Australia > Economics

Markets Today

A daily outlook for Australia, key global economies and markets

National Australia Bank

17 December 2015

ZIRP RIP

Nine and a half years on from the last Fed rate hike and seven years on from when interest rates were first set at the effective zero lower bound (0-0.25%) the Fed has seen fit to sound the death knell for ZIRP, lifting the target rate for the fed funds rate to a range of 0.25-0.5%.

In contrast to those looking for the most 'dovish hike' in Fed history, there is nothing in the surrounding atmospherics accompanying the rates announcement to immediately validate this view. For one, the decision to raise today was unanimous (this after two Fed governors, Daniel Tarullo and Lael Brainard) had been expressing scepticism towards the need for – and risks arising from – higher rates. Second, the median 'dot point' forecast for the expected fed funds rate at the end of 2016 remains at 1.375%, implying four quarter point moves up next year and unchanged from the September FOMC meeting. Third, the median estimate for the 'longer run' fed funds rate remains at 3.5%. The dovish tinge comes from the fact the median dot point forecast for end 2017 is lowed by 0.25% to 2.375% and for end 2018 by just 0.125% to 3.25% (see Chart of the Day).

By and large the Fed has delivered on market expectations, hence a fairly muted reaction, with the FOMC's view on the labour market upgraded (underutilization of labour resources has diminished "appreciably") and the Fed now saying it is "reasonably confident that inflation will rise, over the medium term, to its 2 percent objective".

That the US dollar has traded slightly lower, not higher in the hour since the Fed announcement, says much about market positioning running into the FOMC meeting (i.e. still very long dollars, notwithstanding the shake-out of short EUR positions post the 3 December ECB meeting). Lack of any fresh upward pressure on US yields (which have, at 10 years, moved below pre-announcement levels) also reduces one justification for an immediate strengthening of the dollar. We suspect that when the dust settles on the Fed's pronouncements (not that much has been stirred up so far) the dollar will gain a little more traction – and with that the AUD will drop back below 0.72 cents and – NAB's FX strategy team expects – down to near 0.70 in coming weeks.

US equity market have by taken the Fed in their stride, ending the day slightly up on pre-announcement levels, while commodity prices – with the exertion of oil (down another $1.25-1.50 today) like the fact that the dollar has so far traded down not up out of the Fed.

Coming Up

With the Fed now just about behind us, the last key event risk of 2015 has (hopefully) passed and participation across financial market will now be in serious wind-down mode.

In the local time zone, 08:45 AEDT sees the NZ Q3 GDP report. Our BNZ colleagues expect a quarterly increase of 0.6% (consensus 0.8%) for an annual expansion of 2.0%. Risks are for something more than this, in particular after yesterday's balance of payments data. Generally speaking, the message is likely to be that the economy has improved its pace over the second half of 2015, after a slow first half, and that the leading indicators are beginning to suggest upside risks to current moderate GDP growth forecasts for 2016.

In Australia, the RBA publishes its latest research bulletin, which will keep some of the pointy heads happy but will probably pass the rest of the market by. Japan's trade data is due at 10:50 AEDT and expected to show a small (~¥200bn) deficit in seasonally adjusted terms, similar to October. The BoJ meets Friday and we are not looking for any change – or hints of a change – in policy at this juncture.

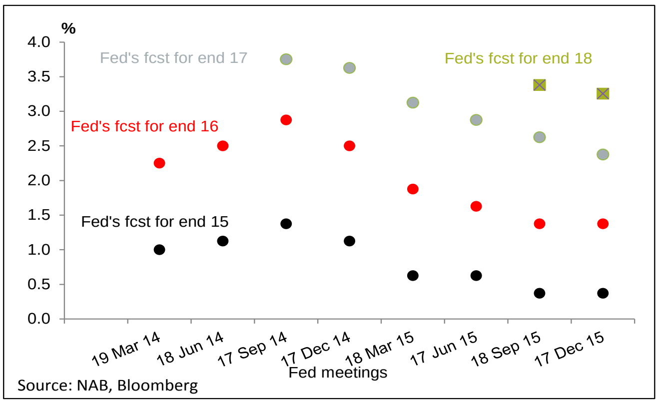
Offshore this evening, it's the German IFO survey (following improvements in the ZEW survey reported on Tuesday); UK retail sales (expected to bounce back after the unexpected weakness in October); and in the US, the Philly Fed (probably the highlight), current account and weekly jobless claims.

Overnight

On global stock markets, the S&P 500 was +1.30%. Bond markets saw US 10-years +1.95bp to 2.29%. On commodity markets, Brent crude oil -3.28% to $37.41, gold+1.3% to $1,077, iron ore -0.5% to $39.18. AUD is at 0.722 and the range was 0.7177 to 0.728.

- US November housing starts 1173k (+10.5%) vs. 1130k (+6.6%) expected; Building permits +11.0% to 1289k.
- US November industrial production -0.6% (-0.2% expected, -0.2% previous) but driven by a weather-related slump in utilities output. Manufacturing 0.0%.

Chart of the Day: Fed median 'dot points'



Source: NAB, Bloomberg

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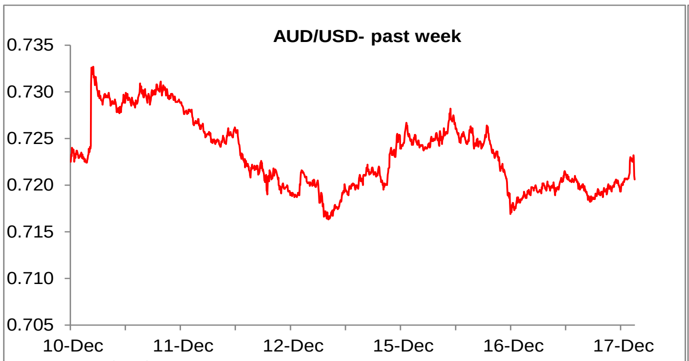
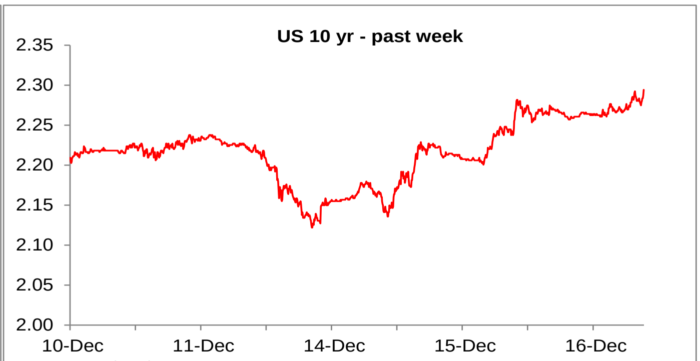
Markets



Source: Bloomberg.



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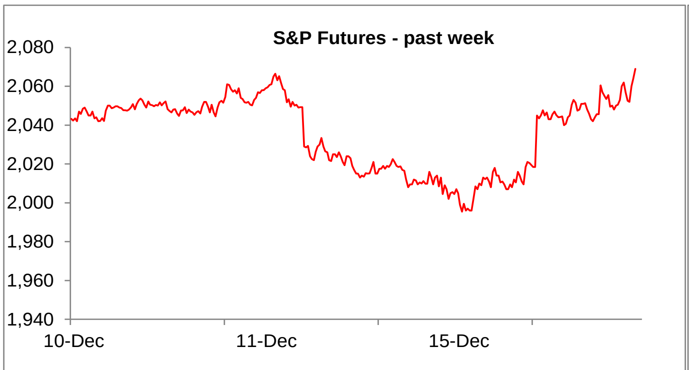

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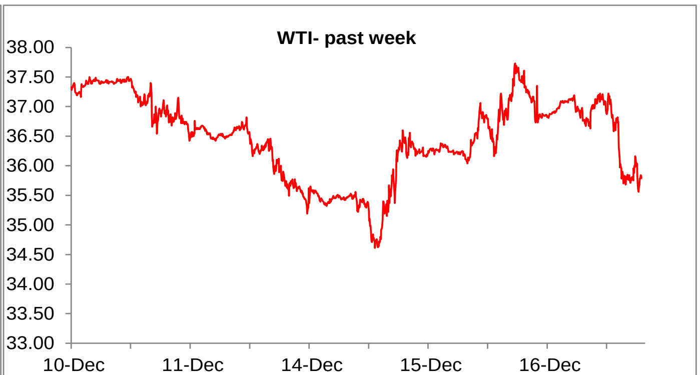

Source: Bloomberg.

Foreign Exchange

	Last	% chge	Indicative 24hr ranges (**) Low	High
AUD	0.7218	0.4	0.7177	0.7280
NZD	0.6760	-0.1	0.6717	0.6834
EUR	1.0953	0.2	1.0888	1.1011
GBP	1.5024	-0.1	1.4961	1.5099
JPY	121.99	0.3	121.38	122.30
CAD	1.3799	0.5	1.3728	1.3848
AUD/EUR	0.6598	0.1		
AUD/JPY	88.16	0.6		
AUD/GBP	0.4810	0.5		
AUD/NZD	1.0670	0.4		

Other FX

	Last	% chge
HKD	7.7502	0.0
CNY	6.4726	0.2
SGD	1.4056	0.0
IDR	14,071	0.2
THB	35.92	-0.2
KRW	1,176	-0.6
TWD	32.86	0.4
PHP	47.33	0.0
CHF	0.99	-0.5
SEK	8.48	-0.2

Equities

Major Indices

	Last	% day	% y/y
Dow	17,698	+1	3.7
S&P 500	2,069	+1.3	4.9
Nasdaq	5,051	+1.1	11.1
FTSE	6,061	+0.7	-4.3
DAX	10,469	+0.2	9.5
CAC 40	4,625	+0.9	13.0
Nikkei	19,050	+2.6	13.3
Shanghai	3,516	+0.2	14.9
Hang Seng	21,701	+2	-3.9
ASX 200	5,028	+2.4	-2.6

Commodities*

	Last	% day
Oil (Brent)	37.41	-3.3
Oil (WTI)	35.68	-4.5
Oil (Tapis)	37.13	-1.7
Gold	1076.90	1.3
CRB	171.81	-1.4
GS Metals	244.6	-2.0
Aluminium	1484	1.0
Copper	4612	1.0
Nickel	8724	2.3
Zinc	1510	1.1
Ch. steel	1687	1.4
Iron ore	39.2	-0.5
Coal	52.4	0.0
Wheat Chic.	490.0	-2.0
Sugar	14.59	0.0
Cotton	63.25	-0.1
Coffee	119.3	-0.5

CO_2 Emissions - Euros

	Last	% day
Jun-2015	8.16	-0.6
Dec-2015	8.07	0.0
Dec-2016	8.20	-0.7

Interest Rates

Indicative Swap Rates

	Cash	3mth	2Yr	10Yr
USD	0.50	0.53	1.07	2.20
AUD	2.00	2.35	2.22	3.09
NZD	2.50	2.75	2.85	3.72
EUR	0.05	0.06	-0.04	1.00
GBP	0.50	0.58	1.02	1.95
JPY	0.10	0.08	0.10	0.43
CAD	0.50	1.17	0.84	1.89

Benchmark 10 Year Bonds

	Last	chge	Sprd
USD 10	2.29	0.02	
AUD 10	2.86	0.05	0.58
NZD 10	3.64	0.01	1.35
CAD 10	1.50	0.01	-0.79
EUR 10	0.68	0.04	-1.61
GBP 10	1.95	0.01	-0.34
JPY 10	0.30	0.00	-1.98

Overnight Futures

	Last	Chge
Australia		
3 mth bill	97.76	-0.02
3 Yr bond	97.81	-0.04
10 Yr bond	97.02	-0.05
3/10 sprd	0.80	0.00
SPI	37.0	0.7

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
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		275		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				115.4	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		1.9		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		5.36		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
Wednesday, 23 December 2015								
NZ	Trade Balance	Nov				-963	21.45	8.45
NZ	Exports	Nov				3.83	21.45	8.45
NZ	Imports	Nov				4.79	21.45	8.45
NZ	Money Supply M3 YoY	Nov				7.7	2.00	13.00
UK	Current Account Balance	3Q				-16.8	9.30	20.30
UK	Unit Labor Costs YoY	3Q					9.30	20.30
UK	GDP QoQ	3Q F				0.5	9.30	20.30
UK	Total Business Investment QoQ	3Q F				2.2	9.30	20.30
UK	Index of Services MoM	Oct				0.4	9.30	20.30
US	Personal Income	Nov		0.2		0.4	13.30	0.30
CA	GDP MoM	Oct				-0.5	13.30	0.30
CA	Retail Sales MoM	Oct				-0.5	13.30	0.30
US	Personal Spending	Nov		0.3		0.1	13.30	0.30
CA	GDP YoY	Oct				0	13.30	0.30
CA	Retail Sales Ex Auto MoM	Oct				-0.5	13.30	0.30
US	Real Personal Spending	Nov				0.1	13.30	0.30
US	Durable Goods Orders	Nov P		-0.4		2.9	13.30	0.30
US	PCE Deflator MoM	Nov		0.1		0.1	13.30	0.30
US	Durables Ex Transportation	Nov P		0		0.5	13.30	0.30
US	PCE Deflator YoY	Nov				0.2	13.30	0.30
US	Cap Goods Orders Nondef Ex Air	Nov P		-0.2		1.3	13.30	0.30
US	PCE Core MoM	Nov		0.1		0	13.30	0.30
US	PCE Core YoY	Nov				1.300004	13.30	0.30
US	New Home Sales MoM	Nov		1.5		10.7	15.00	2.00
US	U. of Mich. Sentiment	Dec F		92		91.8	15.00	2.00

Upcoming Central Bank Interest Rate Announcements				
US Federal Reserve	27-Jan	0.25-0.5%	0.25-0.5%	0.25-0.50%
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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