

Markets Today

A daily outlook for Australia, key global economies and markets

25 January 2016

'Irrational' Exuberance?

Oil having been the main driver of most of the market price action of the past two weeks, it was Friday's near 10% rebound that was the catalyst for much of Friday's retracements and following on from Thursday's moves inspired by the prospect of additional ECB easing action as early as the March Council meeting.

The oil rally looks to have been as much a function of blizzards hitting the east coast of America as the prospect of more central bank largesse or comment from Saudi Arabia's oil minister that sub-\$30 oil was 'irrational'.

In currencies, unsurprisingly it was the commodity export dependent EM currencies that fared best on Friday (e.g., RUB +5.6%, MYR +2.07% and MXN +1.6%). In G10, the CAD fared best (+1.04% to 1.4119) and JPY worse (-0.91% to Y118.78) while the AUD finished pretty flat at 0.7002 after strong gains on Thursday and NZD lost 0.57% to 0.6493.

EUR/USD maintained its pedigree of falling in a risk-positive environment (carry funding currency attractions back on display, down 0.72% to 1.0796). ECB president Draghi also added to his message from the previous day's ECB meeting press conference, saying in Davos that "on inflation things are different. Certainly the situation gives less reason to be optimistic for the time being".

US stocks closed near the highs Friday, the S&P500 +2.03%, the Dow +1.33% and the NASDAQ +2.66%. The VIX lost 4.35 points, down to 22.34. In US Treasuries, 10yr yields rose by 2bps to 2.05%.

Commodities saw Brent crude +\$2.93 to \$32.18 and WTI +\$2.66 to \$32.19. The LME index added 0.18% and iron ore gained 91 cents to \$42.20. Gold lost \$3.25 to \$1097.95 so slipping back off the \$1,100 handle achieved on Thursday.

Data wise, US existing home sales rose by a stronger than expected 14.7% (+9.2%E) after November's 10.5% drop, the latter seen to be the result of new mortgage disclosure rules. The Markit version of US manufacturing PMI rose to 52.7, up from 51.2 and better than the 51.0 expected.

Earlier the EZ PMI composite slipped to 53.5 from 54.3 and beneath the 54.1 expected, with manufacturing 52.3 (53.0E, 53.2P) and services 53.6 (54.2E, 54.2P). UK retail sales were weak, headline -1.0% m/m (-0.3% expected) and ex auto fuel -0.9% against -0.3% expected.

Canadian retail sales greatly exceeded expectations, +1.7% m/m (+0.4%E) and ex-autos +1.1% (0.2%E) while CPI came in a bit below on the core measure (0.1% m/m vs. +0.2% expected, to pull the annual rate down to 1.9% from 2.0%. Headline was +0.1% as expected but y/y only went up to 1.6% from 1.4%, not the 1.7% expected.

Coming Up

A big week ahead, mostly not starting until after Tuesday's Australia Day holiday though the first NAB business survey of the year is due this morning and will certainly be of keen local interest. In the last survey, business conditions printed at +10 and business confidence at +5.

This comes in front of Australia's Q4 CPI prints on Wednesday and where both the trimmed mean and weighted median core measures favoured by the RBA are both seen +0.5% on the quarter. This would mean 2.1% y/y for the trimmed mean measure (unchanged) and also 2.1% for the weighted median (down from 2.2%). Headline CPI is seen +0.3% for 1.6% y/y up from 1.5% in Q3.

The FOMC's first meeting of the year comes on Wednesday – so the outcome in the early hours of our Thursday morning. Though no change in the fed funds rate target is a given the language surrounding recent market events, global growth issues and domestic inflation expectations, will all be of keen interest. We suspect the Fed will not want to appear overly dovish in its statement for fears of adding to the prevailing market pessimism about the (global) economic outlook.

Then on Thursday we'll get the outcome of the RBNZ's first policy meeting of the year. Again, no change expected at this juncture but the language will be market sensitive.

The BoJ meets Friday with its decision due hot on the heels of the latest (December) CPI, retail sales and industrial production data. On balance we expect no change to the current ¥80tn annual QE pace, but a likely downgrade to inflation projections will have some suggesting the BoJ is limbering up for a possible change a little later in the year. We can't completely rule out a 'surprise' easing this week though, after BoJ Governor Kuroda speaking in Davos said that inflation expectations have taken a bit of a hit, that 2/3rds of the government bond market is still not yet bought by the BoJ and that if necessary to reach its (inflation) target, the BoJ can expand QE.

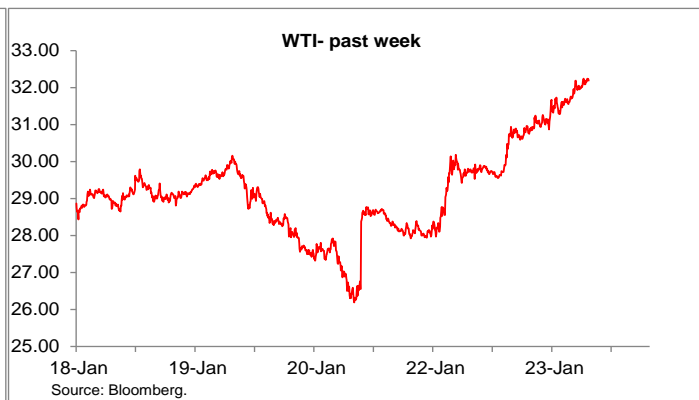
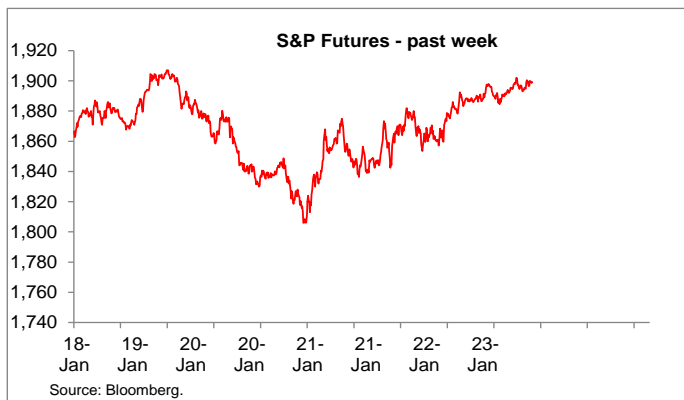
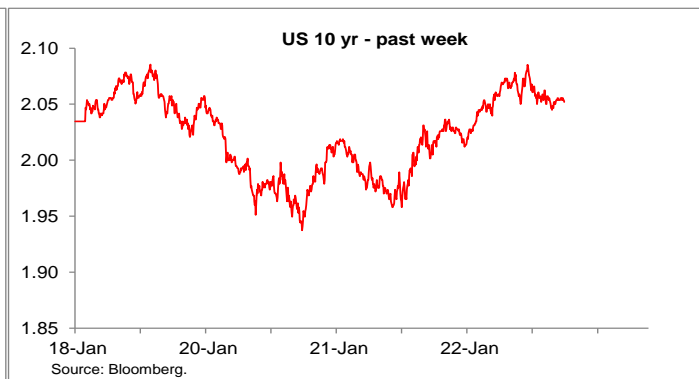
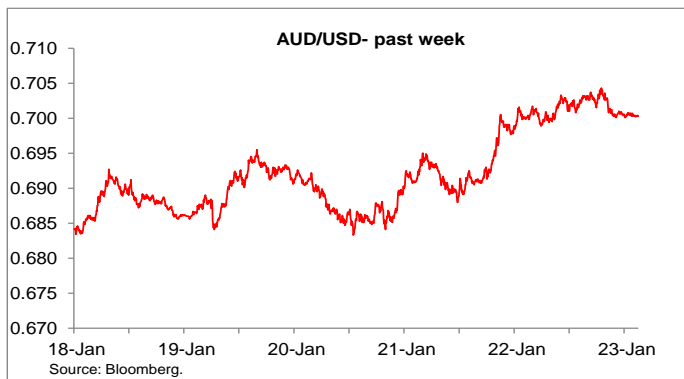
To cap the week we'll get the first estimate of US Q4 GDP on Friday. Market estimates have been tumbling in the past week or more, with the current consensus sitting at just 0.8% (annualised growth) not far from the Atlanta's Fed's latest GDPNow' forecast for 0.7%.

Overnight

On global stock markets, the S&P 500 was +2.00%. Bond markets saw US 10-years +2.08bp to 2.05%. On commodity markets, Brent crude oil +10.02% to \$32.18, gold -0.2% to \$1,096, iron ore +2.2% to \$42.20. AUD is at 0.7002 and the range since Friday's local close has been 0.6995 to 0.7046.

Ray.attrill@nab.com.au

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>0.7002</td> <td>0.0</td> <td>0.6985</td> <td>0.7020</td> <td>HKD</td> <td>7.7934</td> <td>0.0</td> </tr> <tr> <td>NZD</td> <td>0.6492</td> <td>0.0</td> <td>0.6477</td> <td>0.6498</td> <td>CNY</td> <td>6.5788</td> <td>0.0</td> </tr> <tr> <td>EUR</td> <td>1.0799</td> <td>0.0</td> <td>1.0795</td> <td>1.0824</td> <td>SGD</td> <td>1.4291</td> <td>-0.1</td> </tr> <tr> <td>GBP</td> <td>1.4277</td> <td>0.1</td> <td>1.4255</td> <td>1.4332</td> <td>IDR</td> <td>13,845</td> <td>-0.4</td> </tr> <tr> <td>JPY</td> <td>118.67</td> <td>-0.1</td> <td>118.58</td> <td>118.77</td> <td>THB</td> <td>36.02</td> <td>0.0</td> </tr> <tr> <td>CAD</td> <td>1.4147</td> <td>0.2</td> <td>1.4118</td> <td>1.4160</td> <td>KRW</td> <td>1,200</td> <td>-1.1</td> </tr> <tr> <td>AUD/EUR</td> <td>0.6484</td> <td>-0.3</td> <td></td> <td></td> <td>TWD</td> <td>33.52</td> <td>-0.8</td> </tr> <tr> <td>AUD/JPY</td> <td>83.08</td> <td>-0.1</td> <td></td> <td></td> <td>PHP</td> <td>47.71</td> <td>-0.4</td> </tr> <tr> <td>AUD/GBP</td> <td>0.4905</td> <td>-0.2</td> <td></td> <td></td> <td>CHF</td> <td>1.02</td> <td>-0.1</td> </tr> <tr> <td>AUD/NZD</td> <td>1.0788</td> <td>0.0</td> <td></td> <td></td> <td>SEK</td> <td>8.59</td> <td>0.0</td> </tr> </table>							Indicative 24hr ranges (**)				Other FX		Last	% chge	Low	High	Last	% chge	AUD	0.7002	0.0	0.6985	0.7020	HKD	7.7934	0.0	NZD	0.6492	0.0	0.6477	0.6498	CNY	6.5788	0.0	EUR	1.0799	0.0	1.0795	1.0824	SGD	1.4291	-0.1	GBP	1.4277	0.1	1.4255	1.4332	IDR	13,845	-0.4	JPY	118.67	-0.1	118.58	118.77	THB	36.02	0.0	CAD	1.4147	0.2	1.4118	1.4160	KRW	1,200	-1.1	AUD/EUR	0.6484	-0.3			TWD	33.52	-0.8	AUD/JPY	83.08	-0.1			PHP	47.71	-0.4	AUD/GBP	0.4905	-0.2			CHF	1.02	-0.1	AUD/NZD	1.0788	0.0			SEK	8.59	0.0
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 | Major Indices | | | | |---------------|--------|-------|-------| | | Last | % day | % y/y | | Dow | 16,094 | +1.3 | -8.9 | | S&P 500 | 1,907 | +2 | -7.1 | | Nasdaq | 4,591 | +2.7 | -3.5 | | FTSE | 5,900 | +2.2 | -13.7 | | DAX | 9,765 | +2 | -8.3 | | CAC 40 | 4,337 | +2.4 | -6.6 | | Nikkei | 16,959 | +5.9 | -3.2 | | Shanghai | 2,917 | +1.3 | -13.0 | | Hang Seng | 19,081 | +2.9 | -23.2 | | ASX 200 | 4,916 | +1.1 | -10.6 | | | | | | | Last | % day | |-------------|---------|-------| | Oil (Brent) | 32.18 | 10.0 | | Oil (WTI) | 32.19 | 9.0 | | Oil (Tapis) | 31.36 | 13.2 | | Gold | 1096.30 | -0.2 | | CRB | 163.80 | 2.9 | | GS Metals | 242.1 | 0.1 | | Aluminium | 1485 | -0.1 | | Copper | 4452 | 0.4 | | Nickel | 8686 | -0.4 | | Zinc | 1509 | 0.4 | | Ch. steel | 1831 | 0.1 | | Iron ore | 42.2 | 2.2 | | Coal | 49.0 | 0.0 | | Wheat Chic. | 480.3 | 0.1 | | Sugar | 14.42 | -0.2 | | Cotton | 62.45 | 0.6 | | Coffee | 116.0 | 1.4 | | | || | Interest Rates | | | | | Benchmark 10 Year Bonds | | | Overnight Futures | | | |----------------|-----------------------|------|-------|------|-------------------------|------|------|-------------------|-------|-------| | | Indicative Swap Rates | | | | Last | chge | Sprd | Last | | Chge | | | Cash | 3mth | 2Yr | 10Yr | | | | Australia | | | | USD | 0.50 | 0.62 | 0.94 | 1.92 | USD 10 | 2.05 | 0.02 | 3 mth bill | 97.83 | -0.01 | | AUD | 2.00 | 2.27 | 2.06 | 2.85 | AUD 10 | 2.73 | 0.04 | 3 Yr bond | 98.05 | -0.02 | | NZD | 2.50 | 2.73 | 2.67 | 3.48 | NZD 10 | 3.25 | 0.01 | 10 Yr bonc | 97.26 | -0.06 | | EUR | 0.05 | 0.06 | -0.14 | 0.79 | CAD 10 | 1.32 | 0.05 | 3/10 sprd | 0.79 | 0.04 | | GBP | 0.50 | 0.59 | 0.87 | 1.72 | EUR 10 | 0.48 | 0.10 | SPI | 55.0 | 1.1 | | JPY | 0.10 | 0.08 | 0.09 | 0.39 | GBP 10 | 1.71 | 0.04 | | | | | CAD | 0.50 | 1.17 | 0.73 | 1.69 | JPY 10 | 0.24 | 0.01 | | | | | | | | | | | CO ₂ Emissions - Euros | | | |-----------------------------------|------|-------| | | Last | % day | | Jun-2016 | 6.34 | 2.4 | | Dec-2016 | 6.36 | 2.4 | | Jun-2017 | 6.41 | 2.6 | | | |

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, 25 January 2016								
NZ	Partial holiday - Wellington Anniversary							
JN	Trade Balance Adjusted	Dec		84.2		-3.304	23.50	10.50
AU	NAB Business Conditions/Confidence	Dec				10/5	0.30	11.30
JN	Leading Index CI	Nov F				103.9	5.00	16.00
GE	IFO Business Climate	Jan		108.4		108.7	9.00	20.00
GE	IFO Current Assessment/Expectations	Jan		112.6/104.1		112.8/104.7	9.00	20.00
UK	CBI Trends Total Orders	Jan		-10		-7	11.00	22.00
UK	CBI Business Optimism	Jan				-12	11.00	22.00
US	Dallas Fed Manf. Activity	Jan		-14		-20.1	14.30	1.30
CA	Bloomberg Nanos Confidence	Jan 22				53	15.00	2.00
Tuesday, 26 January 2016								
AU	Australia Day holiday							
NZ	Crown accounts	Nov					21.00	8.00
NZ	Performance Services Index (sa)	Dec				59.8	21.30	8.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jan 24				113.2	22.30	9.30
NZ	Credit Card Spending MoM/YoY	Dec				0.7/8.5	2.00	13.00
US	FHFA House Price Index MoM	Nov		0.5		0.5	14.00	1.00
US	S&P/CS 20 City MoM SA/YoY	Nov		0.8/5.64		0.84/5.54	14.00	1.00
US	Markit US Services/Composite PMI	Jan P		53.9		54.3/54	14.45	1.45
US	Consumer Confidence Index	Jan		96.5		96.5	15.00	2.00
US	Richmond Fed Manufact. Index	Jan		2		6	15.00	2.00
Wednesday, 27 January 2016								
NZ	PM Key speaking to Wellington Chamber of Commerce (no time as yet)							
AU	Westpac Leading Index MoM	Dec				-0.2	23.30	10.30
AU	Skilled Vacancies MoM	Dec				1.2	0.00	11.00
AU	CPI QoQ/YoY	4Q	0.1/1.4	0.3/1.6		0.5/1.5	0.30	11.30
AU	CPI Trimmed Mean QoQ/YoY	4Q	0.4/2.0	0.5/2.1		0.3/2.1	0.30	11.30
AU	CPI Weighted Median QoQ/YoY	4Q	0.4/2.2	0.5/2.1		0.3/2.2	0.30	11.30
CH	Industrial Profits YoY	Dec				-1.4	1.30	12.30
CH	Westpac-MNI Consumer Sentiment	Jan				113.7	1.45	12.45
JN	Small Business Confidence	Jan		48.5		48.3	5.00	16.00
GE	GfK Consumer Confidence	Feb		9.3		9.4	7.00	18.00
US	MBA Mortgage Applications	Jan 22				9	12.00	23.00
US	New Home Sales/MoM	Dec		500/2		490/4.3	15.00	2.00
US	FOMC Rate Decision (Lower/Upper Bound)	Jan 27		0.25/0.5		0.25/0.5	19.00	6.00
Thursday, 28 January 2016								
NZ	RBNZ Official Cash Rate	Jan 28	2.5	2.5		2.5	20.00	7.00
NZ	Trade Balance	Dec	-112	-131		-779	21.45	8.45
JN	Retail Sales MoM	Dec		1		-2.5	23.50	10.50
JN	Dept. Store, Supermarket Sales	Dec		0.2		-1.5	23.50	10.50
AU	Export/Import price index QoQ	4Q	-3.6/0.0	-3.9/-0.8		0/1.4	0.30	11.30
UK	GDP QoQ/YoY	4Q A		0.5/1.9		0.4/2.1	9.30	20.30
UK	Index of Services MoM	Nov		0.2		0.1	9.30	20.30
EC	Business Climate Indicator	Jan		0.4		0.41	10.00	21.00
UK	CBI Reported Sales	Jan		17.5		19	11.00	22.00
GE	CPI MoM	Jan P		-0.8		-0.1	13.00	0.00
GE	CPI EU Harmonized MoM	Jan P		-1		0	13.00	0.00
US	Initial Jobless Claims	Jan 23		281		293	13.30	0.30
US	Durable Goods Orders	Dec P		-0.5		0	13.30	0.30
US	Cap Goods Orders Nondef Ex Air	Dec P		-0.2/0.5		-0.3/-0.6	13.30	0.30
US	Pending Home Sales MoM/YoY	Dec		0.9/4.8		-0.9/5.1	15.00	2.00
US	Kansas City Fed Manf. Activity	Jan				-9	16.00	3.00
Friday, 29 January 2016								
NZ	Building Permits MoM	Dec				1.8	21.45	8.45
JN	Jobless Rate	Dec		3.3		3.3	23.30	10.30
JN	Overall Household Spending YoY	Dec		-2.5		-2.9	23.30	10.30
JN	Natl CPI YoY	Dec		0.2		0.3	23.30	10.30
JN	Industrial Production MoM	Dec P		-0.3		-0.9	23.50	10.50
UK	GfK Consumer Confidence	Jan		1		2	0.50	11.50
AU	PPI QoQ/YoY	4Q		/		0.9/1.7	0.30	11.30
AU	RBA credit MoM/YoY	Dec	0.6/6.8	0.55/6.7		0.4/6.6	0.30	11.30
NZ	Credit aggregates (household) YoY	Dec				7.20%	2.00	13.00
JN	Bank of Japan Monetary Policy Statement						3.00	14.00
JN	BOJ Annual Rise in Monetary Base	Jan 29		80		80	3.50	14.50
EC	M3 Money Supply YoY	Dec		5.2		5.1	9.00	20.00
EC	CPI Estimate YoY	Jan		0.4		0.2	10.00	21.00
EC	CPI Core YoY	Jan A		0.9		0.9	10.00	21.00
US	Employment Cost Index	4Q		0.6		0.6	13.30	0.30
US	Advance Goods Trade Balance	Dec		-60		-60.5	13.30	0.30
US	GDP Annualized QoQ	4Q A		0.8		2	13.30	0.30
CA	Industrial Product/Raw materials Prices MoM	Dec		-0.3		-0.2/-4	13.30	0.30
CA	GDP MoM/YoY	Nov		0.3/0.2		0/-0.2	13.30	0.30
US	ISM Milwaukee	Jan				48.53	14.00	1.00
US	Chicago Purchasing Manager	Jan		45.9		42.9	14.45	1.45
US	U. of Mich. Sentiment	Jan F		93		93.3	15.00	2.00
US	Fed's Williams speaks on forecasts in San Francisco						20.30	7.30
Upcoming Central Bank Interest Rate Announcements								
US	Federal Reserve	27-Jan	0.25-0.50%			0.25-0.50%		
New Zealand	RBNZ	28-Jan	2.50%	2.50%		2.50%		
Japan	BoJ	29-Jan	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
Australia	RBA	2-Feb	2.00%	2.00%		2.00%		
UK	BOE	4-Feb				0.50%		
Europe	ECB	10-Mar				0.05%		
Canada	BoC	10-Mar				0.50%		

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

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

Rodrigo Catril
Currency Strategist
+61 2 9293 7109

Interest Rate Strategy

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

Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

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

Andrew Jones
Credit Analyst
+61 3 8641 0978

Distribution

Barbara Leong
Research Production Manager
+61 2 9237 8151

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

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

Jason Wong
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

Julian Wee
Senior Markets Strategist, Asia
+65 6632 8055

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

Riki Polygenis
Head of Economics, Australia
+61 3 8697 9534

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 Bulawan
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

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