

Two become three

As expected the Fed lifted the Federal Funds rate target by 0.25bps taking the range to 0.5%-75% from 0.25%-0.5%. More importantly, however forecasts for the future Fed Funds rate path (the so called dot plot) now suggest 3 hikes in 2017 versus 2 previously and three hikes in 2018 and 2019, same as before. This is the first increase in the dot points since September 2014 and interestingly, as well, now there is a greater dispersion in the forecast, suggesting a wider range of views and a tinge of more hawkishness than before. For example, previously in 2017 2 hikes had 7 votes, now 3 hikes has 6 votes and 4 hikes has 3 votes. Similarly in September 2018 3 hikes had 7 votes and now 3 hikes has 5 votes and four hikes has 3 votes. So while the median for 2018 is unchanged, there is certainly a bias for more hikes than before.

Reading through the Statement, the Committee's expectations of further expansion in economic activity as well as additional strengthening in the labour market and further rise in inflation were cited as the reasons for raising the target range for the Federal Funds Rate. The new set of forecasts shows a very mild upward revision to GDP growth, for 2016 GDP growth is now seen at 1.9% vs 1.8% previously and 2017 is now seen at 2.1% vs 2.0%. The unemployment rate in 2016 is now seen at 4.7% vs 4.8% previously and 4.5% in 2017 versus 4.6%. Meanwhile core PCE and headline PCE have been left unchanged, however the Statement recognizes the pick-up in inflation and it notes inflation compensation has moved up "considerably". On this score it is interesting to note that Fed Chair Yellen said that some FOMC participants adjusted their forecast based on expectations of further fiscal stimulus.

Market reaction to the more hawkish Fed outlook has seen the USD rise across board while US Treasury yields have also shifted higher with the move led by the front end of the curve. Meanwhile US equities have fallen sharply on the news with the Dow, S&P and NASDAQ down between 0.5% a 0.80% as we type.

Looking at currencies in more detail, NOK (-1.66%) and Yen (-1.18%) are at the bottom of the pile, essentially following the moves in oil and US Treasury yields respectively while the AUD and NZD are about 1% lower reflecting the increase in risk aversion. Meanwhile GBP is the best G10 performer, winning the least ugly contest.

Unsurprisingly prior to the Fed announcements markets were essentially marking time. US equities were traded in a narrow range, oil prices drifted lower throughout the night and USD was a little changed against most currencies,

barring the CAD and the NOK which were seemingly affected by the retreat in oil prices.

As for data releases overnight, US data came out on the disappointing side and played into the softer USD tone pre FOMC. US retail sales printed below consensus across the board (0.1% vs 0.3%e, ex auto +0.2% vs 0.4%e and control group 0.1% vs 0.3%e) and industrial production fell by 0.4% in November below consensus of -0.3%.

UK unemployment held steady at 4.8%, but the employment change (-6k vs 50ke) was a big miss while average earnings (ex bonus) were a bit stronger. Cable was unperturbed by the data and indeed it managed to climb above 1.27 pre FOMC, buoyed by the broad USD weakness seen prior the announcement.

Coming Up

We have another full calendar today starting with Australia's labour force report, PMI data in Europe and Bank of England's policy announcement followed by US CPI figures along with activity and housing data releases.

NAB expects that Australia's unemployment rate will remain unchanged at 5.6% (in line with consensus) while employment growth for the month is seen at 13k, slightly below market expectations of 17.5k. As usual, the well-known limitations of the survey along with its volatile nature mean that we should not place too much weight on the monthly change in employment. Instead, more attention should be given to the unemployment rate which in our view is a more reliable short-term indicator of labour market health. Importantly as well, this mid quarter release provides estimates of under-employment and the under-utilisation rates. Unlike the unemployment rate which has been trending lower in recent months, the under-employment rate (those wanting to work more hours than they are currently working) has been rising and this is a measure the RBA has been highlighting as one of the reasons why the labour market has been "more mixed" than what the headline rate might suggest.

Germany's preliminary PMIs for November should confirm economic activity in Europe's largest economy remains in expansionary mode and it should help reinforce the view that the economy continues to accelerate in Q4.

Ahead of the BoE policy announcement, the UK releases its retail sales figures for November and the market is looking for a flat outcome on the monthly reading which should drag the year on year figure to 6% from 7.6% previously. As for the BoE, no surprises are expected. The Bank Rate is expected to remain unchanged and the minutes are

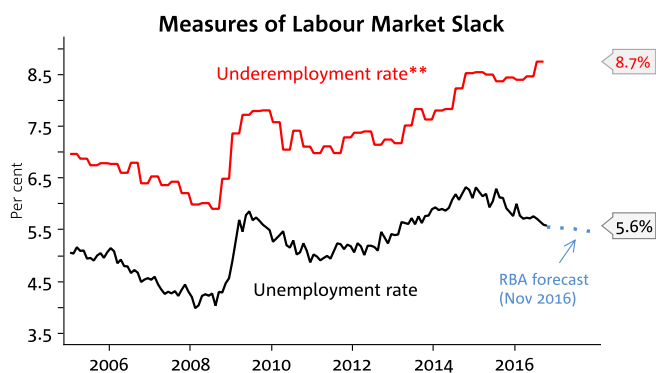
anticipated to reiterate the committee's neutral bias over the near term.

The US November CPI figures are likely to show a monthly rise of 0.2% for both the core and headline numbers. On a year on year basis, core inflation (2.2% vs 2.1%) is still expected to outpace the headline reading (1.7% vs 1.6%), but market's attention is likely to be centred on the extent to which labour costs push core inflation higher. The Philly Fed and Empire state surveys are also due for release along with weekly jobless claims, Q3 current account and the NAHB housing market index.

Overnight

On global stock markets, the S&P 500 was -0.61%. Bond markets saw US 10-years +6.07bp to 2.53%. In commodities, Brent crude oil -3.45% to \$53.8, gold+0.4% to \$1,161, iron ore -5.1% to \$79.18, St. Coal +1.8% to \$87.55, Met. Coal +0.0% to \$270.00. AUD is at 0.7415 and the range since yesterday 5pm Sydney time is 0.7487 to 0.752.

Chart of the Day- AU measures of labour mkt slack



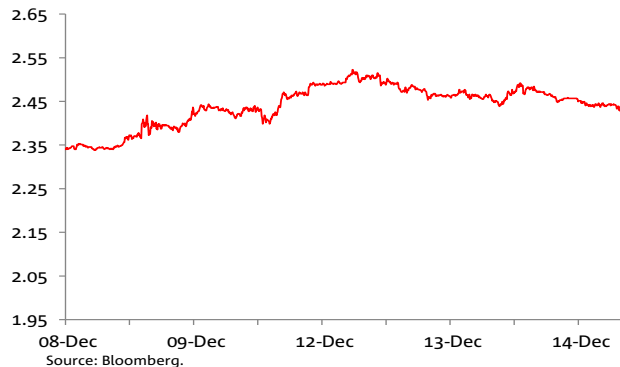
** Would like to work more hours (and is able to work more hours)
Source: National Australia Bank, ABS, RBA

Markets

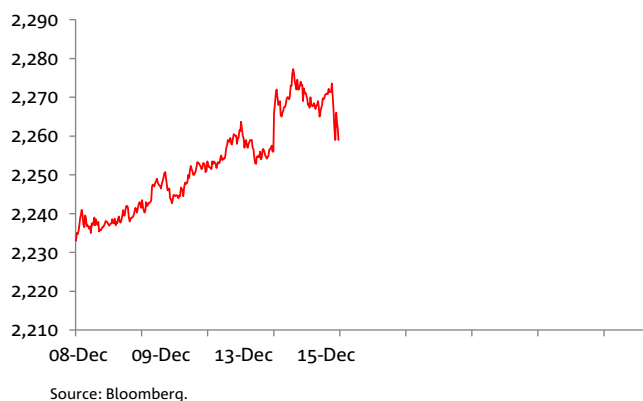
AUD/USD - past week



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	0.7415	-1.1	0.7412	0.7525	HKD	7.7587 0.0
NZD	0.7124	-1.1	0.7121	0.7239	CNY	6.9049 0.0
EUR	1.0533	-0.9	1.0529	1.0670	SGD	1.4359 0.8
GBP	1.2577	-0.6	1.2571	1.2722	IDR	13,294 -0.2
JPY	116.74	1.3	114.77	116.78	THB	35.68 0.3
CAD	1.3267	1.0	1.3082	1.3276	KRW	1,170 0.2
AUD/EUR	0.7039	-0.3	0.7028	0.7066	TWD	31.75 -0.1
AUD/JPY	86.56	0.2	86.17	86.83	PHP	49.80 0.0
AUD/GBP	0.5896	-0.5	0.5891	0.5948	CHF	1.02 0.8
AUD/NZD	1.0407	0.0	1.0375	1.0422	SEK	9.26 1.0
AUD/CNH	5.1878	0.3	5.1309	5.2095		

Equities

Major Indices	Last	% day	% y/y
Dow	19,822	-0.45	14.1
S&P 500	2,258	-0.61	11.7
Nasdaq	5,447	-0.30	10.0
VIX	13	2.20	-42.8
FTSE	6,949	-0.3	18.3
DAX	11,245	-0.4	10.9
CAC 40	4,769	-0.7	6.6
Nikkei	19,254	0.0	3.7
Shanghai	3,141	-0.5	-10.5
Hang Seng	22,457	0.0	5.6
ASX 200	5,585	0.7	13.8

Commodities*

	Last	% day
Oil (Brent)	53.80	-3.4
Oil (WTI)	50.86	-4.0
Oil (Tapis)	55.97	-1.0
Gold	1161.30	0.4
CRB	191.79	-0.9
GS Metals	315.2	0.0
Aluminium	1753.8	0.3
Copper	5715.5	0.7
Nickel	11371.0	0.3
Zinc	2793.8	3.9
Ch. steel	3328.0	-4.0
Iron ore	79.2	-5.1
St. Coal	87.6	1.8
Met.coal	270.0	0.0
Wheat Chic.	418.0	0.1
Sugar	18.0	-3.1
Cotton	71.5	-0.8
Coffee	144.2	0.9

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.75	0.96	1.48	2.41	USD 10	2.53	6.07
AUD	1.50	1.77	1.94	3.02	AUD 10	2.79	-3.00 0.26
NZD	1.75	2.04	2.35	3.49	NZD 10	3.30	0.60 0.77
EUR	0.00	-0.32	-0.17	0.76	CAD 10	1.77	1.20 -0.76
GBP	0.25	0.38	0.64	1.34	EUR 10	0.30	-5.90 -2.23
JPY	-0.03	-0.06	0.03	0.24	GBP 10	1.39	-5.50 -1.15
CAD	0.50	0.90	1.13	2.01	JPY 10	0.06	-2.70 -2.47

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.21	-2.00
3 Yr bond	97.8	3.00
10 Yr bond	97.19	0.00
3/10 sprd	0.61	3.00
SPI	5559.0	-9.0

*Change in bps

CO₂ Emissions - Euros

	Last	% day
Dec-2016	5.00	4.6
Jun-2017	5.02	4.8

* 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, 15 December 2016								
NZ	BusinessNZ Manufacturing PMI	Nov				55.2	22.30	8.30
NZ	Value of All Buildings SA QoQ	3Q	2.5	2.1		5.5	22.45	8.45
AU	Consumer Inflation Expectation	Dec				3.2	1.00	11.00
AU	Employment Change/Unemployment rate	Nov	13/5.6	17.5/5.6		9.8/5.6	1.30	11.30
AU	Participation Rate	Nov	64.5	64.5		64.4	1.30	11.30
AU	RBA FX Transactions Market	Nov				439.0	1.30	11.30
JN	Machine Tool Orders YoY	Nov F				-5.6	7.00	17.00
GE	Markit/BME Germany Manufacturing/Services PMI	Dec P		54.5/54.9		54.3/55.1	9.30	19.30
GE	Markit/BME Germany Composite PMI	Dec P		54.9		55.0	9.30	19.30
EC	Markit Eurozone Manufacturing/Services PMI	Dec P		53.7/53.8		53.7/53.8	10.00	20.00
EC	Markit Eurozone Composite PMI	Dec P		53.9		53.9	10.00	20.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Nov		0/6		2.0/7.6	10.30	20.30
UK	Bank of England Bank Rate	Dec 15	0.25	0.25		0.3	13.00	23.00
UK	BOE Asset Purchase/Corporate Bond Target	Dec	435/10	435/10		435/10	13.00	23.00
CA	Manufacturing Sales MoM	Oct		0.4		0.3	14.30	0.30
US	Current Account Balance	3Q		-111.6		-119.9	14.30	0.30
US	Empire Manufacturing	Dec		4		1.5	14.30	0.30
US	CPI MoM/YoY	Nov		0.2/1.7		0.4/1.6	14.30	0.30
US	CPI Ex Food and Energy MoM/YoY	Nov		0.2/2.2		0.1/2.1	14.30	0.30
US	Initial Jobless Claims	Dec 10		255		258.0	14.30	0.30
US	Philadelphia Fed Business Outlook	Dec		9.1		7.6	14.30	0.30
CA	Existing Home Sales MoM	Nov				2.4	15.00	1.00
US	Markit US Manufacturing PMI	Dec P		54.5		54.1	15.45	1.45
US	NAHB Housing Market Index	Dec		63		63.0	16.00	2.00
Friday, 16 December 2016								
US	Total/Long term Net TIC Flows	Oct		/		-152.9/-26.2	22.00	8.00
NZ	ANZ Consumer Confidence Index/MoM	Dec		/		127.2/3.5	1.00	11.00
EC	Trade Balance SA	Oct		24.5		24.9	11.00	21.00
EC	Labour Costs YoY	3Q				1.0	11.00	21.00
EC	CPI MoM/YoY	Nov		-0.1/0.6		0.2/0.5	11.00	21.00
EC	CPI Core YoY	Nov F		0.8		0.8	11.00	21.00
UK	CBI Trends Total Orders/Selling Prices	Dec		-5/20		-3.0/19.0	12.00	22.00
US	Housing Starts/MoM	Nov		1230/-7		1323/25.5	14.30	0.30
US	Fed's Lacker, Bank of America's Moynihan to Speak in Charlotte						18.30	4.30
Monday, 19 December 2016								
NZ	Westpac Consumer Confidence	4Q				108.0	22.00	8.00
NZ	Performance Services Index	Nov				56.3	22.30	8.30
NZ	Building Permits MoM	Oct				0.2	22.45	8.45
AU	Budget MYEFO							
JN	Trade Balance Adjusted	Nov				474.3	0.50	10.50
JN	Exports/Imports YoY	Nov		/		-10.3/-16.5	0.50	10.50
NZ	ANZ Activity Outlook/Business Confidence	Dec		/		37.6/20.5	1.00	11.00
UK	Rightmove House Prices MoM/YoY	Jan		/		-2.1/3.4	1.10	11.10
CH	Property Prices	Nov						
GE	IFO Business Climate	Dec				110.4	10.00	20.00
GE	IFO Current Assessment/Expectations	Dec		/		115.6/105.5	10.00	20.00
EC	Construction Output MoM/YoY	Oct		/		-0.9/1.8	11.00	21.00
US	Markit US Services PMI	Dec P				54.6	15.45	1.45
CA	Bloomberg Nanos Confidence	Dec 16				56.2	16.00	2.00
Tuesday, 20 December 2016								
NZ	Food Prices MoM	Nov				-0.8	22.45	8.45
AU	RBA Dec. Meeting Minutes						1.30	11.30
EC	ECB Current Account SA	Oct				25.3	10.00	20.00
UK	CBI Retailing Reported Sales	Dec				26.0	12.00	22.00
JN	BOJ Policy Rate	Dec 20				-0.1		
JN	BOJ Monetary Policy Statement							
CA	Wholesale Trade Sales MoM	Oct				-1.2	14.30	0.30
Wednesday, 21 December 2016								
CH	Conference Board Leading Economic Index	Nov						
NZ	Net Migration SA	Nov				6240.0	22.45	8.45
NZ	Trade Balance NZD	Nov				-846.0	22.45	8.45
AU	Westpac Leading Index MoM	Nov				0.1	0.30	10.30
AU	Skilled Vacancies MoM	Nov				-0.4	1.00	11.00
NZ	Credit Card Spending MoM/YoY	Nov		/		2.8/10.2	3.00	13.00
JN	All Industry Activity Index MoM	Oct				0.2	5.30	15.30
UK	Public Finances (PSNCR)	Nov				-3.4	10.30	20.30
UK	Central Government NCR	Nov				-4.0	10.30	20.30
UK	Public Sector Net Borrowing	Nov				4.3	10.30	20.30
UK	PSNB ex Banking Groups	Nov				4.8	10.30	20.30
EC	Consumer Confidence	Dec A				-6.1	16.00	2.00
US	Existing Home Sales/MoM	Nov		5.5/-1.79		5.6/2.0	16.00	2.00
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%		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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