

Your 'love' keeps lifting me higher & higher

Yesterday's US Fed meeting continues to reverberate across financial markets, driving US Treasury yields and the US dollar higher, and giving inspiration to today's title courtesy of Jimmy Barnes ([your love keeps lifting me higher & higher](#)). Equities also joined in to the moves last night with investors seemingly reassured of the prospects of stronger US economic growth even if interest rates are moving higher.

While we wrote about the FOMC yesterday, there are two points worth emphasising here. The first is that the Fed's forecast track for rates points to three rate hikes in 2017 where previously it was only two. And second, only 'some' members had incorporated a change in fiscal policy settings to their projections. That means the Fed has not really incorporated much of the anticipated Trump Administration's infrastructure and tax policies into its forecasts – this is important as these policies are seen as inflationary given the US is close to full employment. Reinforcing this notion, Fed Chair Yellen in her press conference yesterday noted that “fiscal policy...could potentially affect the economic outlook” and that “fiscal policy is not obviously needed to provide stimulus to help us get back to full employment”.

Given broad US dollar strength (the US dollar was up 1.0% overnight), all G10 currency pairs were lower overnight. The Aussie outperformed, down only 0.6%. Some of that outperformance relates to the headline Aussie jobs figures yesterday which rose 39.1k m/m against expectations of a 17.5k increase. Your scribe cautions that all those gains were concentrated in QLD, with the details being less positive and supporting the notion of some loss of momentum occurring in the larger non-mining states of NSW and Vic. Other currency moves were broadly in line with the US dollar with Euro down 1.1%, Pound down 1.0% and the Kiwi also down 1.1%.

US Treasury yields were broadly unchanged overnight, but have surged 15 basis points since the FOMC meeting yesterday to be at 2.59% (note they did reach a recent high of 2.64%). Most government bond markets took their lead from the moves in US Treasuries yesterday, with German Bunds up 6.4 bps to 0.37%, UK Gilts up 10.2 bps to 1.49%, and Australian CGS also up 7.9 bps to 2.87%.

While you would have thought equities would have sold off in the event, equities were also higher. The S&P500 rose 0.4%, while equity markets in Europe were also positive with the DAX up 1.1% and the FTSE up 0.7%. Financial stocks continue to outperform in the US, with the financial sub-

index up 1.2% helped by the background of less financial regulation under a Trump Presidency.

Strong economic data likely helped reinforce the view of prospects of stronger US growth. Regional manufacturing indices were very positive with the Philly Fed at 21.5 from 7.6 – a considerable lift and also evidence of momentum building in manufacturing. Homebuilder sentiment also was very strong, recording its strongest reading since July 2005. Low levels of US jobless claims reinforced the view of the US being close to full employment, while on target US CPI will mean inflation will likely pick-up to the Fed's target (core CPI was 0.2% m/m as expected with the core measure running at an annual pace of 2.1%). Not to be outdone, the Euro flash PMIS were as expected, with better numbers coming in from France, while UK core retail sales outperformed -up 0.5% against expectations of a flat read.

Finally the Bank of England and Norway's central bank met yesterday, both holding rates steady as expected. The BoE noted that the recent rally in the Pound, up some 6% since the start of November, would “point to less of an overshoot in inflation relative to the target in the medium term”. While Norway's central bank continues to note that there is a slightly higher probability of a cut than a hike in the year ahead.

Coming Up

A very quiet day ahead with no Australian data. Australian focus today will be on Monday's Mid-Year Budget Update and the possibility of any credit rating downgrade. S&P and Moody's said yesterday that if there was a clear case for a downgrade or leaving as is, then that decision could be made fairly quickly – if not on Monday when MYEFO is released then in the few days before Christmas.

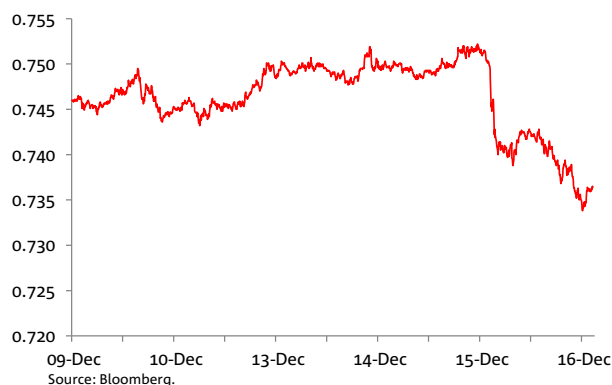
Across the ditch, there is the ANZ Consumer Confidence Index. Globally, the Euro area has its trade balance and monthly CPI figures for November, while the UK has CBI Trends, and US has housing starts. Fed talk resumes with the Fed's Lacker on a panel at the Charlotte Chamber's 2016 Economic Outlook Conference.

Overnight

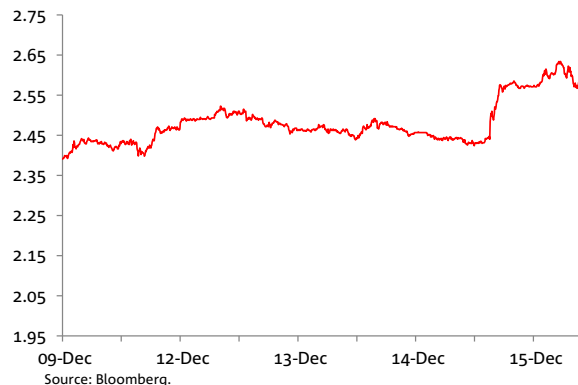
On global stock markets, the S&P 500 was +0.44%. Bond markets saw US 10-years +0.20bp to 2.57%. In commodities, Brent crude oil +0.22% to \$54.02, gold -2.6% to \$1,131, iron ore +2.9% to \$81.50, St. Coal +1.5% to \$88.85, Met. Coal +0.0% to \$270.00. AUD is at 0.7365 and the range since yesterday 5pm Sydney time is 0.7338 to 0.7428.

Markets

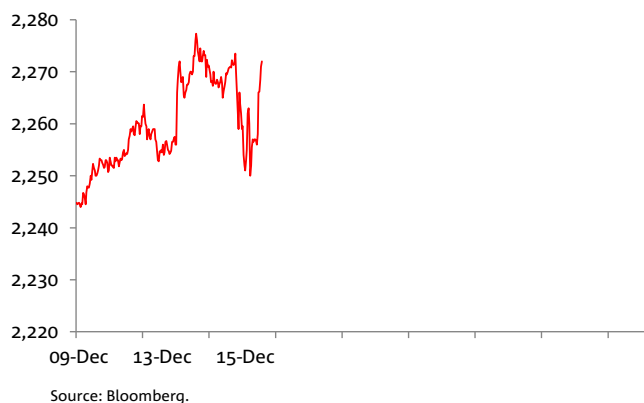
AUD/USD - past week



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	0.7365	-0.6	0.7338	0.7431	HKD	7.7588 0.0
NZD	0.7039	-1.1	0.7010	0.7124	CNY	6.9467 0.6
EUR	1.0425	-1.1	1.0367	1.0539	SGD	1.4422 0.4
GBP	1.2447	-0.9	1.2376	1.2568	IDR	13,384 0.7
JPY	117.91	0.7	117.01	118.66	THB	35.78 0.3
CAD	1.3347	0.5	1.3270	1.3417	KRW	1,178 0.7
AUD/EUR	0.7065	0.5	0.7022	0.7095	TWD	31.91 0.5
AUD/JPY	86.84	0.2	86.62	87.54	PHP	49.89 0.2
AUD/GBP	0.5918	0.4	0.5890	0.5932	CHF	1.03 0.9
AUD/NZD	1.0463	0.6	1.0396	1.0473	SEK	9.39 1.4
AUD/CNH	5.1107	-1.5	5.0904	5.1962		

Equities

Major Indices			
	Last	% day	% y/y
Dow	19,861	0.35	13.3
S&P 500	2,263	0.44	10.8
Nasdaq	5,458	0.39	9.2
VIX	13	-3.41	-39.2
FTSE	6,999	0.7	16.3
DAX	11,366	1.1	8.8
CAC 40	4,819	1.0	4.4
Nikkei	19,274	0.1	1.2
Shanghai	3,118	-0.7	-11.3
Hang Seng	22,059	-1.8	1.7
ASX 200	5,539	-0.8	10.1

Commodities*

	Last	% day
Oil (Brent)	54.02	0.2
Oil (WTI)	50.87	-0.3
Oil (Tapis)	55.32	-1.2
Gold	1130.90	-2.6
CRB	190.48	-0.7
GS Metals	317.8	0.0
Aluminium	1743.0	-0.6
Copper	5723.5	0.1
Nickel	11251.0	-1.1
Zinc	2800.5	0.2
Ch. steel	3325.0	-1.0
Iron ore	81.5	2.9
St. Coal	88.9	1.5
Met.coal	270.0	0.0
Wheat Chic.	421.3	0.8
Sugar	18.6	2.9
Cotton	71.7	0.3
Coffee	142.2	-1.4

Interest Rates

Indicative Swap Rates				Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.75	0.97	1.51	2.48	USD 10	2.57	-0.36
AUD	1.50	1.78	1.94	3.09	AUD 10	2.87	7.90 0.30
NZD	1.75	2.05	2.39	3.59	NZD 10	3.39	10.70 0.82
EUR	0.00	-0.32	-0.16	0.76	CAD 10	1.81	2.30 -0.75
GBP	0.25	0.38	0.67	1.43	EUR 10	0.37	6.40 -2.20
JPY	-0.03	-0.05	0.04	0.27	GBP 10	1.49	10.20 -1.08
CAD	0.50	0.91	1.15	2.04	JPY 10	0.09	3.10 -2.48

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.20	-3.00
3 Yr bond	97.8	3.00
10 Yr bond	97.08	-7.20
3/10 sprd	0.72	10.20
SPI	5540.0	38.0

*Change in bps

CO₂ Emissions - Euros

	Last	% day
Dec-2016	4.79	-4.2
Jun-2017	4.81	-4.2

* 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, 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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