

17 February 2016

Markets Today



Deal or no deal

The global equity rally that began on Friday has started to show signs of fatigue. Equity markets had a mixed night, with most European indices ending marginally lower while US indices are currently up between 1.2% to 2.0%, partly playing catch up from their long weekend break. Early, in the European session, news emerged from Doha that Russia, Saudi Arabia, Venezuela and Qatar agreed to freeze oil output at January levels as long as other producers also participate. Oil rose as speculation built of a potential deal, and equities also briefly enjoyed a pickup, but the rally quickly faded as it became apparent that the freezing news was merely symbolic while the chances of other important producers, namely Iran and Iraq, also look slim.

As more details of the deal began to emerge, it was clear that the freeze in production comes from producers that are already producing at or close to their max (barring Saudi Arabia). Iran, and Iraq are the other big producers and they have both publically stated their intention to increase their oil output. Talks are expected to continue in Tehran today/tomorrow, but scepticism remains that a meaningful agreement will be reach. The fact that talks are taking place is probably a positive sign, however, if these talks only serve to highlight tension between producers, then they may end up creating more uncertainty than any good.

In currencies, Sterling got an initial boost from a ComRes BREXIT poll that revealed EU supporters in the lead at 49% (vs the 41% leavers). But, it later emerged that 42% of those polled say they could change their minds ahead of the vote. The news triggered a GBP sell off while a softer CPI report (core 1.2%yoy vs 1.3% exp.) also didn't help sentiment.

Soft US data also weighed on sentiment. Empire State manufacturing index for February rose slightly to -16.6 from -19.4, below the consensus, -10.0. While the details of the report were encouraging (employment and new orders improved), the soft data and disappointing oil news triggered a rise in the USD against most currencies.

The Yen was the only outperformer against the big dollar while commodity currencies were the worst performers with NZD at the bottom of the G10 leader board despite the fact that the overnight milk auction was not as bad as expected. Dairy prices fell 2.8% on average with wholemilk powder down 3.7% to an average of US\$1,890/T.

Relative to last week's moves, core global yields had a calm night with 10y Bunds rising 2.8bps to 0.264% while 10y UST have traded in a 5bps range and are currently at 1.774%.

Looking at commodities in more detail, Brent is down 3.4% at \$32.25, WTI is off 1.2% at \$29.08 and gold has lost another 2.8%, currently trading at \$1204.3. Copper has continued its recovery, up 1.4% and iron ore had another positive day, gaining 1.1% ending the day at \$46.8.

Lastly, in central bank news, Philly Fed Harker (no voter) said he'd be in favour of delaying further interest-rate increases until inflation recovers from oil-price-induced weakness. Meanwhile Minneapolis President noted that "The biggest banks are still too big to fail and continue to pose a significant risk to our economy".

Coming Up

It's a quiet day in Australia with no major data prints scheduled for release, however across the Tasman we have New Zealand Finance minister English presenting the December's Half-year Economic and Fiscal Update (HYEFU) in Parliament.

This morning we also get Japan's machine and machine tool orders. For machine orders, consensus forecast is for a 4.6%mom gain, which if right, it would signal a small pick up from the soft November's -14.4% print.

Today there are no significant European data releases, but is a busy day in the US with housing starts, PPI, industrial production, and the FOMC January 26-27 Minutes.

Housing starts are expected to be little changed at 1171k, PPI is expected to be softer (-0.3%) depressed by falling energy prices and while industrial production should print higher (0.3% exp), the surge in production is almost entirely due to a rebound in weather related utility production. That said, manufacturing output is the number to watch, where a pickup of 0.2% is expected.

After Fed Chair Yellen's testimony last week, the FOMC minutes are unlikely to elicit any major reaction by the market. Our interpretation of Yellen's testimony was that the bar has been set quite high for a March hike. Further out the curve, however, rate hikes have not been ruled out. We would expect a similar message from the minutes.

Overnight

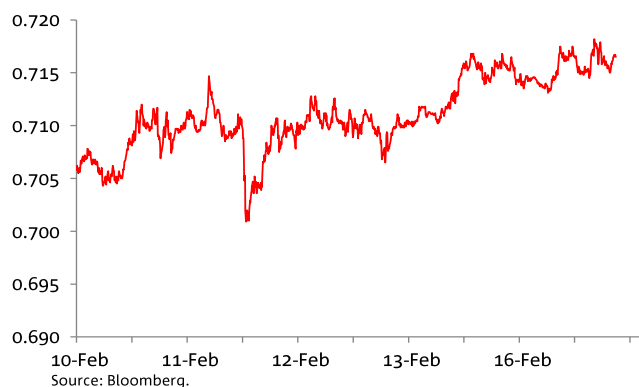
On global stock markets, the S&P 500 was +1.50%. Bond markets saw US 10-years +3.28bp to 1.78%. On commodity markets, Brent crude oil -3.35% to \$32.27, gold-2.8% to \$1,204, iron ore +1.1% to \$46.78. AUD is at 0.7102 and the range was 0.7082 to 0.7182.

Author:

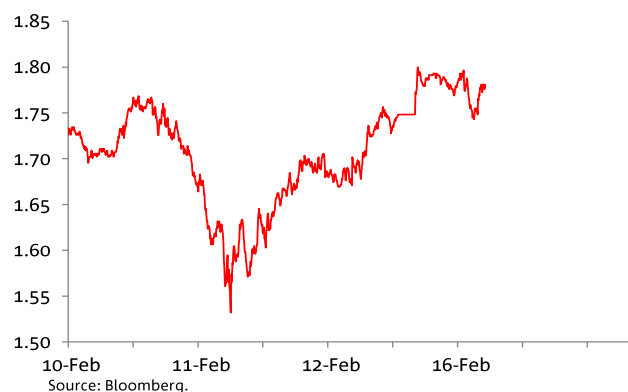
Rodrigo Catril –FX Strategist

Markets

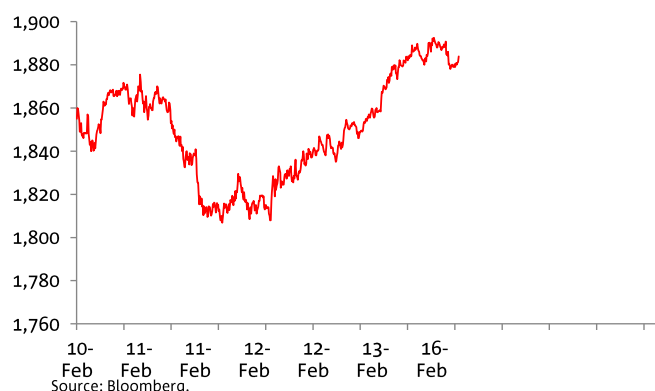
AUD/USD - past week



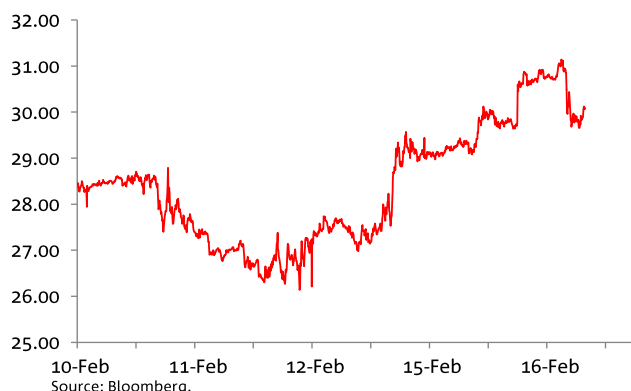
US 10 yr - past week



S&P Futures - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High		Last	% chge
AUD	0.7101	-0.5	0.7082	0.7182	HKD	7.7914	0.1
NZD	0.6569	-1.2	0.6545	0.6676	CNY	6.5169	0.3
EUR	1.1142	-0.1	1.1124	1.1193	SGD	1.4061	0.4
GBP	1.4290	-1.0	1.4277	1.4516	IDR	13,395	0.1
JPY	113.90	-0.6	113.6000	114.8700	THB	35.65	0.0
CAD	1.3876	0.3	1.3707	1.3912	KRW	1,217	0.7
AUD/EUR	0.6373	-0.4			TWD	33.16	0.6
AUD/JPY	80.89	-1.1			PHP	47.49	0.1
AUD/GBP	0.4969	0.5			CHF	0.99	0.1
AUD/NZD	1.0812	0.7			SEK	8.50	0.1
AUD/CNY	4.6285	-0.2					

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	0.50	0.62	0.78	1.63	USD 10	1.78	0.03	
AUD	2.00	2.28	2.06	2.65	AUD 10	2.52	0.01	0.74
NZD	2.50	2.61	2.54	3.23	NZD 10	3.05	-0.01	1.27
EUR	0.05	0.06	-0.16	0.64	CAD 10	1.16	0.03	-0.62
GBP	0.50	0.59	0.75	1.45	EUR 10	0.27	0.03	-1.51
JPY	0.07	0.02	-0.10	0.20	GBP 10	1.44	0.01	-0.34
CAD	0.50	1.17	0.74	1.45	JPY 10	0.03	-0.06	-1.75

Equities

Major Indices

	Last	% day	% y/y
Dow	16,172	+1.2	-10.3
S&P 500	1,893	+1.5	-9.7
Nasdaq	4,426	+2	-9.6
VIX	24	-4.8	64.7
FTSE	5,862	+0.7	-14.5
DAX	9,135	-0.8	-16.4
CAC 40	4,111	-0.2	-13.5
Nikkei	16,054	+0.2	-10.7
Shanghai	2,837	+3.3	-12.6
Hang Seng	19,122	+1.1	-22.8
ASX 200	4,910	+1.4	-16.2

Overnight Futures

	Last	Chge
Australia		
3 mth bill	97.77	0.01
3 Yr bond	98.16	0.01
10 Yr bond	97.48	0.00
3/10 sprd	0.68	0.01
SPI	4.0	0.1

Commodities*

	Last	% day
Oil (Brent)	32.27	-3.4
Oil (WTI)	29.09	-1.2
Oil (Tapis)	35.42	3.7
Gold	1204.30	-2.8
CRB	158.87	-0.9
GS Metals	247.9	1.1
Aluminium	1506	0.9
Copper	4568	1.4
Nickel	8250	5.8
Zinc	1681	-1.3
Ch. steel	1871	0.0
Iron ore	46.8	1.1
Coal	50.7	0.0
Wheat Chic.	469.0	1.4
Sugar	13.22	0.5
Cotton	59.85	1.6
Coffee	117.0	-0.4

CO₂ Emissions - Euros

	Last	% day
Jun-2016	4.68	-2.3
Dec-2016	4.70	-2.3
Jun-2017	4.73	-2.3

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, 17 February 2016								
US	Net Long-term TIC Flows	Dec				31.4	21.00	8.00
NZ	Finance Minister English testifies in Parliament on half year Budget/Economy update						21.45	8.45
AU	Westpac Leading Index MoM	Jan				-0.3	23.30	10.30
JN	Machine Orders MoM	Dec		4.4/-2.8		-14.4/1.2	23.50	10.50
US	Fed's Rosengren Speaks at Colby College						0.00	11.00
UK	Jobless Claims Change	Jan		-3		-4.3	9.30	20.30
US	Housing Starts/MoM	Jan		1175/2.3		1149/-2.5	13.30	0.30
US	Building Permits/MoM	Jan		1200/-0.3		1232/-3.9	13.30	0.30
US	PPI Final Demand MoM	Jan		-0.2		-0.2	13.30	0.30
CA	Int'l Securities Transactions	Dec				2.58	13.30	0.30
US	Industrial Production MoM	Jan		0.35		-0.4	14.15	1.15
US	Manufacturing (SIC) Production	Jan		0.3		-0.1	14.15	1.15
US	U.S. Fed Releases Minutes from Jan. 26-27 FOMC Meeting						19.00	6.00
US	Fed's Bullard speaks about US economic outlook and monetary policy						23.00	10.00
Thursday, 18 February 2016								
NZ	ANZ Job Advertisements MoM	Jan				1.1	21.00	8.00
NZ	PPI Input/Output QoQ	4Q				1.6/1.3	21.45	8.45
JN	Trade Balance Adjusted	Jan		62.1		36.637	23.50	10.50
NZ	ANZ Consumer Confidence Index/MoM	Feb				121.4/2.3	0.00	11.00
AU	Employment Change	Jan	22	13		-1	0.30	11.30
AU	Unemployment Rate	Jan	5.8	5.8		5.8	0.30	11.30
AU	RBA FX Transactions Market	Jan				1175	0.30	11.30
US	Fed's Bullard Speaks to CFA Society St. Louis						1.00	12.00
CH	CPI YoY	Jan		1.9		1.6	1.30	12.30
CH	PPI YoY	Jan		-5.4		-5.9	1.30	12.30
JN	BoJ's Ishida speaks in Fukuoka						1.30	12.30
AU	RBA's Edey Speaks to Sydney Investor Forum ("The current risk environment")						1.00	12.00
UK	BoE's Cunliffe speaks on a panel in Brussels						8.55	19.55
EC	ECB Current Account SA	Dec				26.4	9.00	20.00
EC	ECB account of the monetary policy meeting						12.00	23.00
CA	Wholesale Trade Sales MoM	Dec		0.2		1.8	13.30	0.30
US	Philadelphia Fed Business Outlook	Feb		-3		-3.5	13.30	0.30
US	Initial Jobless Claims	Feb 13		275		269	13.30	0.30
US	Leading Index	Jan		-0.2		-0.2	15.00	2.00
US	Fed's Williams speaks on outlook						20.30	7.30
Friday, 19 February 2016								
NZ	Crown Financial Statements	Dec					21.00	8.00
JN	All Industry Activity Index MoM	Dec		-0.3		-1	4.30	15.30
UK	Retail Sales Ex Auto Fuel MoM	Jan		0.7		-0.9	9.30	20.30
UK	Public Finances (PSNCR)	Jan				8.1%	9.30	20.30
EC	ECB's Constancio speaks in New York						13.30	0.30
US	Fed's Mester to Speak at Global Interdependence Center							
US	CPI MoM/YoY	Jan		-0.1/1.3		-0.1/0.7	13.30	0.30
US	CPI Ex Food and Energy MoM/YoY	Jan		0.2/2.1		0.1/2.1	13.30	0.30
CA	Retail Sales MoM	Dec		-0.8		1.7	13.30	0.30
CA	CPI NSA MoM	Jan		-0.1		-0.5	13.30	0.30
EC	Consumer Confidence	Feb A		-6.6		-6.3	15.00	2.00
Monday, 22 February 2016								
AU	RBA's Debelle Speech in Sydney						22.10	9.10
CH	MNI Business Indicator	Feb				1.45	12.45	
NZ	Credit Card Spending MoM	Jan				-0.8	2.00	13.00
NZ	Credit Card Spending YoY	Jan				7.4	2.00	13.00
JN	Nikkei Japan PMI Mfg	Feb P				52.3	2.00	13.00
JN	Supermarket Sales YoY	Jan				0	5.00	16.00
GE	Markit/BME Germany Manufacturing PMI	Feb P				52.3	8.30	19.30
GE	Markit Germany Services PMI	Feb P				55	8.30	19.30
GE	Markit/BME Germany Composite PMI	Feb P				54.5	8.30	19.30
EC	Markit Eurozone Manufacturing PMI	Feb P				52.3	9.00	20.00
EC	Markit Eurozone Services PMI	Feb P				53.6	9.00	20.00
EC	Markit Eurozone Composite PMI	Feb P				53.6	9.00	20.00
UK	CBI Trends Total Orders	Feb				-15	11.00	22.00
US	Chicago Fed Nat Activity Index	Jan				-0.22	13.30	0.30
US	Markit US Manufacturing PMI	Feb P				52.4	14.45	1.45
Tuesday, 23 February 2016								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Feb 14				111.4	22.30	9.30
GE	GDP SA QoQ	4Q F				0.3	7.00	18.00
GE	GDP WDA YoY	4Q F				1.3	7.00	18.00
GE	IFO Business Climate	Feb				107.3	9.00	20.00
GE	IFO Current Assessment	Feb				112.5	9.00	20.00
GE	IFO Expectations	Feb				102.4	9.00	20.00
US	S&P/CS 20 City MoM SA	Dec		1		0.94	14.00	1.00
US	S&P/CS Composite-20 YoY	Dec				5.83	14.00	1.00
US	S&P/Case-Shiller US HPI MoM	Dec				0.87	14.00	1.00
US	S&P/Case-Shiller US HPI YoY	Dec				5.35	14.00	1.00
US	Consumer Confidence Index	Feb		97.5		98.1	15.00	2.00
US	Richmond Fed Manufact. Index	Feb		2		2	15.00	2.00
US	Existing Home Sales	Jan		5.5		5.46	15.00	2.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA	1-Mar	2.00%	2.00%			2.00%		
New Zealand, RBNZ	10-Mar	2.50%	2.50%			2.50%		
Europe ECB	10-Mar					0.05%		
Canada, BoC	10-Mar					0.50%		
Japan, BoJ	15-Mar	-0.1% to +0.1%	-0.1% to +0.1%			-0.1% to +0.1%		
UK BOE	17-Mar					0.50%		
US Federal Reserve	17-Mar					0.25-0.50%		
GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Saving Time								

Contact Details

Authors

David de Garis
Senior Economist
+61 3 8641 3045
david.degaris@nab.com.au

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848
ray.attrill@nab.com.au

Rodrigo Catril
Currency Strategist
+61 2 9293 7109
rodrigo.h.catril@nab.com.au

Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406
peter.jolly@nab.com.au

Group Economics

Alan Oster
Chief Economist
+61 3 8634 2927
alan_oster@national.com.au

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.