



# Markets Today

A daily outlook for Australia, key global economies and markets

3 December 2015

## Keeping the dream well and truly alive

"Were the FOMC to delay the start of policy normalization for too long, we would likely end up having to tighten policy relatively abruptly to keep the economy from significantly overshooting both of our goals," Fed Chair Yellen told the Economic Club of Washington overnight. "Such an abrupt tightening would risk disrupting financial markets and perhaps even inadvertently push the economy into recession." So there you have it. Unless payrolls or other events seriously question the current US trajectory, the Fed is on course for lift-off in a fortnight. She was at pains to point out – yet again – that this rate cycle could be quite different; there is no pre-determined path; and that, in the end, it will be data dependent. Nothing too controversial from those caveats.

While it's on, it's also priced. Fed funds futures are back to a 75% probability for December (where they were before last night's ISM) and about three hikes priced for next year. Treasury yields firmed. The USD rallied into Yellen's speech, but then receded somewhat. Among other majors, the CAD was supported after the BoC left rates on hold (and despite further oil weakness as OPEC member gathered for talks in Vienna). The AUD pulled back from overnight highs amid further softness in iron ore (down another \$1.11/t to \$41.1/t), most LME base metals and gold prices.

Atlanta Fed President Lockhart was also speaking, signing from a similar hymn book as Yell and his previous comments, noting: "it's not good to surprise markets; wants to avoid the taper tantrum, economy doesn't need emergency treatment any longer; rises in rates likely gradual; further rises in dollar a risk to my outlook". The just-released Fed's Beige Book again contained lots of references to moderate growth across Fed districts; not notably different from October's.

## Coming up

Ahead of local data, Fed President John Williams speaks at 740. Then the AU data flow starts with two second tier releases – AIG PSI services for Nov (L 48.9) at 930 and HIA new home sales for Oct (L, -4%) at 11 AM – ahead of the trade figures for October at 11:30 AM. For trade, we look for a virtually unchanged deficit at \$2.4 bn after last month's 2.3 billion shortfall. Weakness in iron ore exports from Port Hedland is expected to be broadly offset by better coal loadings from Newcastle, continued strength in gold exports and higher LNG exports with Santos' Gladstone LNG project commencing production in mid-October.

Looking beyond Australia there are services/composite PMIs for Japan, China's Caixin private sector counterparts, and India's. Then the market's attention well to the ECB tonight, with some further services/composite PMIs, including for Euro-zone, for some of its member countries and the UK's.

As far as the ECB is concerned, it's all the pressure on Mr Draghi tonight and whether he will deliver as far as boosting QE, extending to a cutting that cutting the deposit rate further and or other measures. For the Euro, the hurdle is already high, market already priced for something approaching a material step up in

the pace of monetary accommodation already priced into the Euro. Already there are unsourced wire reports this morning that the forecasts circulated to national central banks ahead of the meeting are not markedly different. US jobless claims will continue to be watched, and the Fed's Mester speaking at a Washington DC Financial Stability Conference.

Also to be parsed will be a follow-up speaking engagement from Janet Yellen, this time before the Joint Economic Committee, Yellen scheduled to start speaking same time as the US ISM non-manufacturing report is released. It'll be an opportunity to show resolve ahead of December rate rise if the questioning gets heated. Data-wise, there's also factory orders and Fed vice-chair Stanley Fischer, though also speaking at that same DC Financial Stability Conference.

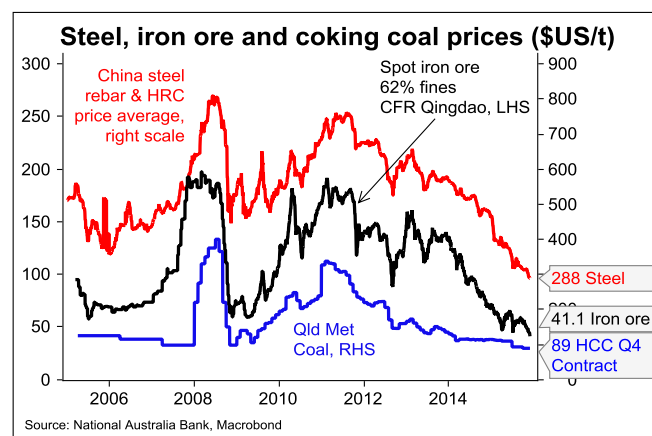
## Overnight

- Commodities softer overnight: Eurostoxx 600 -0.0%, Dax -0.6%, CAC -0.2%, FTSE +0.4%. Dow -163 points to 17,726, -0.9%, S&P 500 -0.9%, Nasdaq -0.7%, VIX 16.41 +11.9%. Shanghai +2.3%, Mumbai +2.3%, Nikkei 225 -0.7% and ASX 200 -0.1%; ASX SPI futures this morning -1.1%. US bond yields: 2s at 0.93% (3), 10s at 2.17% (+3). WTI oil at \$40.01 (-4.4%), Brent at \$42.54 (-4.3%), Malaysian Tapis (yesterday) \$43.98 (-1.7%). Gold at \$1053.40/oz (-0.9%). Base metals: LME copper -1.5%, nickel +0.0%, aluminium +1.1%. Iron ore \$41.1/t -2.6% Chinese steel rebar futures -0.5%. Soft commodities spot futures: wheat -1.0%, sugar -0.6%, cotton -0.1%, coffee 0.5%. Euro CO<sup>2</sup> emissions price (Dec 15) -0.9%. The AUD/USD's range overnight 0.7293-0.7336; indicative range today 0.7270-0.7325; the AUD/USD is 0.7308 now**
- EC CPI, headline/core, y/y (Nov) 0.1%/0.9% (L: 0.1%/1.1; F: 0.2%/1.1%); ADP Employment (Nov) 217K (L: 182K; F: 190K); US Non-farm productivity (Q3, final) 2.2% (L: 1.6%; E: 2.2%)**

Good luck.

David.deGaris@nab.com.au

## Chart of the day: China steel and input prices pressured



Markets

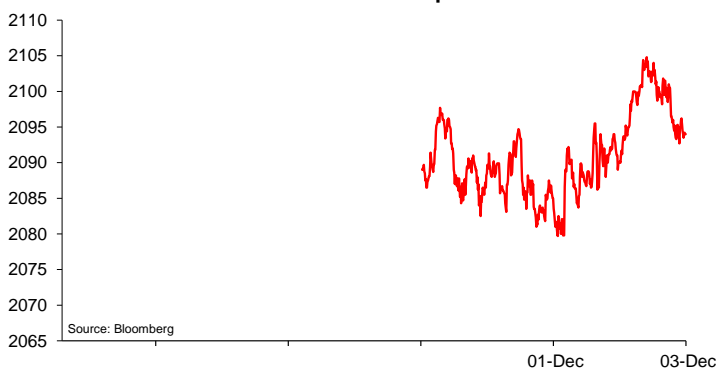
AUD/USD- past week



US 10 year bonds- past week



S&P 500 futures- past week



WTI futures- past week



Foreign Exchange					Equities			Commodities*						
Indicative 24hr ranges (**)					Other FX			Major Indices			Last % day			
	Last	% chge	Low	High		Last	% chge		Last	% day		Last	% day	
AUD	0.7308	-0.2	0.7293	0.7344	HKD	7.7508	0.0	Dow	17,726	-0.9	-0.9	Oil (Brent)	42.54	-4.3
NZD	0.6638	-0.4	0.6614	0.6669	CNY	6.4003	0.1	S&P 500	2,079	-1.1	0.6	Oil (WTI)	40.01	-4.4
EUR	1.0617	0.3	1.0551	1.0628	SGD	1.4111	0.1	Nasdaq	5,122	-0.7	7.7	Oil (Tapis)	43.98	-1.7
GBP	1.4941	-0.7	1.4895	1.5048	IDR	13,832	0.2	VIX Index	16.41	11.9	27.7	Gold	1053.40	-0.9
JPY	123.18	0.1	123.10	123.68	THB	35.86	0.1	FTSE	6,421	0.4	-4.8	CRB	180.85	-1.9
CAD	1.3362	-0.1	1.3308	1.3411	KRW	1,163	-0.1	DAX	11,190	-0.6	12.6	GS Metals	247.5	1.1
AUD/EUR	0.6884	-0.5			TWD	32.79	0.1	CAC 40	4,906	-0.2	11.8	Aluminium	1486	1.1
AUD/JPY	90.02	-0.2			PHP	47.26	0.1	Nikkei	19,938	-0.4	12.5	Copper	4563	-1.5
AUD/GBP	0.4891	0.4			CHF	1.02	-0.7	Shanghai	3,537	2.3	27.2	Nickel	8980	0.0
AUD/NZD	1.1011	0.1			SEK	8.68	-0.3	Hang Seng	22,480	0.4	-4.1	Zinc	1549	-1.7
								ASX 200	5,258	-0.1	-1.2	Ch. steel	1649	-0.5
												Iron ore	41.1	-2.6
												St. coal	53.4	0.0
												Wheat Chic.	474.3	-1.0
												Sugar	15.34	-0.6
												Cotton	63.50	-0.1
												Coffee	120.5	0.5
Interest Rates					Overnight Futures			CO <sub>2</sub> Emissions - Euros						
Indicative Swap Rates					Benchmark 10 Year Bonds			Last Chge			Last % day			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd		Last	Chge		Last	% day
USD	0.25	0.42	1.00	2.07	USD 10	2.17	0.03		Australia			Dec-2015	8.48	-0.9
AUD	2.00	2.28	2.18	2.98	AUD 10	2.80	-0.04	0.63	3 mth bill	97.70	-0.02	Dec-2016	8.56	-0.8
NZD	2.75	2.88	2.72	3.51	NZD 10	3.51	0.00	1.34	3 Yr bond	97.88	-0.02	Dec-2017	8.66	-0.8
EUR	0.05	0.06	-0.13	0.83	CAD 10	1.51	0.02	-0.66	10 Yr bond	97.16	-0.01			
GBP	0.50	0.57	0.95	1.81	EUR 10	0.47	0.00	-1.70	3/10 sprd	0.72	-0.01			
JPY	0.10	0.07	0.10	0.46	GBP 10	1.75	-0.01	-0.42	SPI	-60.0	-1.1			
CAD	0.50	1.17	0.88	1.85	JPY 10	0.32	0.02	-1.85						

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>Thursday, 3 December 2015</b>								
US	Fed's Williams speaks on Economic Outlook						20.40	7.40
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 Refi/Deposit Rates			0.05/-0.3		0.05/-0.2	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/ex transport	Oct		1.4/0.2		3/2.5	15.00	2.00
US	ISM Non-Manf. Composite	Nov		58		59.1	15.00	2.00
<b>Friday, 4 December 2015</b>								
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
<b>Monday, 7 December 2015</b>								
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
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
<b>Tuesday, 8 December 2015</b>								
NZ	Mfg Activity SA QoQ	3Q				0.40%	21.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Dec-06					22.30	9.30
JN	GDP SA QoQ	3Q F				-0.20%	23.50	10.50
JN	BoP Current Account Adjusted	Oct				¥776.2b	23.50	10.50
AU	NAB Business Conditions	Nov				9	0.30	11.30
AU	NAB Business Confidence	Nov				2	0.30	11.30
UK	Industrial Production MoM	Oct				-0.20%	9.30	20.30
UK	Industrial Production YoY	Oct				1.10%	9.30	20.30
EC	GDP SA QoQ	3Q P				0.30%	10.00	21.00
EC	GDP SA YoY	3Q P				1.60%	10.00	21.00
US	NFIB Small Business Optimism	Nov				96.1	11.00	22.00
CH	Trade Balance	Nov				\$61.64b	13.00	0.00
JN	Eco Watchers Survey Current/Outlook	Nov					13.00	0.00
CH	Foreign Direct Investment YoY CNY	Nov				4.20%	13.00	0.00
CA	Housing Starts	Nov				198.1k	13.15	0.15
CA	Building Permits MoM	Oct				-6.70%	13.30	0.30
US	JOLTS Job Openings	Oct				5526	15.00	2.00
US	IBD/TIPP Economic Optimism	Dec				45.5	15.00	2.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Canada, BoC		3-Dec				0.50%		
Europe ECB		3-Dec				0.05%		
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%		
Australia, RBA		2-Feb	2.00%	2.00%		2.00%		

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

## Global Markets Research

Peter Jolly  
Global Head of Research  
+61 2 9237 1406

### Australia

#### Economics

Ivan Colhoun  
Chief Economist, Markets  
+61 2 9237 1836

David de Garis  
Senior Economist  
+61 3 8641 3045

Tapas Strickland  
Economist  
+61 2 9237 1980

#### FX Strategy

Ray Attrill  
Global Co-Head of FX Strategy  
+61 2 9237 1848

Emma Lawson  
Senior Currency Strategist  
+61 2 9237 8154

#### Interest Rate Strategy

Skye Masters  
Head of Interest Rate Strategy  
+61 2 9295 1196

Rodrigo Catril  
Interest Rate Strategist  
+61 2 9293 7109

#### Credit Research

Michael Bush  
Head of Credit Research  
+61 3 8641 0575

Simon Fletcher  
Senior Credit Analyst – FI  
+61 2 9237 1076

#### Distribution

Barbara Leong  
Research Production Manager  
+61 2 9237 8151

## Group Economics

Alan Oster  
Group Chief Economist  
+61 3 8634 2927

James Glenn  
Senior Economist – Australia  
+61 3 9208 8129

Vyanne Lai  
Economist – Australia  
+61 3 8634 0198

Phin Ziebell  
Economist – Agribusiness  
+61 475 940 662

Amy Li  
Economist – Australia  
+61 3 8634 1563

Dean Pearson  
Head of Industry Analysis  
+61 3 8634 2331

Robert De lure  
Senior Economist – Industry Analysis  
+61 3 8634 4611

Brien McDonald  
Senior Economist – Industry Analysis  
+61 3 8634 3837

Karla Bulauan  
Economist – Industry Analysis  
+61 3 8641 4028

Tom Taylor  
Head of Economics, International  
+61 3 8634 1883

Tony Kelly  
Senior Economist – International  
+61 3 9208 5049

Gerard Burg  
Senior Economist – Asia  
+61 3 8634 2788

John Sharma  
Economist – Sovereign Risk  
+61 3 8634 4514

Jacqui Brand  
Personal Assistant  
+61 3 8634 2181

### New Zealand

Stephen Toplis  
Head of Research, NZ  
+64 4 474 6905

Craig Ebert  
Senior Economist  
+64 4 474 6799

Doug Steel  
Senior Economist  
+64 4 474 6923

Kymerly Martin  
Senior Market Strategist  
+64 4 924 7654

Raiko Shareef  
Currency Strategist  
+64 4 924 7652

Yvonne Liew  
Publications & Web Administrator  
+64 4 474 9771

### Asia

Christy Tan  
Head of Markets Strategy/Research, Asia  
+852 2822 5350

### UK/Europe

Nick Parsons  
Head of Research, UK/Europe,  
and Global Co-Head of FX Strategy  
+44 207 710 2993

Gavin Friend  
Senior Markets Strategist  
+44 207 710 1588

Derek Allassani  
Research Production Manager  
+44 207 710 1532

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