



Markets Today

A daily outlook for Australia, key global economies and markets

14 December 2015

Liquidity Trap

Friday night session saw a surge in risk aversion with sharp losses in equity indices, the USD underperformed against other majors while safe haven demand pushed core global yields lower. The fall in oil prices to a new seven year low was already weighing on investor's sentiment; however news of the closure of a well-known high yield US mutual fund exacerbated the negative mood, increasing the selloff in risk assets. Third Avenue announced the liquidation of its \$789m Focused Credit Fund saying that poor bond market trading conditions made it almost impossible to raise sufficient cash to meet redemptions without having to fire sale assets. The liquidation of the fund underscores the current plight in the US high yield market and the risk it poses to other markets. Ahead of the FOMC later this week, the question now is whether this is just one bad apple or the prelude to a crash in the junk market.

The S&P500 dropped 1.94% to 2012.37, the Dow fell by 1.76% and the NASDAQ lost 2.21%. In Europe the Eurostoxx index fell by 2.04% while the DAX dropped 2.44%. The VIX (CBOE volatility index) jumped 26.1% to 24.39 closing at its highest level since the end of September.

In G10 currencies, against a background of risk aversion the usual major currencies with current account surpluses outperformed the USD. CHF was the outperformer up 0.5% followed by USD/JPY +0.45% while the EUR/USD gained 0.4% to 1.0986. Commodity currencies were the underperformers, AUD fair worst falling by 1.3% to 0.7189, the CAD was -0.95% followed by the NZD down by 0.55%.

Safe haven demand pushed core global yields lower. 10y UK gilts closed 5.3bps lower at 1.81% while 10y German Bunds fell by -2.8bps to 0.54%. The US Treasury curve bull flattened and relative to Sydney's closing levels 2y UST lost 5bps, closing at 0.877%. 5y and 10y UST lost just over 9bps ending at 1.554% and 2.218% respectively while the 30y bond dropped 10.4bps closing the week at 2.871%.

In commodities, WTI oil traded to an intraday low of \$35.18, however in the later part of the session it recovered some ground to close at \$35.36, 3.34% down for the day. USD weakness helped the performance in hard commodities; the LME index closed 1.46% higher with copper the notable performer up 2.46%. Iron ore prices fell for the 9th time in 10 days, losing 0.57% and ending the week at \$38.3.

Last week's data for the w/e Dec 8 shows overall speculative long dollar positioning vs. G10 currencies were trimmed by 9.4% to 354.6k from 391.6k, so still quite long, but off record highs seen two weeks ago. Like last week, this was mostly on a paring of the AUD net short (-33.6k from -46.6k) and EUR (-172.3k from -182.8k). In rates, net speculative shorts in 2ys blew out to -114.6k from -70.6k, 5y went from -265.6 to

-293.4k while in 10y, the small net long position in the previous week of +15.5k flipped to a net short of -24.5k.

As for data releases, US retail sales in November rose by 0.2% vs 0.3% expected, however the control group (ex: gas, autos and building materials) grew by a solid 0.6%. Final-demand PPI was +0.3% mom in November, above the 0.0% consensus while the Michigan consumer sentiment index rose to 91.8 (Dec) vs 92 exp. China data releases over the weekend exceeded expectations. Industrial production grew at 6.2% yoy in November, up from 5.6% in October (vs 5.6% exp). Fixed asset investments rose 10.2% ytd/yoy (10.2% prev, 10.1% exp) and retail sales grew at 11.2% yoy (Nov) above 11.1% exp. Overall, the numbers suggest the Chinese economy is showing signs of stabilisation.

CoreLogic RP Data weekend data revealed an auction clearance rate of 59.3%, up from last week's clearance rate of 57.3%. In Melbourne the clearance rate strengthened slightly to 65.7% from 63.3% while in Sydney the clearance rate climbed to 55.2% from 52.9% previously.

In other news the PBoC announced the introduction of a new trade weighted currency index signalling its intentions to broaden the active management of the RMB. The introduction of a trade weighted index provides the Chinese authorities with more flexibility to manage its exchange rate, particularly against those countries where export competitiveness has eroded. This new currency management approach will also allow the CNY/USD to depreciate when the USD appreciated without the connotation of a PBoC led devaluation.

Coming up

No doubt the FOMC meeting and its announcement which comes at 6am AEDT on Thursday Australia time will take most of the market's focus this week. While the majority of market participants expect a Fed hike (74% priced), most of the attention is likely to be focused on the Fed's new forecasts and Fed Chair Yellen's press conference. In Australia we have a light week in terms of data releases, however the RBA Board minutes and Budget update on Tuesday should attract some of the market's attention.

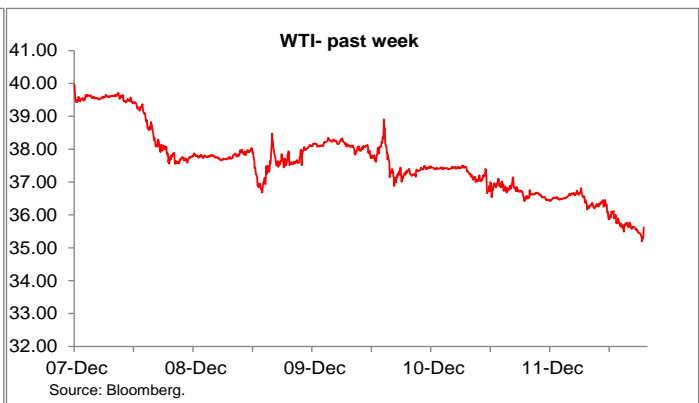
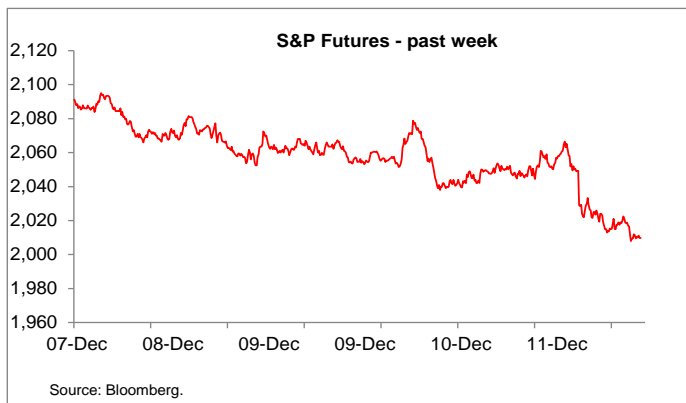
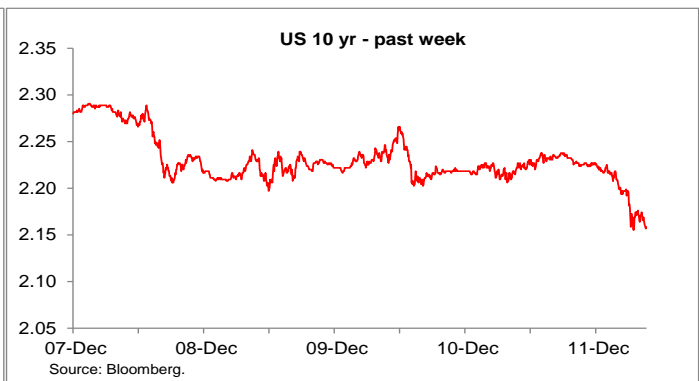
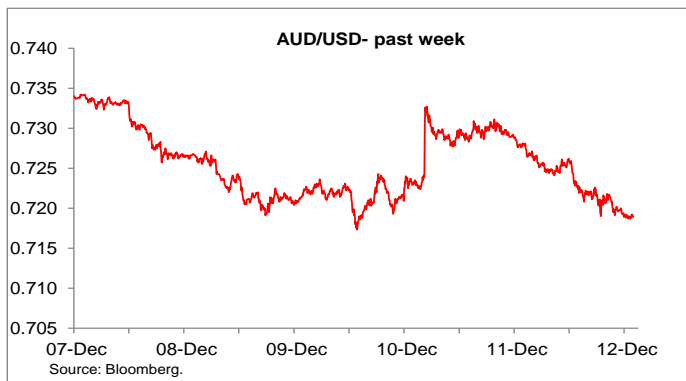
As for today, there are no data releases in Australia. In Japan the BoJ releases its Tankan survey for Q4 where consensus expectations are for a slightly softer survey relative to Q3. IN Europe we Eurozone industrial production for October and there are no data releases in the US.

Friday's Markets

On global stock markets, the S&P 500 was -1.90%. Bond markets saw US 10-years -10.35bp to 2.13%. On commodity markets, Brent crude oil -4.53% to \$37.93, gold +0.4% to \$1,077, iron ore -0.6% to \$38.30. AUD is at 0.7202 and the range was 0.7184 to 0.7283.

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Markets



Foreign Exchange								Equities				Commodities*		
Indicative 24hr ranges (**)				Other FX				Major Indices						
	Last	% chge	Low	High		Last	% chge		Last	% day	% y/y		Last	% day
AUD	0.7202	0.2	0.7196	0.7218	HKD	7.7505	0.0	Dow	17,265	-1.8	-0.1	Oil (Brent)	37.93	-4.5
NZD	0.6720	0.0	0.6712	0.6745	CNY	6.4552	0.3	S&P 500	2,012	-1.9	0.5	Oil (WTI)	35.62	-3.1
EUR	1.0982	0.0	1.0972	1.1013	SGD	1.4135	0.0	Nasdaq	4,933	-2.2	6.0	Oil (Tapis)	39.80	-1.9
GBP	1.5216	0.0	1.5188	1.5242	IDR	13,993	0.3	FTSE	5,953	-2.2	-5.5	Gold	1076.90	0.4
JPY	121.07	0.0	120.94	121.13	THB	36.13	0.2	DAX	10,340	-2.4	7.8	CRB	174.86	-1.2
CAD	1.3754	0.0	1.3733	1.3766	KRW	1,180	-0.2	CAC 40	4,550	-0.9	10.7	GS Metals	249.7	1.2
AUD/EUR	0.6542	0.2			TWD	32.82	-0.1	Nikkei	19,230	+1	10.7	Aluminium	1487	-0.5
AUD/JPY	86.98	0.2			PHP	47.31	0.1	Shanghai	3,435	-0.6	16.9	Copper	4701	2.4
AUD/GBP	0.4723	0.2			CHF	0.98	0.1	Hang Seng	21,464	-1.1	-7.7	Nickel	8657	2.0
AUD/NZD	1.0702	0.1			SEK	8.50	0.0	ASX 200	5,029	-0.2	-3.6	Zinc	1534	1.3
												Ch. steel		
												Iron ore		
												Coal		
												Wheat Chic.		
												Sugar		
												Cotton		
												Coffee		
												CO ₂ Emissions - Euros		
												Last % day		
												Jun-2015		
												Dec-2015		
												Dec-2016		

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
Monday, 14 December 2015								
NZ	Performance Services Index	Nov				56.2	21.30	8.30
JN	BoJ Tankan Survey, Large Manufacturers'	4Q		11		12	23.50	10.50
JN	Industrial Production MoM/ YoY	Oct F				1.4	4.30	15.30
JN	Tertiary Industry Index MoM	Oct		0.5		-0.4	4.30	15.30
EC	Industrial Production SA MoM/YoY	Oct		0.2		-0.3	10.00	21.00
UK	CBI Reported Sales	Dec				7	11.00	22.00
GE	Wholesale Price Index MoM/ YoY	Nov				-0.4		
Tuesday, 15 December 2015								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Dec-13				116.3	22.30	9.30
AU	RBA Dec. Meeting Minutes							
AU	House Price Index QoQ/ YoY	3Q	2.5/11.7	2/10.2		4.7/9.8	0.30	11.30
AU	New Motor Vehicle Sales MoM/ YoY	Nov				-3.6	0.30	11.30
NZ	Government HYEFO, OBEGAL \$NZbn	2015/16				+0.2	2.00	13.00
AU	Budget MYEFO, U/L cash balance, \$Abn, early PM release	2015/16	-36.5	-38		-35.1	3.30	14.30
UK	CPI MoM/YoY	Nov		-0.1/0		0.1/-0.1	9.30	20.30
UK	PPI Output Core NSA MoM	Nov		0/0.1		-0.1/0.3	9.30	20.30
UK	ONS House Price YoY	Oct				6.1	9.30	20.30
EC	Employment QoQ/ YoY	3Q				0.3	10.00	21.00
GE	ZEW Survey Current Situation	Dec		54		54.4	10.00	21.00
CA	Manufacturing Sales MoM	Oct				-1.5	13.30	0.30
US	Empire Manufacturing	Dec		-5.75		-10.74	13.30	0.30
US	CPI MoM/YoY	Nov		0		0.2	13.30	0.30
CA	Existing Home Sales MoM	Nov				1.8	14.00	1.00
US	NAHB Housing Market Index	Dec		63		62	15.00	2.00
CA	Bank of Canada - Financial System Review							
US	TIC Flows Data	Oct				-175.1	21.00	8.00
NZ	World Dairy Auction, early AM, NZT							
Wednesday, 16 December 2015								
NZ	Current Account GDP Ratio YTD	3Q	-3.4	-3.4		-3.5	21.45	8.45
AU	Westpac Leading Index MoM	Nov				0.1	23.30	10.30
AU	RBA's Debelle speaks on "Some effects of the new liquidity regime"						0.00	11.00
AU	Skilled Vacancies MoM	Nov				0.6	0.00	11.00
JN	Machine Tool Orders YoY	Nov F				-17.9	6.00	17.00
UK	Jobless Claims Change	Nov		2		3.3	9.30	20.30
UK	Average Weekly Earnings 3M/YoY	Oct		2.5		3	9.30	20.30
UK	ILO Unemployment Rate 3Mths	Oct		5.3		5.3	9.30	20.30
EC	Trade Balance SA	Oct				20.1	10.00	21.00
EC	CPI MoM	Nov		-0.2/0.1		0.1/0.1	10.00	21.00
EC	CPI Core YoY	Nov F		0.9		0.9	10.00	21.00
US	Housing Starts #K/MoM	Nov		1140/7.6		1060/-11	13.30	0.30
US	Building Permits #K/MoM	Nov		1153/-0.7		1150/4.1	13.30	0.30
CA	Int'l Securities Transactions	Oct				3.35	13.30	0.30
US	Industrial Production MoM	Nov		-0.1		-0.2	14.15	1.15
US	Capacity Utilization	Nov		77.4		77.5	14.15	1.15
US	Manufacturing (SIC) Production	Nov		0.1		0.4	14.15	1.15
US	FOMC Rate Decision (Lower/Upper Bounds)	Dec-16	0.25/0.5	0.25/0.5		0/0.25	19.00	6.00
Thursday, 17 December 2015								
NZ	GDP SA QoQ/YoY	3Q	0.6/2.0	0.8/2.3		0.4/2.4	21.45	8.45
JN	Trade Balance Adjusted	Nov		-206.7		-202.259	23.50	10.50
AU	RBA Bulletin						0.00	11.00
AU	RBA FX Transactions Market	Nov				516	0.30	11.30
GE	IFO Business Climate/Current assessment	Dec		109/113.4		109/113.4	9.00	20.00
EC	ECB Publishes Economic Bulletin							
UK	Retail Sales Ex Auto Fuel MoM/YoY	Nov		0.4/2.2		-0.9/3	9.30	20.30
EC	Labour Costs YoY	3Q				1.6	10.00	21.00
US	Current Account Balance	3Q		-123		-109.7	13.30	0.30
US	Philadelphia Fed Business Outlook	Dec		1.5		1.9	13.30	0.30
US	Initial Jobless Claims	Dec-12		270		282	13.30	0.30
US	Leading Index	Nov		0.1		0.6	15.00	2.00
Friday, 18 December 2015								
NZ	ANZ Job Advertisements MoM	Nov				1.2	21.00	8.00
NZ	ANZ Business Confidence	Dec				14.6	0.00	11.00
CH	Property Prices	Nov						
CH	MNI Business Indicator	Dec						
EC	ECB Current Account SA	Oct				29.4	9.00	20.00
JN	BOJ Annual Rise in Monetary Base	Dec-18				80		
JN	Bank of Japan Monetary Policy Statement							
UK	GfK Consumer Confidence	Dec				1	0.50	11.50
CA	Wholesale Trade Sales MoM	Oct				-0.1	13.30	0.30
CA	CPI NSA MoM/YoY	Nov		/		0.1/1	13.30	0.30
US	Kansas City Fed Manf. Activity	Dec				1	16.00	3.00
Upcoming Central Bank Interest Rate Announcements								
US	Federal Reserve	16-Dec	0.25-0.5%	0.25-0.5%		0-0.25%		
Japan, BoJ		18-Dec	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
UK	BOE	14-Jan				0.50%		
Canada, BoC		20-Jan				0.50%		
Europe	ECB	21-Jan				0.05%		
New Zealand, RBNZ		28-Jan	2.50%	2.50%		2.50%		
Australia, RBA		2-Feb	2.00%	2.00%		2.00%		

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Saving Time

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