US	Initial Jobless Claims	Feb 18		240		239.0	14:30	0:30
US	Fed's Lockhart to Speak on His 10-Year Tenure at the Fed						14:35	0:35
US	House Price Purchase Index QoQ	4Q				1.5	15:00	1:00
US	FHFA House Price Index MoM	Dec		0.4		0.5	15:00	1:00
US	Bloomberg Consumer Comfort	Feb 19				48.1	15:45	1:45
US	Kansas City Fed Manf. Activity	Feb		9		9.0	17:00	3:00
US	Fed's Kaplan (voter) speaks						19:00	5:00
<b>Friday, 24 February 2017</b>								
AU	Appearance by Philip Lowe, Governor, before the House of Representatives' Standing Committee on Economics						23:30	9:30
UK	BBA Loans for House Purchase	Jan		42600		43228	10:30	20:30
CA	CFIB Business Barometer	Feb				60.1		
CA	CPI NSA MoM/YoY	Jan		0.4/1.6		-0.2/1.5	14:30	0:30
CA	CPI Core- Common YoY%	Jan				1.4	14:30	0:30
CA	CPI Core- Median/Trim YoY%	Jan		/		2.0/1.6	14:30	0:30
US	New Home Sales #/MoM	Jan		571/6.5		536.0/-10.4	16:00	2:00
US	U. of Mich. Sentiment/5-10Yr Inflation	Feb F		96/		95.7/2.5	16:00	2:00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Canada, BoC		2-Mar	0.5%	0.5%		0.5%		
Australia, RBA		7-Mar	1.50%	1.50%		1.50%		
Europe ECB		9-Mar	-0.4%	-0.4%		-0.4%		
US Federal Reserve		16-Mar	0.5-0.75%	0.5-0.75%		0.5-0.75%		
Japan, BoJ		16-Mar	-0.1%	-0.1%		-0.1%		
UK BOE		16-Mar	0.25%	0.25%		0.25%		
New Zealand, RBNZ		23-Mar	1.75%	1.75%		1.75%		

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

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