

All things must pass

Pretty much all the attention overnight has been on the outcome of the European Central Bank meeting, not so much whether the ECB would change any of its key policy rates, but what they would announce as far as bond purchases. The market was broadly expecting that the ECB was more than likely to continue with its program of purchasing €80bn/month beyond March 2017, perhaps with the opening that they could say “buy up to €80bn”.

The ECB announced that the bank would be reducing the amount of bond purchases from €80bn to €60bn after March through to December (and beyond if necessary). They also announced that they extend the range of the tenor of bonds purchased down to one year and that, if necessary, also buy bonds at yields of less than the ECB’s deposit facility rate that was of course left unchanged at -0.4%. The reduction in the tenor is a move that will help to increase the rundown in the ECB’s portfolio of (over €2tr), when they get to that point. Also, tilting purchases toward the shorter maturities would also steepen up the European rate curve, a point not lost on the European stock market with European bank stocks higher by 2.32% and the Eurostoxx 600 index 1.23% higher.

Given the above announcement to reduce bond purchases from March, one could have easily expected that the Euro would have been stronger this morning and European bond yields higher, though more at the longer end of the curve. This is not the case. This scribe had to look twice to see that the Euro was not in the 1.08-1.09 region, but instead trades this morning at just over 1.06. (The AUD/EUR is 0.7025.)

It was trading at around 1.08 before the announcement, it briefly spiked higher to around the 1.0825 region, before being sold aggressively. Reading between the lines, ECB President Draghi seems to have gotten his wish to reduce the amount of bond purchases – let’s for argument’s sake call that “tapering” for a moment – but also a weaker Euro. His language around the announcement and how he characterised the move was to send a message that there is still a very large amount of bond purchases. (The volume is back to March 15 to March 16 levels.) He was at pains to point out that this was “not tapering”, but re-calibrating the volume of ECB bond purchases. The ECB President said that there was a “very, very broad consensus”, that purchases would continue beyond 2017 if necessary to get inflation back to the ECB’s target of 2%. On the ECB’s forecasts, inflation gets back to 1.7% by 2019 from 1.3% next year.

The market seems to be taken something to heart from Draghi’s view that what was announced is not tapering, but a calibration. He said that tapering had not been discussed by the Board. Word games and semantics it seems. In his words, tapering is reducing to zero purchases. While noting that deflationary risks had abated, he said that there was still quite a lot of uncertainty and that the recovery likely remain fragile. Perhaps the Euro’s reaction was as much about Draghi’s characterisation of the economic outlook.

It’s going to be interesting to see how the market now trades the Euro, not only today, but into next week’s FOMC. The US rate market has continued to hold its pricing of a near certainty of a rate rise from the Fed next week and the focus will be on the dot plot Fed funds forecasts, the Fed’s outlook for the economy and Yellen’s presser. Has all the good news on the USD been priced in?

Meanwhile, the USD has been stronger overnight, making gains against most of the crosses overnight. The AUD is back down to 0.7460. The VIX is up smalls, US equities are also higher, while news on the commodity price front is mixed, base metals down, as is gold, iron ore and met coal too, while steaming coal rose \$US1/t. There was mixed fundamental news for the AUD yesterday with a larger than expected AU trade deficit, but the Chinese trade report revealed stronger than expected exports and imports. There was very little data overnight. US Jobless claims for the week to Dec 3 remained low at 255k.

Coming up

It’s a pretty light calendar to close off the week with NZ credit card lending and AU housing finance approvals with interest particularly in the investment lending component, that’s perked up somewhat in recent months, as investment housing credit growth, despite more cautionary lending. China also has its CPI and PPI reports for November, with little change in CPI from 2.1% in October expected to tick up to 2.2%, but PPI rising at 2.3%, up more from 1.2% to October, rising import commodity prices a factor.

Overnight

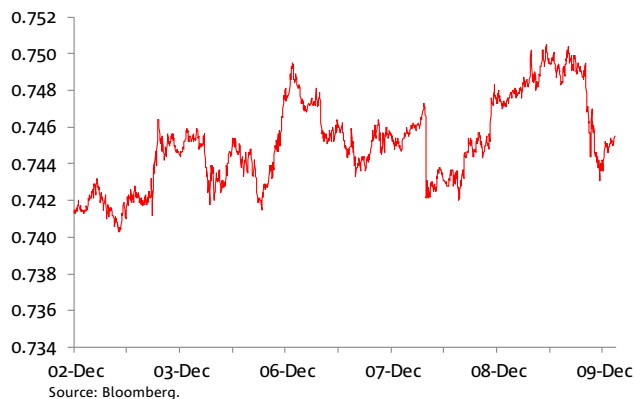
On global stock markets, the S&P 500 was +0.18%. Bond markets saw US 10-years +5.06bp to 2.39%. In commodities, Brent crude oil +1.79% to \$53.95, gold -0.4% to \$1,170, iron ore -0.6% to \$81.78, St. Coal +1.2% to \$84.00, Met. Coal -2.2% to \$280.00. AUD is at 0.746 and the range since yesterday 5pm Sydney time is 0.7431 to 0.7504.

Good luck.

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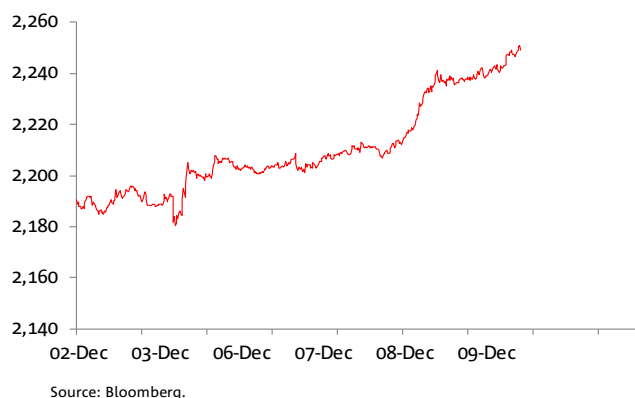
AUD/USD - past week



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	0.7460	-0.3	0.7429	0.7508	HKD	7.7554 0.0
NZD	0.7177	0.7	0.7146	0.7214	CNY	6.9025 0.3
EUR	1.0617	-0.9	1.0597	1.0875	SGD	1.4228 0.3
GBP	1.2589	0.0	1.2548	1.2708	IDR	13,313 0.1
JPY	114.00	-0.1	113.26	114.38	THB	35.64 0.0
CAD	1.3190	-0.7	1.3183	1.3251	KRW	1,162 0.2
AUD/EUR	0.7027	1.1	0.6891	0.7033	TWD	31.72 0.0
AUD/JPY	85.05	0.1	84.80	85.24	PHP	49.76 0.3
AUD/GBP	0.5926	0.2	0.5893	0.5935	CHF	1.02 0.5
AUD/NZD	1.0396	-0.5	1.0381	1.0410	SEK	9.14 0.2
AUD/CNH	5.1495	0.5	5.1323	5.1752		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.50	0.95	1.33	2.25	USD 10	2.39	5.06
AUD	1.50	1.77	1.86	2.94	AUD 10	2.73	-6.50 0.34
NZD	1.75	2.05	2.27	3.35	NZD 10	3.18	-4.70 0.78
EUR	0.00	-0.32	-0.16	0.76	CAD 10	1.65	5.20 -0.74
GBP	0.25	0.38	0.64	1.34	EUR 10	0.38	3.50 -2.01
JPY	-0.06	-0.06	0.03	0.22	GBP 10	1.38	2.30 -1.01
CAD	0.50	0.90	1.05	1.89	JPY 10	0.05	1.70 -2.34

Equities

Major Indices	Last	% day	% y/y
	Dow	19,623	0.37
S&P 500	2,245	0.18	8.8
Nasdaq	5,410	0.30	6.1
VIX	12	1.55	-29.5
FTSE	6,932	0.4	13.0
DAX	11,179	1.8	4.7
CAC 40	4,735	0.9	1.1
Nikkei	18,765	1.5	-2.8
Shanghai	3,215	-0.2	-7.4
Hang Seng	22,862	0.3	4.9
ASX 200	5,544	1.2	9.1

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.24	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.25	1.50
3/10 sprd	0.55	1.50
SPI	5560.0	-79.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	53.95	1.8
Oil (WTI)	50.87	2.2
Oil (Tapis)	53.86	-1.2
Gold	1169.80	-0.4
CRB	191.41	0.3
GS Metals	315.8	0.0
Aluminium	1731.3	1.1
Copper	5778.8	0.0
Nickel	11061.0	-2.7
Zinc	2673.8	-1.9
Ch. steel	3291.0	-1.4
Iron ore	81.8	-0.6
St. Coal	84.0	1.2
Met.coal	280.0	-2.2
Wheat Chic.	418.8	1.5
Sugar	19.5	-0.9
Cotton	71.4	-1.0
Coffee	141.4	-0.2

CO₂ Emissions - Euros

	Last	% day
Dec-2016	4.59	7.0
Jun-2017	4.61	7.2

* cisd = 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
Friday, 9 December 2016								
US	Household Change in Net Worth	3Q				1075.0	18.00	4.00
NZ	Card Spending Retail/Total MoM	Nov		0.4		0.6/0.6	22.45	8.45
NZ	REINZ House Sales YoY	Nov				-14.2		
JN	BSI Large All Industry/Manufacturing QoQ	4Q				1.9/2.9	0.50	10.50
AU	Home Loans/Investment MoM	Oct		-1		1.6/4.6	1.30	11.30
CH	CPI/PPI YoY	Nov		2.2/2.3		2.1/1.2	2.30	12.30
JN	Machine Tool Orders YoY	Nov P				-8.9	7.00	17.00
GE	Current Account Balance	Oct		22		24.2	8.00	18.00
GE	Exports SA MoM	Oct		0.9		-0.7	8.00	18.00
EU	ECB's Smets Speaks at Banking Conference in Brussels						9.00	19.00
UK	Trade Balance	Oct		-4300		-5221.0	10.30	20.30
UK	Construction Output SA MoM/YoY	Oct		0.2		0.3/0.2	10.30	20.30
UK	BoE/TNS Inflation Next 12 Mths	Nov				2.2	10.30	20.30
US	Wholesale Inventories/Sales MoM	Oct F		-0.4		-0.4/0.2	16.00	2.00
US	U. of Mich. Sentiment/5-10y Inflationary expectations	Dec P		94.5		93.8/2.6	16.00	2.00
CH	New Yuan Loans/Aggregate Financing CNY	Nov		720/1098.17		651.3/896.3	10-15 Dec release	
Monday, 12 December 2016								
CH	Foreign Direct Investment YoY CNY	Nov		1.95		1.2		
NZ	REINZ House Sales YoY	Nov				-14.2		
JN	Machine Orders MoM/YoY	Oct		1/-4.9		-3.3/4.3	0.50	10.50
JN	PPI MoM/YoY	Nov		0.3/-2.2		-0.1/-2.7	0.50	10.50
JN	Tertiary Industry Index MoM	Oct		0.5		-0.1	5.30	15.30
JN	Machine Tool Orders YoY	Nov P				-8.9	7.00	17.00
CA	Bloomberg Nanos Confidence	Dec 9				55.6	16.00	2.00
Tuesday, 13 December 2016								
NZ	Mfg Activity Volume/Activity QoQ	3Q				2.8	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Dec 11				118.6	23.30	9.30
AU	NAB Business Conditions/Confidence	Nov				6.0	1.30	11.30
AU	House Price Index QoQ/YoY	3Q		/4.3		2.0/4.1	1.30	11.30
CH	Industrial Production YoY/YTD YoY	Nov		6.1/6		6.1/6.0	3.00	13.00
CH	Retail Sales YoY/YTD YoY	Nov		10.2/10.3		10.0/10.3	3.00	13.00
CH	Fixed Assets Ex Rural YTD YoY	Nov		8.3		8.3	3.00	13.00
GE	CPI EU Harmonized MoM/YoY	Nov F		/		0.0/0.7	8.00	18.00
UK	CPI MoM/YoY	Nov		0.2/1.1		0.1/0.9	10.30	20.30
UK	CPI Core YoY	Nov		1.3		1.2	10.30	20.30
UK	PPI Input NSA MoM/YoY	Nov		-0.5/13.5		4.6/12.2	10.30	20.30
UK	PPI Output Core NSA MoM/YoY	Nov		0.1/2.2		0.4/1.9	10.30	20.30
UK	House Price Index YoY	Oct		7.2		7.7	10.30	20.30
EC	Employment QoQ/YoY	3Q		/		0.4/1.4	11.00	21.00
GE	ZEW Survey Current Situation/Expectations	Dec		/		58.8/13.8	11.00	21.00
EC	ZEW Survey Expectations	Dec				15.8	11.00	21.00
US	NFIB Small Business Optimism	Nov		96.5		94.9	12.00	22.00
US	Import Price Index MoM/YoY	Nov		-0.3/0.1		0.5/-0.2	14.30	0.30
Wednesday, 14 December 2016								
AU	Westpac Consumer Conf Index/MoM	Dec		/		101.3/-1.1	0.30	10.30
JN	Tankan Large Mfg Index/Outlook	4Q		10/18		6.0/16.0	0.50	10.50
JN	Tankan Large All Industry Capex	4Q		6.1		6.3	0.50	10.50
AU	New Motor Vehicle Sales MoM/YoY	Nov		/		-2.4/1.2	1.30	11.30
JN	Industrial Production MoM/YoY	Oct F		/		0.1/-1.3	5.30	15.30
JN	Capacity Utilization MoM	Oct				-2.0	5.30	15.30
UK	Jobless Claims Change	Nov		6.75		9.8	10.30	20.30
UK	Average Weekly Earnings/ex bonus 3M/YoY	Oct		2.3/2.6		2.3/2.4	10.30	20.30
UK	Employment Change/Unemployment rate 3M/3M	Oct		50/4.8		49.0/4.8	10.30	20.30
EC	Industrial Production SA MoM/YoY	Oct		/		-0.8/1.2	11.00	21.00
US	MBA Mortgage Applications	Dec 9				-0.7	13.00	23.00
US	Retail Sales Advance/ex autos and gas MoM	Nov		0.3/0.5		0.8/0.6	14.30	0.30
US	Retail Sales Control Group	Nov		0.45		0.8	14.30	0.30
US	PPI Final Demand MoM/YoY	Nov		0.1		0.0	14.30	0.30
CA	Teranet/National Bank HPI MoM/YoY	Nov				0.3	14.30	0.30
US	Capacity Utilization	Nov		75.1		75.3	15.15	1.15
US	Industrial Production MoM	Nov		-0.1		0.0	15.15	1.15
US	Business Inventories	Oct		-0.1		0.1	16.00	2.00
US	FOMC Rate Decision (Lower/Upper Bound)	Dec 14		0.5/0.75		0.25/0.50	20.00	6.00
Upcoming Central Bank Interest Rate Announcements								
US	Federal Reserve	15-Dec	0.5-0.75%	0.5-0.75%		0.25-0.50%		
UK	BOE	15-Dec		0.25%		0.25%		
Japan	BoJ	20-Dec		-0.1% to +0.1%		-0.1% to +0.1%		
Europe	ECB	19-Jan		0.00%		0.00%		
Canada	BoC	19-Jan				0.50%		
Australia	RBA	7-Feb	1.50%	1.50%		1.50%		
New Zealand	RBNZ	9-Feb	1.75%	1.75%		1.75%		

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

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