

Bart to the future

16 Years ago the Simpsons episode “Bart to the future” aired for the first time with a plot partly consisting of Lisa becoming president of the United States. Lisa tries to get the country out of financial trouble due to the high levels of debt left by the previous president, Donald Trump. Fiction has certainly become reality, at least partially, with Donald Trump’s election as the 45th president of the United States. Now we have to wait another four to eight years to see whether he leaves the country with a mountain of debt.

To say that the past 24hrs have been a volatile session for markets it’s probably an understatement. Markets were set for a Clinton victory, but as a Trump win became more likely, risk aversion kicked in and safe haven assets went bid. JPY fell four big figures to ¥101.2, gold gained more than 5% and 10y US treasury yields dropped from 1.89% to 1.72%. Meanwhile equities and equity futures were sold, EM and commodity currencies were dumped with the AUD sinking from a high of 0.7777 to 0.7580.

Then as a Donald Trump win became almost unassailable, markets did a massive u turn with selling pressures on risk assets evaporating and eventually turning into buying. US equities appear to have latched on to the idea that Donald Trump means more growth via an increase in fiscal spending. The DJ is currently up 1.53% while the S&P and NASDAQ are 1.25% and 1.06% respectively. Meanwhile European equities closed between 1% and 1.50% higher.

As for currencies, the USD is up about 0.7% on a trade weighted basis and close to its high for the session. Looking at G10 currencies JPY is flirting with the idea of breaking through the ¥106 mark, after reaching an intraday low of ¥101.20. The EUR was up as much as 2.5% to a high of 1.1300 and now trades 0.8% lower at 1.0939. With the focus elsewhere, GBP has managed to outperform and is the only G10 currency up against the USD (+0.51%). Meanwhile the AUD is currently trading at 0.7656, after trading to a low of 0.7580 yesterday.

So while equities have liked the prospects of a debt induced US growth, US Treasuries have reacted violently to the idea of more issuance and possibly higher inflation. After trading to a low of 1.7181%, now they are 35bps higher at 2.066%. Meanwhile UK gilts and Bunds closed a modest +2bps and +1.5bps respectably.

As for commodities, just like equities, the increase in US growth prospects has been a massive boost. Iron ore is +4%, copper is 3.4% and met coal is +3.3%. The contrasting reaction by equities and commodities versus US Treasuries will need to be watched over the coming days and this will be particularly important for the AUD and other risk

sensitive assets. See our coming up section below for more details.

Lastly as we are about to press the send button, the RBNZ has cut the OCR to 1.75% as expected and the statement appears to suggest a shift from an easing bias to neutral. The forward cash rate track suggests an almost flat cash rate profile, suggesting the Bank is unlikely to cut again unless a turn in economic data forces its hand. NZD has rallied on the news, jumping from 0.730 to 0.7355 currently.

Coming Up

Donald Trump’s Presidential win will no doubt be at the centre of investors’ minds today with many pondering whether the incumbent president’s bite will be as extreme as his bark.

Trump’s presidential win is a reflection of the magnitude of discontent with the current status quo from the political establishment to the anaemic economic recovery since the GFC and the rise in income inequality.

While a Clinton presidency was seen as providing a sense of predictability and stability, a Trump presidency is likely to bring uncertainty at least over the near term with the big question being to what extent Trump’s pre-election rhetoric can or will translate into policy action next year.

Certainly with the Republican Party now having achieved a clean sweep of the Executive and legislative branches of government, markets have good reason to think that the gulf between rhetoric and reality may not be as great as previously thought.

To the extent that Trump can get his policies implemented below are a few questions/considerations that we will be pondering over the coming days.

1. Fiscal policy - Large-scale tax cuts not financed by spending cuts as proposed by Trump means a blow out in US deficits and debt. However, whether the incumbent President finds Republicans support remains to be seen. That said markets will have reasons to think that some increase US deficit and debt is likely and as we have seen in past 12 hours this is likely to limit the extent to which US Treasuries can rally in a risk off environment.
2. What is the likelihood of trade war? Initiated by the imposition of punitive tariffs on China and Mexico, where Trump went into the election brandishing threats of 45% and 35% tariffs respectively. Note that there is a lot of Executive power delegated to the President by Congress over the years with respect to trade policy.
3. Trump’s policies on immigration aimed at removing a large proportion of the 11.4m estimated illegal immigrants

via forced or voluntary deportation can potentially have serious consequences for US economic growth and inflation.

4. How likely is a tax break for US companies repatriating accumulated profits held abroad, now likely? And if so will that provide meaningful support for the US dollar?

5. While near term uncertainty may hinder the Fed's hiking intentions in December, if Trump's policies prove to be inflationary, then how will the Fed react? And will Trump repeat his pledge to replace Janet Yellen as chair when her first term expires in early 2018?

So a few known unknowns for the market to ponder and for us inevitably our forecasts nor just for the Australian dollar but currencies globally are necessarily under review. We will be writing more over the coming days but in the meantime as starting point we would suggest that on paper a Trump presidency should mean higher US treasury yields as the extra spending is partly funded via fiscal deficits and more debt. Extra spending along with his trade and immigration policies suggest upward pressure on prices and a Fed that will need to tighten faster than currently expected. An aggressive Fed means a US stronger dollar.

For the AUD, risk sentiment will be paramount. The prospect of tighter US monetary policy is a negative, but if equities remain buoyant, given a stronger US growth outlook, then this should provide support for 'risky' EM and commodity currencies.

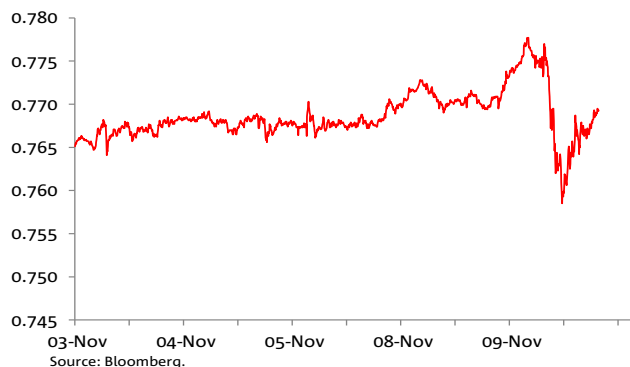
Finally and looking at today's calendar Australia gets consumer inflation expectations and housing Finance, the UK prints RICS house prices for October and then later in the day the US gets weekly jobless claims. Fed Williams speaks today around 1pm Sydney time and Bullard speaks tonight.

Overnight

On global stock markets, the S&P 500 was +1.22%. Bond markets saw US 10-years -12.08bp to 2.07%. In commodities, Brent crude oil +0.93% to \$46.47, gold+0.0% to \$1,275, iron ore +3.9% to \$70.98. AUD is at 0.7661 and the range since yesterday 5pm Sydney time is 0.7618 to 0.7695.

Markets

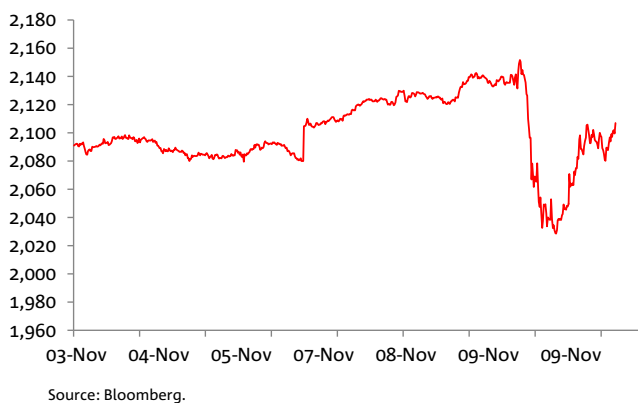
AUD/USD - past week



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	0.7661	-1.3	0.7580	0.7772	HKD	7.7558 0.0
NZD	0.7344	-0.6	0.7265	0.7393	CNY	6.7915 0.1
EUR	1.0923	-0.9	1.0920	1.1300	SGD	1.3988 0.9
GBP	1.2435	0.5	1.2354	1.2547	IDR	13,127 0.3
JPY	105.83	0.6	101.20	105.88	THB	35.05 0.3
CAD	1.3368	0.6	1.3265	1.3525	KRW	1,149 1.3
AUD/EUR	0.7014	-0.4	0.6719	0.7070	TWD	31.45 0.0
AUD/JPY	81.08	-0.7	76.79	81.94	PHP	48.71 0.1
AUD/GBP	0.6161	-1.8	0.6043	0.6286	CHF	0.98 0.6
AUD/NZD	1.0432	-0.7	1.0365	1.0533	SEK	9.05 0.7
AUD/CNH	5.2021	-0.6	5.1375	5.2883		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.50	0.88	1.16	1.94	USD 10	2.07	21.89
AUD	1.50	1.76	1.91	2.68	AUD 10	2.22	-13.00 0.15
NZD	1.75	2.07	2.32	3.15	NZD 10	2.73	-8.00 0.66
EUR	0.00	-0.31	-0.14	0.63	CAD 10	1.38	10.60 -0.69
GBP	0.25	0.40	0.63	1.21	EUR 10	0.20	1.50 -1.87
JPY	-0.04	-0.06	-0.04	0.07	GBP 10	1.26	2.00 -0.82
CAD	0.50	0.89	0.92	1.62	JPY 10	-0.07	-0.60 -2.14

Equities

Major Indices	Last	% day	% y/y
	Dow	18,612	1.52
S&P 500	2,166	1.22	4.2
Nasdaq	5,248	1.06	3.0
VIX	15	-20.28	-9.5
FTSE	6,912	1.0	9.8
DAX	10,646	1.6	-1.6
CAC 40	4,543	1.5	-7.5
Nikkei	16,252	-5.4	-17.4
Shanghai	3,128	-0.6	-14.1
Hang Seng	22,415	-2.2	0.1
ASX 200	5,157	-1.9	1.1

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.21	-1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.50	-17.50
3/10 sprd	0.30	20.50
SPI	5310.0	-65.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	46.47	0.9
Oil (WTI)	45.28	0.7
Oil (Tapis)	46.47	-3.2
Gold	1275.00	0.0
CRB	183.99	0.2
GS Metals	298.4	0.0
Aluminium	1751.5	1.4
Copper	5400.0	3.4
Nickel	11532.0	2.8
Zinc	2476.3	0.4
Ch. steel	3019.0	5.4
Iron ore	71.0	3.9
St. Coal	111.4	-0.6
Met.coal	295.0	3.9
Wheat Chic.	424.5	-1.7
Sugar	22.1	0.6
Cotton	68.3	-0.7
Coffee	170.1	1.6

CO₂ Emissions - Euros

	Last	% day
Dec-2016	6.14	0.0
Jun-2017	6.15	-0.2

* clsd = market holiday

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, 10 November 2016								
NZ	RBNZ Official Cash Rate	Nov 10	1.75	1.75		2.0	21.00	7.00
JN	Machine Orders MoM/YoY	Sep		-1.5/4.1		-2.2/11.6	0.50	10.50
AU	Consumer Inflation Expectation	Nov				3.7	1.00	11.00
UK	RICS House Price Balance	Oct		18		17.0	1.10	11.10
AU	Home Loans/Investment Loans MoM	Sep	-0.6	-1.6		-3.0/0.1	1.30	11.30
US	Fed's Williams Speaks on Economic Outlook in San Francisco						3.00	13.00
NZ	REINZ House Sales YoY	Oct				-9.5		
CH	New Yuan Loans CNY	Oct		676		1220.0	10-15 Nov release	
CH	Aggregate Financing CNY	Oct		1000		1720.0	10-15 Nov release	
CA	New Housing Price Index MoM/YoY	Sep		0.2		0.2/2.7	14.30	0.30
US	Initial Jobless Claims	Nov 5		260		265.0	14.30	0.30
US	Fed's Bullard Speaks on U.S. Economic Outlook in St. Louis						15.15	1.15
US	Bloomberg Consumer Comfort	Nov 6				44.6	15.45	1.45
EC	Schaeuble, Weidmann Attend VOeB Public Bank Lobby Event						18.00	4.00
US	Monthly Budget Statement	Oct		-75		33.4	20.00	6.00
Friday, 11 November 2016								
NZ	BusinessNZ Manufacturing PMI	Oct				57.7	22.30	8.30
NZ	Food Prices MoM	Oct	-0.9			-0.9	22.45	8.45
JN	PPI MoM/YoY	Oct		0/-2.6		0.0/-3.2	0.50	10.50
AU	RBA's Debelle Panel Participation at FINSIA Regulators Panel in Melbourne						2.00	12.00
JN	Tertiary Industry Index MoM	Sep		-0.2		0.0	5.30	15.30
GE	CPI MoM/YoY	Oct F		0.2/0.8		0.2/0.8	8.00	18.00
GE	CPI EU Harmonized MoM/YoY	Oct F		0.2/0.7		0.2/0.7	8.00	18.00
UK	Construction Output SA MoM/YoY	Sep		0/-0.4		-1.5/0.2	10.30	20.30
JN	Machine Tool Orders YoY	Oct P				-6.3		11-14 Nov release
US	U. of Mich. Sentiment/5-10 Yr Inflation	Nov P		88/		87.2/2.4	16.00	2.00
Monday, 14 November 2016								
NZ	Performance Services Index	Oct				54.1	22.30	8.30
JN	GDP SA QoQ	3Q P		0.2		0.2	0.50	10.50
CH	Industrial Production YoY/YTD	Oct		6.2/6.1		6.1/6.0	3.00	13.00
CH	Retail Sales YoY/YTD	Oct		10.7/10.4		10.7/10.4	3.00	13.00
CH	Fixed Assets Ex Rural YTD YoY	Oct		8.2/		8.2/0.0	3.00	13.00
JN	Industrial Production MoM/YoY	Sep F		/		0.0/0.9	5.30	15.30
EC	ECB's Constancio Speaks at Euro Finance Week in Frankfurt						9.30	19.30
EC	Industrial Production SA MoM/YoY	Sep		/		1.6/1.8	11.00	21.00
CA	Bloomberg Nanos Confidence	Nov 11				55.8	16.00	2.00
Tuesday, 15 November 2016								
NZ	Retail Sales Ex Inflation QoQ	3Q				2.3	22.45	8.45
US	Fed's Lacker Speaks at Washington College in Chestertown, MD						23.00	9.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Nov 13				117.8	23.30	9.30
US	Fed's Williams Speaks in San Francisco on Panel						0.30	10.30
AU	RBA Nov. Meeting Minutes						1.30	11.30
GE	GDP SA QoQ/YoY	3Q P		/		0.4/1.8	8.00	18.00
AU	RBA's Lowe Speech at CEDA Event in Melbourne						9.00	19.00
EC	ECB's Lautenschlaeger Speaks at Euro Finance Week in Frankfurt						9.30	19.30
UK	CPI MoM/YoY	Oct		/		0.2/1.0	10.30	20.30
UK	PPI Input NSA MoM/YoY	Oct		/		0.0/7.2	10.30	20.30
UK	House Price Index YoY	Sep				8.4	10.30	20.30
EC	Trade Balance SA	Sep				23.3	11.00	21.00
GE	ZEW Survey Current Situation/Expectations	Nov		/		59.5/6.2	11.00	21.00
EC	ZEW Survey Expectations	Nov				12.3	11.00	21.00
EC	GDP SA QoQ/YoY	3Q P		/		0.3/1.6	11.00	21.00
US	Fed's Rosengren Speaks to Portland, Maine Chamber of Commerce						13.30	23.30
US	Import Price Index MoM	Oct		0.3		0.1	14.30	0.30
US	Empire Manufacturing	Nov		-3/0.6		-6.8/0.6	14.30	0.30
US	Retail Sales Advance/Ex Autos and gas MoM	Oct		0.6		0.6	14.30	0.30
CA	Existing Home Sales MoM	Oct				0.8	15.00	1.00
EC	Bundesbank's Dombret Speaks at Euro Finance Week in Frankfurt						15.15	1.15
US	Business Inventories	Sep		0.2		0.2	16.00	2.00
EC	Ex-ECB's Trichet Speaks at Euro Financ Week in Frankfurt						16.45	2.45
US	Fed's Fischer Speaks at Brookings Instituton Market Liquidity						19.30	5.30
Wednesday, 16 November 2016								
AU	Westpac Leading Index MoM	Oct				0.1	0.30	10.30
JN	Housing Loans YoY	3Q				2.4	0.50	10.50
AU	Wage Price Index QoQ/YoY	3Q		/		0.5/2.1	1.30	11.30
AU	New Motor Vehicle Sales MoM/YoY	Oct		/		2.5/0.8	1.30	11.30
NZ	Non Resident Bond Holdings	Oct				65.0	3.00	13.00
US/UK	Fed's Bullard Speaks in London on `Monetary Policy after QE`						9.00	19.00
EC	Bundesbank's Thiele Speaks at Euro Finance Week in Frankfurt						9.00	19.00
UK	Jobless Claims Change	Oct				0.7	10.30	20.30
UK	Average Weekly Earnings/AWE ex bonus 3M/YoY	Sep		/		2.3/2.3	10.30	20.30
UK	ILO Unemployment Rate 3Mths/Employment Change 3M/Sep	Sep		/		4.9/106.0	10.30	20.30
EC	Bundesbank's Thiele Speaks at Euro Finance Week in Frankfurt						11.00	21.00
CA	Manufacturing Sales MoM	Sep				0.9	14.30	0.30
US	PPI Final Demand MoM/YoY	Oct		0.3/		0.3/0.7	14.30	0.30
US	PPI Ex Food, Energy, Trade MoM/YoY	Oct		0.2/		0.3/1.5	14.30	0.30
US	Industrial Production MoM	Oct		0.2		0.1	15.15	1.15
US	NAHB Housingq Market Index	Nov		63		63.0	16.00	2.00
Upcoming Central Bank Interest Rate Announcements								
New Zealand, RBNZ		10-Nov	1.75%	1.75%		2.00%		
Australia, RBA		1-Dec	1.50%	1.50%		1.50%		
Canada, BoC		7-Dec				0.50%		
Europe ECB		8-Dec				0.00%		
US Federal Reserve		15-Dec	0.25-0.50%	0.25-0.50%		0.25-0.50%		
UK BOE		15-Dec				0.25%		
Japan, BoJ		20-Dec				-0.1% to +0.1%		

GMT: Greenwich Mean Time; AEDT: Australian Daylight Savings Time

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