



Markets Today

A daily outlook for Australia, key global economies and markets

16 December 2015

'I'm Waiting For The (Wo)Man'

Unlike the rest of us who are now waiting to see what Janet Yellen delivers this time tomorrow, RBA Governor Glenn Stevens has gone early, the AFR publishing its now traditional end-of-year interview with him overnight. Nothing earth-shattering here with no direct attempt to give markets a steer on where he thinks the currency should be. Stevens nevertheless makes clear that he believes that if the currency does need to adjust further to the falls in commodity prices, then it will. He also suggests that in the event of any material reduction in risk appetite, the AUD will not be regarded as a safe haven. Certainly history is on his side here, and our own expectation is that the steep fall in the prices of commodities that contribute most to Australia's terms of trade, will be exerting fresh downward pressure on the AUD sooner rather than later.

Mr Stevens was still upbeat about the economy, noting that 'at worse' the unemployment rate has levelled off, and seems less worried about the failure to date of non-mining capex to take off. He suggests decent growth could be achieved without this. The AUD started falling soon after headlines related to the interview starting crossing the wires (from above to below 0.72) though this looks to have been more a function of a generally rising US dollar than Stevens' remarks.

The main features of overnight markets have been a modest recovery in oil prices and which has carried many other commodities with it, accompanied (or led by) a firmer dollar that sees the narrow DXY index up by just over 0.5% and led by a failure of the EUR/USD rate to hold on the 1.10 handle (it currently sits back down at around 1.0920). Turmoil in high yield credit markets also looks to have taken something of a back seat overnight, with corporate bond spreads actually coming back in a touch.

Data wise, the highlight has been US November CPI, which printed a 'low' 0.2% (0.17%) to pull the annual rate up to 2.0% from 1.9%. Gains continue to be led by rising healthcare insurance premiums and to a lesser extent last month, higher rents. Energy price falls continue to depress headline inflation though this picked up to 0.5% from 0.4%. Though the data was in line with expectations, US bond yields extended their gains after the data, though a coincident rise in oil prices looks to have been the more significant contributor.

In other data the Empire (NY State) manufacturing survey rose to a still weak -4.59 from -10.74 and the NAHB housing index slipped to 61 from 62, still strong but off recent highs. UK CPI came in flat for 0.1% y/y (0.1% above expectations) while the German ZEW survey saw the 'current situation' reading lift to 55.0 from 54.4 and expectations to 16.1 from 10.4 – both better than expected.

Elsewhere in currencies and as our BNZ colleagues note, the NZD continued its run of outperformance. It ground up to above 0.68 before meeting fierce resistance beyond that point and it eventually succumbed as the USD rally got underway. The NZD currently sits around 0.6770, just up on the previous NY close while the AUD/NZD cross made an earlier low of 1.0611, its lowest level since 3 Nov. The GDT dairy auction overnight was close enough to expectations. Our resident BNZ 'milk whisperer' expected a modest increase in pricing and that was delivered, with the average price rising by 1.9%.

Coming Up

If ever there was going to be a day of twiddling thumbs ahead of key event risk, surely today is the day. The FOMC pronouncement will come at 06:00AEDT Thursday, with Fed chair Yellen to commence a press conference half an hour later. Despite the recent emergence of stress in high yield credit markets and a downturn in global equity markets, we fully expect the FOMC to agree to the first (25 point) rise in rates since June 2006 (when they were raised to 5.25% from 5.0%. The rest, as they say, is history).

It is nigh on impossible to second guess market reaction to the announcement of a rate rise. In FX, we know speculative positioning has been running very long US dollars up until two weeks ago. But the clear out of short EUR positions following the ECB means the 'long' is probably nowhere near what it was. We acknowledge the risk that the US dollar may well fall not rise initially (and so AUD/USD higher), but if so suspect this will be used as an opportunity to re-enter long USD positions. This assumes that the Fed's new 'dot point' forecasts, and/or the narrative surrounding any rate hike, is not even more 'dovish' than already expected.

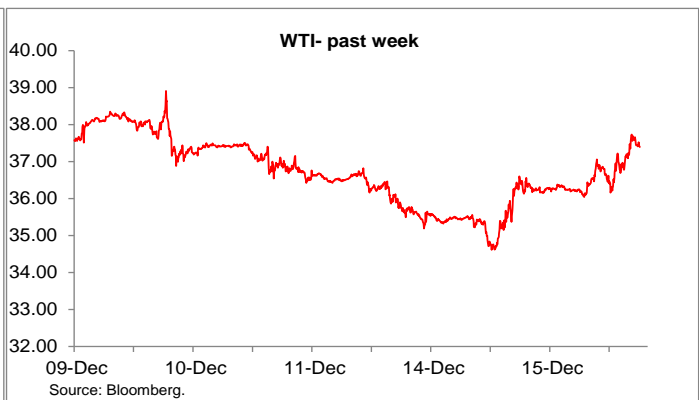
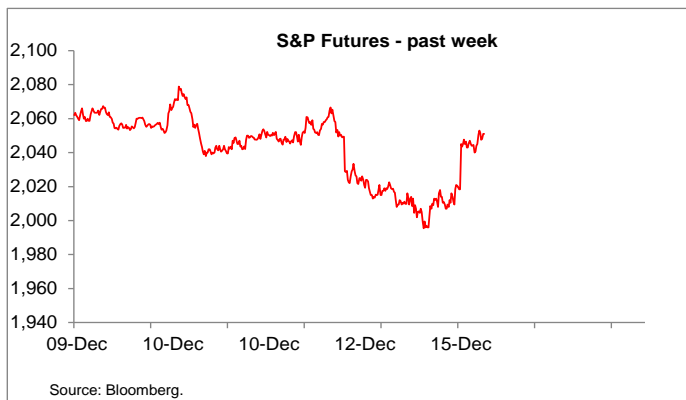
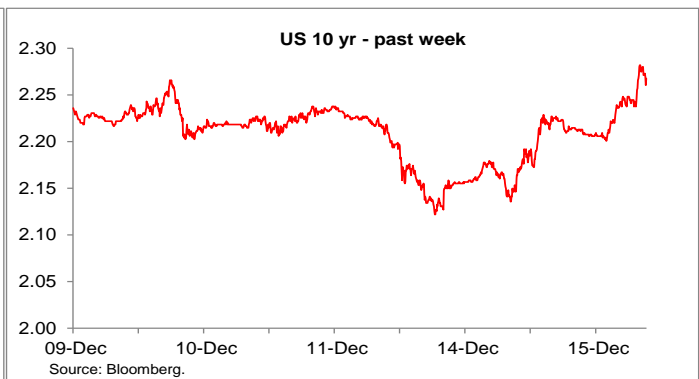
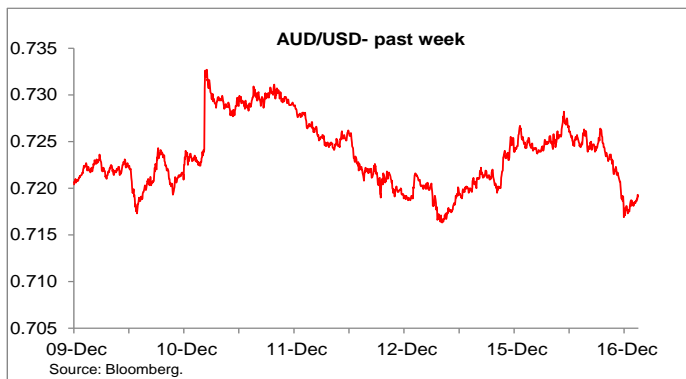
On the dot-points, our guess is that the median staff projections for the fed funds rate at the end of 2016 will be lowered from 1.375% to 1.125%, which assuming a 0.25-0.5% rate for the start of 2016, implies there further tightenings in 2016 (which happens to be NAB's current forecast). To help while away the time, the RBA's Guy Debelle speaks at 11:00 AEDT, on 'Some effects of the new liquidity regime'. We also get skilled vacancy data. New Zealand has its Q3 current account data. Offshore UK unemployment, US housing starts and ind.prod. are due.

Overnight

On global stock markets, the S&P 500 was +1.40%. Bond markets saw US 10-years +4.59bp to 2.27%. On commodity markets, Brent crude oil +2.43% to \$38.84, gold-0.2% to \$1,063, iron ore +0.8% to \$39.36. AUD is at 0.7189 and the range was 0.7161 to 0.7283.

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Markets



Foreign Exchange						Equities				Commodities*																																																																																								
<table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="4">Indicative 24hr ranges (**)</th> <th colspan="2">Other FX</th> </tr> <tr> <th>Last</th> <th>% chge</th> <th>Low</th> <th>High</th> <th>Last</th> <th>% chge</th> </tr> </thead> <tr> <td>AUD</td> <td>0.7187</td> <td>-0.8</td> <td>0.7161</td> <td>0.7283</td> <td>HKD</td> <td>7.7505</td> <td>0.0</td> </tr> <tr> <td>NZD</td> <td>0.6759</td> <td>0.0</td> <td>0.6741</td> <td>0.6826</td> <td>CNY</td> <td>6.4623</td> <td>0.0</td> </tr> <tr> <td>EUR</td> <td>1.0915</td> <td>-0.7</td> <td>1.0905</td> <td>1.1060</td> <td>SGD</td> <td>1.4060</td> <td>-0.2</td> </tr> <tr> <td>GBP</td> <td>1.5046</td> <td>-0.6</td> <td>1.5034</td> <td>1.5186</td> <td>IDR</td> <td>14,046</td> <td>-0.5</td> </tr> <tr> <td>JPY</td> <td>121.73</td> <td>0.6</td> <td>120.58</td> <td>121.79</td> <td>THB</td> <td>36.01</td> <td>-0.3</td> </tr> <tr> <td>CAD</td> <td>1.3733</td> <td>0.0</td> <td>1.3673</td> <td>1.3766</td> <td>KRW</td> <td>1,183</td> <td>-0.1</td> </tr> <tr> <td>AUD/EUR</td> <td>0.6584</td> <td>-0.1</td> <td></td> <td></td> <td>TWD</td> <td>32.72</td> <td>-0.3</td> </tr> <tr> <td>AUD/JPY</td> <td>87.49</td> <td>-0.2</td> <td></td> <td></td> <td>PHP</td> <td>47.35</td> <td>-0.2</td> </tr> <tr> <td>AUD/GBP</td> <td>0.4777</td> <td>-0.2</td> <td></td> <td></td> <td>CHF</td> <td>0.99</td> <td>0.5</td> </tr> <tr> <td>AUD/NZD</td> <td>1.0634</td> <td>-0.8</td> <td></td> <td></td> <td>SEK</td> <td>8.51</td> <td>0.3</td> </tr> </table>							Indicative 24hr ranges (**)				Other FX		Last	% chge	Low	High	Last	% chge	AUD	0.7187	-0.8	0.7161	0.7283	HKD	7.7505	0.0	NZD	0.6759	0.0	0.6741	0.6826	CNY	6.4623	0.0	EUR	1.0915	-0.7	1.0905	1.1060	SGD	1.4060	-0.2	GBP	1.5046	-0.6	1.5034	1.5186	IDR	14,046	-0.5	JPY	121.73	0.6	120.58	121.79	THB	36.01	-0.3	CAD	1.3733	0.0	1.3673	1.3766	KRW	1,183	-0.1	AUD/EUR	0.6584	-0.1			TWD	32.72	-0.3	AUD/JPY	87.49	-0.2			PHP	47.35	-0.2	AUD/GBP	0.4777	-0.2			CHF	0.99	0.5	AUD/NZD	1.0634	-0.8			SEK	8.51	0.3
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 | Major Indices | | | | |---------------|--------|-------|-------| | | Last | % day | % y/y | | Dow | 17,612 | +1.4 | 2.5 | | S&P 500 | 2,051 | +1.4 | 3.1 | | Nasdaq | 5,022 | +1.4 | 9.1 | | FTSE | 6,018 | +2.4 | -2.7 | | DAX | 10,450 | +3.1 | 12.0 | | CAC 40 | 4,614 | +0.6 | 15.2 | | Nikkei | 18,566 | -1.7 | 10.8 | | Shanghai | 3,510 | -0.3 | 16.2 | | Hang Seng | 21,274 | -0.2 | -6.2 | | ASX 200 | 4,910 | -0.4 | -4.7 | | | | | | | Last | % day | |-------------|---------|-------| | Oil (Brent) | 38.84 | 2.4 | | Oil (WTI) | 37.37 | 2.9 | | Oil (Tapis) | 37.78 | -0.1 | | Gold | 1062.90 | -0.2 | | CRB | 174.85 | 0.3 | | GS Metals | 249.6 | 0.0 | | Aluminium | 1469 | -1.5 | | Copper | 4565 | -2.3 | | Nickel | 8524 | -2.3 | | Zinc | 1493 | -3.1 | | Ch. steel | 1657 | -0.8 | | Iron ore | 39.4 | 0.8 | | Coal | 52.4 | 0.3 | | Wheat Chic. | 501.3 | 0.4 | | Sugar | 14.59 | 0.6 | | Cotton | 63.34 | -0.1 | | Coffee | 119.9 | 0.0 | | | || | Interest Rates | | | | Benchmark 10 Year Bonds | | | Overnight Futures | | | | |-----------------------|------|------|-------|-------------------------|--------|------|-------------------|------------|--------|-------| | Indicative Swap Rates | | | | Last | chge | Sprd | Last Chge | | | | | Cash | 3mth | 2Yr | 10Yr | | | | Australia | | | | | USD | 0.25 | 0.52 | 1.04 | 2.17 | USD 10 | 2.27 | 0.05 | 3 mth bill | 97.78 | -0.01 | | AUD | 2.00 | 2.37 | 2.22 | 3.06 | AUD 10 | 2.82 | 0.00 | 3 Yr bond | 97.845 | -0.03 | | NZD | 2.50 | 2.77 | 2.82 | 3.67 | NZD 10 | 3.57 | 0.05 | 10 Yr bonc | 97.11 | -0.01 | | EUR | 0.05 | 0.06 | -0.05 | 0.98 | CAD 10 | 1.50 | 0.03 | 3/10 sprd | 0.74 | -0.02 | | GBP | 0.50 | 0.58 | 1.02 | 1.96 | EUR 10 | 0.64 | 0.07 | SPI | 58.0 | 1.2 | | JPY | 0.08 | 0.08 | 0.10 | 0.43 | GBP 10 | 1.94 | 0.10 | | | | | CAD | 0.50 | 1.17 | 0.80 | 1.90 | JPY 10 | 0.30 | 0.00 | | | | | | | | | | | CO ₂ Emissions - Euros | | | |-----------------------------------|------|-------| | | Last | % day | | Jun-2015 | 8.21 | 1.5 | | Dec-2015 | 8.07 | 0.0 | | Dec-2016 | 8.26 | 1.3 | | | |

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, 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
GE	Markit PMI, Services, Composite	Dec P		52.8/55.5/55.0		52.9/55.6/55.2	8.30	19.30
EC	Markit PMI Services, Composite	Dec P		52.8/54.0/54.2		52.8/54.2/54.2	9.00	20.00
UK	Jobless Claims Change	Nov		0.75		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		20.6		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		1130/6.6		1060/-11	13.30	0.30
US	Building Permits #K/MoM	Nov		1153/-0.7		1150/4.1	13.30	0.30
US	Industrial Production MoM	Nov		-0.2		-0.2	14.15	1.15
US	Capacity Utilization	Nov		77.4		77.5	14.15	1.15
US	Manufacturing (SIC) Production	Nov		0		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 Research Bulletin						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		0.5/2.3		-0.9/3	9.30	20.30
EC	Labour Costs YoY	3Q				1.6	10.00	21.00
US	Current Account Balance	3Q		-118.5		-109.7	13.30	0.30
US	Philadelphia Fed Business Outlook	Dec		1		1.9	13.30	0.30
US	Initial Jobless Claims	Dec-12		274		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				1.30	12.30	
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		-0.1	13.30	0.30
CA	CPI NSA MoM/YoY	Nov		0.1/1.5		0.1/1	13.30	0.30
US	Markit PMI, Composite	Dec P		55.9/--		56.1/55.9	14.45	1.45
US	Kansas City Fed Manf. Activity	Dec		2		1	16.00	3.00
US	Fed's Lacker gives 2016 Economic Outlook						18.00	5.00
Monday, 21 December 2015								
NZ	Net Migration SA	Nov				6210	21.45	8.45
NZ	Credit Card Spending MoM/YoY	Nov				1.5/7.8	2.00	13.00
JN	All Industry Activity Index MoM	Oct				-0.2	4.30	15.30
NZ	Westpac Consumer Confidence	4Q				106		
US	Chicago Fed Nat Activity Index	Nov				-0.04	13.30	0.30
CA	Bloomberg Nanos Confidence	Dec-18				55.3	15.00	2.00
EC	Consumer Confidence	Dec A				-5.9	15.00	2.00
Tuesday, 22 December 2015								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Dec-20				116.3	22.30	9.30
CH	Conference Board China November Leading Economic Index							
GE	GfK Consumer Confidence	Jan				9.3	7.00	18.00
UK	Public Finances (PSNCR)	Nov				-4	9.30	20.30
UK	Central Government NCR	Nov				-0.1	9.30	20.30
UK	Public Sector Net Borrowing	Nov				7.5	9.30	20.30
UK	PSNB ex Banking Groups	Nov				8.2	9.30	20.30
US	GDP Annualized QoQ	3Q T		1.8		2.1	13.30	0.30
US	Personal Consumption	3Q T				3	13.30	0.30
US	GDP Price Index	3Q T		1.3		1.3	13.30	0.30
US	Core PCE QoQ	3Q T				1.3	13.30	0.30
US	FHFA House Price Index MoM	Oct				0.8	14.00	1.00
US	Existing Home Sales	Nov		5.35		5.36	15.00	2.00
US	Existing Home Sales MoM	Nov		0		-3.4	15.00	2.00
US	Richmond Fed Manufact. Index	Dec				-3	15.00	2.00
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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