



Markets Today

A daily outlook for Australia, key global economies and markets

2 December 2015

The 73 handle is back

The AUD is back trading with a 73 handle for the first time since 19 October, helped along by a disappoint US ISM manufacturing print. While the AUD was already in an upward trend following yesterday's solid October building approvals number, the overnight fall in the US ISM manufacturing index to 48.6 triggered a broad base USD sell off and provided another leg up to the AUD.

After two months of flirtation with the psychological 50 level, the ISM manufacturing index fell below 50 in November for the first time in 3 years, disappointing expectations of a modest rebound to 50.5. The index is now signalling contraction in the US manufacturing sector and it will add to concerns that weakness could spread to the broader economy.

The probability of a December Fed hike has now moved to 70% from 75% earlier in the week. The soft manufacturing print now raises the significance of the ISM non-manufacturing November release on Thursday ahead of the all-important nonfarm payrolls report on Friday. We would note too that overnight Fed Evans (voter, dove) admitted to 'some nervousness' about Dec FOMC decision.

Looking at currencies in more detail, the USD lost ground against most currencies with the NZD and AUD sitting at the top of the G10 leader board. The CAD was the only G10 underperformer following a disappointing September GDP print. GDP shrunk by 0.5% in the month compared to expectations for a flat outcome. Interruptions in oil production were noted as the main culprit.

Equity markets had a mixed night. The soft ISM number triggered a sell off on both side of the Atlantic, but while US indices managed to rebound back into positive territory, most European indices posted losses for the day.

In bond markets reaction to the soft ISM print saw core global yields move lower. German bunds managed to reversed most of the initial move while UK Gilts ended the day sharply lower. Relative to Sydney's closing levels 30y and 10y yields are down just over 7bps (currently trading at 2.15% and 2.91% respectively) while the 2y yield dropped by 4bps trading at 0.9% as we type.

Earlier in the session the Eurozone unemployment report was better than expected and probably contributed to the German bunds underperformance. The region wide unemployment rate fell from 10.8% to 10.7%, beating expectations of a flat outcome and it also left the rate at its lowest since January 2012. The final November Euro-zone manufacturing PMI reading also confirmed the flash estimate of a rise from 52.3 to 52.8.

Finally in commodities, WIT oil drop 0.7% to \$44.29, Gold is almost unchanged at \$1067.9 and iron ore lost 1.7% closing the day at \$42.2.

Coming Up

This morning at 11:12am AEDT we have RBA's Governor Stevens speaking in Perth and 18 minutes later we get Australia's GDP growth number for the September quarter.

The Governor's speech is entitled "Economic Conditions and Prospects". Our expectations would be for the speech to cover how business surveys point to a gradual improvement in non-mining sectors, and how these improvements should support the ongoing moderate expansion in the economy in spite of the decline in capital spending in the mining sector. However, we also know from last week's CAPEX survey that a pickup in non-mining investment remains an elusive piece in the transition to non-mining investment led growth. So in this regard, today's speech could be an opportunity for the Governor to expand on this missing piece of the puzzle.

In terms of the Q3 GDP growth release, NAB maintains its expectations for a 0.8% print (in line with consensus). Net exports are expected to add 1.5% points in the quarter (after subtracting 0.6% in Q2) while investment is expected to detract around 0.9.

Looking at offshore markets and ahead of Thursday's ECB meeting, the November flash Euro-zone CPI reading is arguably today's most important data release. We know the ECB has been concerned by deflationary risks with Draghi noting in November that ECB policymakers would "do what we must to raise inflation as quickly as possible". Core CPI is expected to print at 1.1% yoy in November, but this is largely due to base line effects which are expected to fade over the coming months.

In the US we get ADP employment change for November (188k exp), however because this report is highly affected by the prior non-farm payrolls number, unless we get a really soft print other outcomes are unlikely to trouble the scorers. We also get final Q3 productivity and labor cost readings as well as the last edition of the Fed Beige book for 2015. In Canada we get BoC policy rate announcement where the consensus view is for the bank to remain on hold.

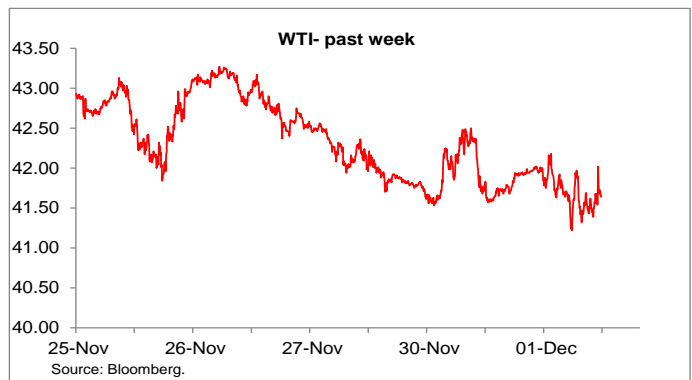
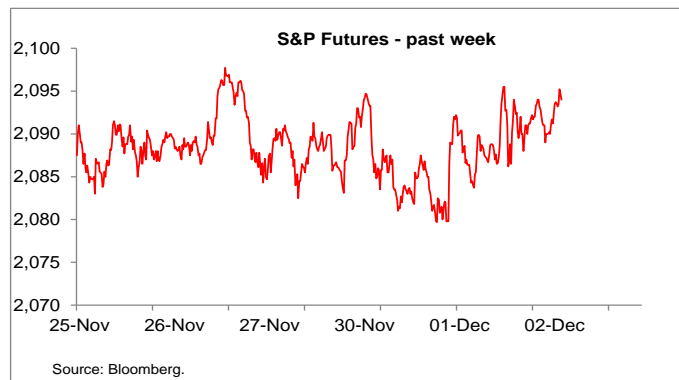
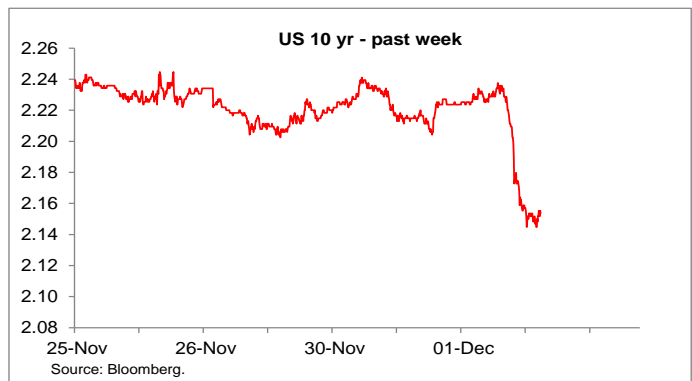
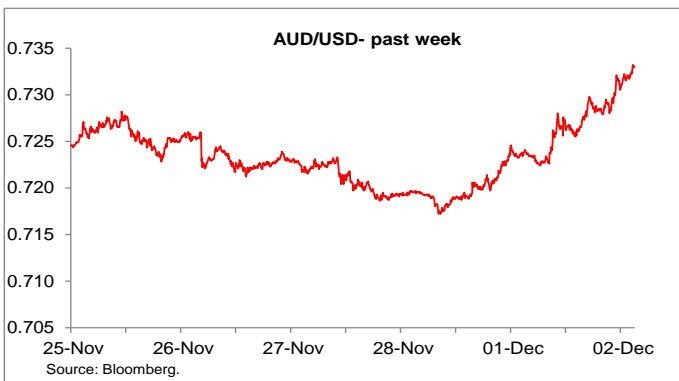
As for central bank speakers, BoJ Iwata speaks in Okayama and in the US we have Fed Chair Yellen as well as Fed Lockhart and William speaking on the US Economic outlook. The expectation is for all of them to emphasise the gradual nature of the upcoming tightening cycle.

Overnight

On global stock markets, the S&P 500 was +0.80%. Bond markets saw US 10-years -5.77bp to 2.15%. On commodity markets, Brent crude oil -0.99% to \$44.17, gold+0.2% to \$1,068, iron ore -1.7% to \$42.24. AUD is at 0.7332 and the range was 0.7223 to 0.7336.

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Markets



Foreign Exchange						
Indicative 24hr ranges (**)					Other FX	
	Last	% chge	Low	High	Last	% chge
AUD	0.7330	1.4	0.7223	0.7336	HKD	7.7520 0.0
NZD	0.6684	1.5	0.6583	0.6688	CNY	6.3988 0.0
EUR	1.0636	0.7	1.0563	1.0637	SGD	1.4054 -0.4
GBP	1.5083	0.2	1.5051	1.5126	IDR	13,784 -0.5
JPY	122.85	-0.2	122.64	123.28	THB	35.75 -0.2
CAD	1.3375	0.1	1.3310	1.3397	KRW	1,158 0.0
AUD/EUR	0.6894	0.7			TWD	32.73 0.1
AUD/JPY	90.08	1.2			PHP	47.17 -0.1
AUD/GBP	0.4861	1.2			CHF	1.03 -0.2
AUD/NZD	1.0966	-0.1			SEK	8.67 -0.7

Equities			
Major Indices			
	Last	% day	% y/y
Dow	17,844	+0.7	0.4
S&P 500	2,097	+0.8	2.1
Nasdaq	5,146	+0.7	8.9
FTSE	6,396	+0.6	-3.9
DAX	11,261	-1.1	13.0
CAC 40	4,915	+0.3	12.3
Nikkei	20,012	+1.3	13.3
Shanghai	3,456	+0.3	25.1
Hang Seng	22,381	+1.7	-5.4
ASX 200	5,266	+1.9	-0.3

Commodities*		
	Last	% day
Oil (Brent)	44.17	-1.0
Oil (WTI)	41.57	-0.2
Oil (Tapis)	44.76	3.2
Gold	1068.40	0.2
CRB	184.39	1.0
GS Metals	244.8	0.1
Aluminium	1444	-0.9
Copper	4602	0.2
Nickel	8871	1.4
Zinc	1552	0.8
Ch. steel	1672	2.6
Iron ore	42.2	-1.7
Coal	53.2	-0.7
Wheat Chic.	471.5	-0.8
Sugar	15.44	3.4
Cotton	62.20	1.5
Coffee	119.9	0.2

Interest Rates								
Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd	
USD	0.25	0.42	0.97	2.02	USD 10	2.15	-0.06	
AUD	2.00	2.27	2.17	2.95	AUD 10	2.84	-0.02	0.69
NZD	2.75	2.86	2.73	3.55	NZD 10	3.55	-0.01	1.40
EUR	0.05	0.06	-0.13	0.82	CAD 10	1.50	-0.07	-0.65
GBP	0.50	0.57	0.92	1.79	EUR 10	0.47	-0.01	-1.68
JPY	0.10	0.07	0.10	0.45	GBP 10	1.76	-0.06	-0.39
CAD	0.50	1.17	0.86	1.82	JPY 10	0.30	-0.01	-1.85

Overnight Futures		
	Last	Chge
Australia		
3 mth bill	97.73	-0.01
3 Yr bond	97.89	0.00
10 Yr bond	97.16	0.05
3/10 sprd	0.73	-0.05
SPI	-6.0	-0.1

CO ₂ Emissions - Euros		
	Last	% day
Jun-2015	8.58	-0.3
Dec-2015	8.56	-0.2
Dec-2016	8.63	-0.2

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, 2 December 2015								
NZ	Dairy Auction - small increase expected based on Friday's whole-milk futures							Early
NZ	ANZ Commodity Price	Nov	-5.0			6.90%	0.00	11.00
AU	RBA Governor Speaks on "Economic Conditions and Prospects"						0.12	11.12
AU	GDP SA QoQ	3Q	0.8	0.8		0.20%	0.30	11.30
JN	BoJ's Iwata speaks in Okayama						1.30	12.30
UK	Markit/CIPS UK Construction PMI	Nov		58.5		58.8	9.30	20.30
EC	PPI YoY	Oct		-3.2		-3.10%	10.00	21.00
EC	CPI Estimate YoY	Nov		0.2			10.00	21.00
EC	CPI Core YoY	Nov A		1.1		1.10%	10.00	21.00
US	MBA Mortgage Applications	Nov-27					12.00	23.00
US	Fed's Lockhart speaks on the US Economy							
US	ADP Employment Change	Nov		190		182k	13.15	0.15
US	Nonfarm Productivity	3Q F		2.2		1.60%	13.30	0.30
US	Unit Labor Costs	3Q F		1		1.40%	13.30	0.30
CA	Bank of Canada Rate Decision	Dec-02		0.5		0.50%	15.00	2.00
US	Fed's Yellen Speaks to the Economic Club of Washington						16.00	3.00
US	U.S. Federal Reserve Releases Beige Book						19.00	6.00
US	Fed's Williams speaks on Economic Outlook						20.40	7.40
Thursday, 3 December 2015								
NZ	Value of All Buildings SA QoQ	3Q	1.0	1.8		1.6%	21.45	8.45
AU	AiG Perf of Services Index	Nov				48.9	22.30	9.30
AU	Trade Balance	Oct	-2400	-2600		-2317m	0.30	11.30
JN	Nikkei Japan PMI Services	Nov				52.2	1.35	12.35
JN	BoJ's Kiuchi speaks in Tokyo						6.30	17.30
GE	Markit Germany Services PMI	Nov F		55.6			8.55	19.55
EC	Markit Eurozone Services PMI	Nov F		54.6			9.00	20.00
UK	Official Reserves Changes	Nov				\$16m	9.30	20.30
UK	Markit/CIPS UK Services PMI	Nov		55		54.9	9.30	20.30
EC	Retail Sales MoM / YoY	Oct				-0.1%/2.9%	10.00	21.00
EC	ECB Main Refinancing Rate	Dec-03		0.05		0.05%	12.45	23.45
EC	ECB Deposit Facility Rate	Dec-03		-0.3		-0.20%	12.45	23.45
US	Initial Jobless Claims	Nov-28		268			13.30	0.30
US	Markit US Services PMI	Nov F		56.5			14.45	1.45
US	Bloomberg Consumer Comfort	Nov-29					14.45	1.45
EC	Fed's Yellen appears before Congressional Joint Economic Committee							
US	Factory Orders	Oct		1.4		-1.00%	15.00	2.00
US	Factory Orders Ex Trans	Oct		0.2		-0.60%	15.00	2.00
US	Cap Goods Orders Nondef Ex Air	Oct F					15.00	2.00
US	ISM Non-Manf. Composite	Nov		58		59.1	15.00	2.00
Friday, 4 December 2015								
AU	Retail Sales MoM	Oct	0.2	0.4		0.40%	0.30	11.30
JN	Labor Cash Earnings YoY	Oct		0.5		0.60%	1.30	12.30
JN	Consumer Confidence Index	Nov		41.7		41.5	5.00	16.00
GE	Markit Germany Construction PMI	Nov				51.8	8.30	19.30
GE	Markit Germany Retail PMI	Nov				52.4	9.10	20.10
UK	Halifax House Prices MoM	Nov				1.10%	13.00	0.00
CA	Int'l Merchandise Trade	Oct		-1.7		-1.73b	13.30	0.30
US	Change in Nonfarm Payrolls	Nov		200		271k	13.30	0.30
CA	Net Change in Employment	Nov		-10		44.4k	13.30	0.30
US	Unemployment Rate	Nov		5		5.00%	13.30	0.30
CA	Participation Rate	Nov		65.9		66	13.30	0.30
US	Average Hourly Earnings MoM / YoY			0.2%/2.3%		0.4%/2.5%		
US	Labor Force Participation Rate	Nov				62.40%	13.30	0.30
US	Trade Balance	Oct		-40.5		-\$40.81b	13.30	0.30
Monday, 7 December 2015								
AU	AiG Perf of Construction Index	Nov				52.1	22.30	9.30
AU	ANZ Job Advertisements MoM	Nov				0.40%	0.30	11.30
JN	Leading Index CI	Oct p					5.00	16.00
JN	Coincident Index	Oct P					5.00	16.00
AU	Foreign Reserves	Nov				A\$64.3b	5.30	16.30
GE	Industrial Production SA MoM	Oct				-1.10%	7.00	18.00
EC	Sentix Investor Confidence	Dec				15.1	9.30	20.30
NZ	Manpower Survey	1Q				12%	11.01	22.01
CH	Foreign Reserves	Nov				\$3525.5b	13.00	0.00
UK	CBI Trends Total Orders	Dec				-11	13.00	0.00
UK	CBI Trends Selling Prices	Dec				-2	13.00	0.00
US	Labor Market Conditions Index Change	Nov				1.6	15.00	2.00
US	Consumer Credit	Oct				\$28.918b	20.00	7.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		2-Feb	2.00%	2.00%		2.00%		
Europe ECB		3-Dec				0.05%		
Canada, BoC		3-Dec				0.50%		
New Zealand, RBNZ		10-Dec	2.50%	2.50%		2.75%		
UK BOE		10-Dec				0.50%		
US Federal Reserve		17-Dec				0-0.25%		
Japan, BoJ		18-Dec	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		

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

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