

Don't let me down

According to the AFR yesterday, Treasurer Scott Morrison has told cabinet's powerful budget razor gang to prepare for the worst on the AAA rating, suggesting it will be lost barring some unexpected change that sways credit agencies at the last minute. The comments suggest that his appeals to the Agencies to 'not let me (the AAA) down' and have not so far made an impression. That news could come as early as this afternoon following the midday release of the MYEFO (see Coming Up below).

Market wise, after what was shaping up to be a fairly subdued end to another tumultuous week, markets were enlivened soon the 4pm London fixing by news that China had seized a US underwater drone in the South China Sea. This triggered a fairly short but sharp "risk off" episode in which US bond yields, equities and the dollar all fell back. Yields and the dollar subsequently recovered though equities continued to drift lower with the S&P500 ended the day 0.18% lower (and 0.1% down on the week after closing at a new record high the previous Friday). The VIX finished 0.59 lower Friday but 0.45 up on the week at 12.2.

USD/JPY was the biggest G10 mover (down) on the China news, losing almost a big figure, so a timely reminder that the yen remains the preeminent safe haven currency and that in 2017 it's likely to be a case of 'two steps forward, one step back' if higher US yields alongside successful BoJ yield curve control do continue to drive the pair onwards and upwards. In bonds, the US Treasury curve ended up in a mild bull steepener, 2s -2.1bps to 1.254% (+11.9bps on the week); 5s -2.3bps to 2.066% (+17.5bps on the week) and 10s -0.5% to 2.593% (+12.5bps).

Two Fed officials spoke Friday night: James Bullard says he now wants to see another rate rise next year (having previously held a 'one and done' view in the months leading up to last week's rate rise. He also wants to see the Fed start shrinking its balance sheet next year. And Richmond Fed President Jeffrey Lacker, a noted hawk but not a voter this year or next, says his guess is that the Fed will need to raise rates more than three

In FX, The BBDXY dollar index finished 0.03% lower but is 1.2% up on the week The NZD was the biggest G10 loser Friday, down 1.07% to 0.6963 and to its lowest closing level since 6th June. It's also the biggest loser over the week, -2.4%, closely followed by the yen, USD/JPY +2.3% on the week after falling by 0.21% Friday to finish at ¥117.93.

AUD/USD lost 0.73% to 0.7304 (lowest since 2nd June) and is currently sitting at almost the same level it ended 2015

(0.7286) and almost slap bang in the middle of the effective 0.68-0.78 2016 year-to-date range.

In commodities gold caught a small safe haven bid to add \$7.50 to \$1135.3 but is still \$24 down on the week. Oil can still do no wrong, WTI +\$1.0 to \$51.90 but is only 40 cents up on the week while Brent added \$1.20 to \$55.21 and is 88 cents up on the week. Iron ore was flat at 81.49 (and 17 cents down on the week).

Coming Up

Globally, the big remaining event risks of the year should now be behind us, though Janet Yellen does speak tonight on the labour market, a topic that is of course germane to the 2017 Fed policy outlook. Markets ended last week pricing about 60bp of tightening in 2017 – so a bit less than the 75bps suggested by the new median FOMC 'dot plot'.

The US economic calendar is light, November's readings on personal Income, spending and the PCE deflators probably the pick of the crop, on Thursday. Thursday also sees revised Q3 GDP and durable goods orders.

New Zealand has its Q3 GDP numbers on Thursday and where our BNZ colleagues are projecting 0.9% (3.7% y/y) with upside risks. The backdrop is a NZ money market now fully priced for one quarter point RBNZ tightening in 2017.

Here in Australia, the main event is today's Mid-Year Economic and Fiscal Outlook (MYEFO), expected at midday. A downgrade by Standard and Poor's to Australia's AAA rating remains very likely by mid-2017 with, in NAB's view, a 50:50 chance in happens this week following the MYEFO.

A sovereign downgrade would flow more or less automatically into one-notch downgrades for the big banks and AAA state governments (NSW and Victoria). To a large extent (e.g. looking at where Australia's sovereign Credit Default Swaps already trade) a downgrade is already quite well priced. Doubtless though there would be some 'sticker shock' on the day – including a lower AUD - were it to eventuate even if the willingness of foreign investors to continue owning Australian assets (government or otherwise) is unlikely to be materially impacted.

Overnight

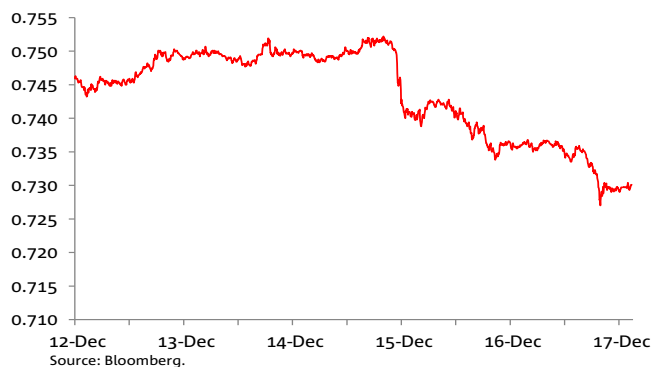
On global stock markets, the S&P 500 was -0.18%. Bond markets saw US 10-years -0.51bp to 2.59%. In commodities, Brent crude oil +2.20% to \$55.21, gold+0.7% to \$1,135, iron ore -0.0% to \$81.49, St. Coal -2.6% to \$86.50; Met. coal didn't trade so unch. @ \$270.00. AUD is at 0.7301 and the range since Friday 5pm Sydney time is 0.727 to 0.7366.

Author:

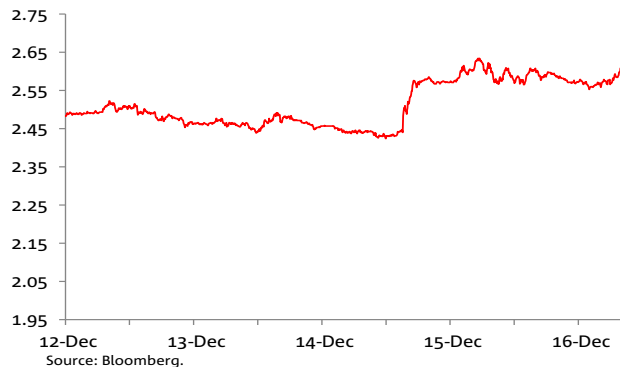
Ray Attrill – Co-head of FX Strategy

Markets

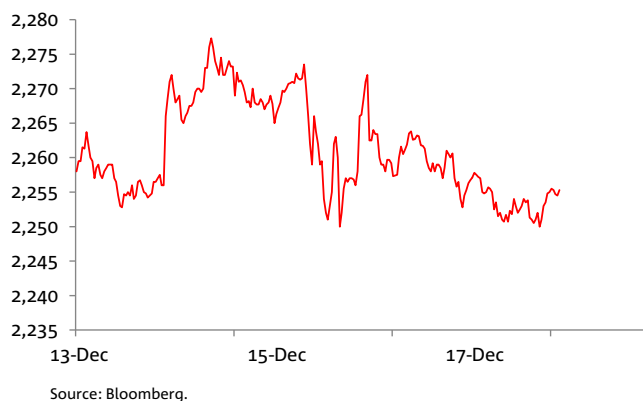
AUD/USD - past week



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	0.7301	-0.8	0.7266	0.7370	HKD	7.7659 0.1
NZD	0.6973	-0.9	0.6931	0.7050	CNY	6.9615 0.2
EUR	1.0429	0.1	1.0401	1.0474	SGD	1.4454 0.2
GBP	1.2480	0.5	1.2383	1.2509	IDR	13,395 0.1
JPY	117.98	-0.2	117.47	118.43	THB	35.85 0.2
CAD	1.3338	0.0	1.3319	1.3393	KRW	1,184 0.5
AUD/EUR	0.7001	-0.9	0.6972	0.7074	TWD	31.95 0.1
AUD/JPY	86.14	-0.9	85.77	87.15	PHP	49.94 0.1
AUD/GBP	0.5850	-1.3	0.5832	0.5940	CHF	1.03 -0.2
AUD/NZD	1.0479	0.2	1.0439	1.0498	SEK	9.37 -0.4
AUD/CNH	5.0798	-0.6	5.0572	5.1143		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spred
USD	0.75	1.00	1.52	2.50	USD 10	2.59	-0.51
AUD	1.50	1.78	1.97	3.10	AUD 10	2.83	-3.80 0.24
NZD	1.75	2.04	2.41	3.62	NZD 10	3.41	2.60 0.82
EUR	0.00	-0.31	-0.16	0.76	CAD 10	1.83	-0.40 -0.76
GBP	0.25	0.37	0.66	1.41	EUR 10	0.31	-5.10 -2.28
JPY	-0.03	-0.03	0.05	0.27	GBP 10	1.44	-5.00 -1.15
CAD	0.50	0.92	1.17	2.05	JPY 10	0.08	-0.90 -2.51

Equities

Major Indices

	Last	% day	% y/y
Dow	19,843	-0.04	15.8
S&P 500	2,258	-0.18	12.6
Nasdaq	5,437	-0.36	10.4
VIX	12	-4.61	-41.1
FTSE	7,012	0.2	15.8
DAX	11,404	0.3	7.5
CAC 40	4,833	0.3	4.5
Nikkei	19,401	0.7	2.2
Shanghai	3,123	0.2	-12.7
Hang Seng	22,021	-0.2	1.2
ASX 200	5,533	-0.1	8.3

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.19	-2.00
3 Yr bond	97.8	0.00
10 Yr bond	97.08	-5.50
3/10 sprd	0.72	5.50
SPI	5489.0	-4.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	55.21	2.2
Oil (WTI)	51.90	2.0
Oil (Tapis)	54.90	-0.8
Gold	1135.30	0.7
CRB	191.43	0.5
GS Metals	311.7	-1.9
Aluminium	1724.5	-1.1
Copper	5629.8	-1.6
Nickel	11120.3	-1.2
Zinc	2711.3	-3.2
Ch. steel	3268.0	-3.0
Iron ore	81.5	0.0
St. Coal	86.5	-2.6
Met.coal	270.0	0.0
Wheat Chic.	421.8	0.1
Sugar	18.2	-1.8
Cotton	71.0	-0.9
Coffee	142.5	0.2

CO₂ Emissions - Euros

	Last	% day
Dec-2016	4.88	1.9
Jun-2017	4.90	1.9

* 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
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, Underlying cash balance, \$Abn		-37.1			-37.1	2.00	12.00
JN	Trade Balance Adjusted	Nov		590.5		474.3	0.50	10.50
JN	Exports/Imports YoY	Nov		-2.4/-12		-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
US	Fed's Yellen speaking on the labour market						19.30	5.30
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		20		26.0	12.00	22.00
JN	BOJ Policy Rate (and Monetary Policy Statement)			-0.1		-0.1	3.30	13.30
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		-500		-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		0.1		0.2	5.30	15.30
UK	Public Sector Net Borrowing/PSNB ex Banking Groups	Nov		11.45/12.1		4.3/4.8	10.30	20.30
EC	Consumer Confidence	Dec A				-6.1	16.00	2.00
US	Existing Home Sales/MoM	Nov		5.52/-1.43		5.6/2.0	16.00	2.00
Thursday, 22 December 2016								
NZ	GDP SA QoQ/YoY	3Q	0.9/3.7	0.8/3.6		0.9/3.6	22.45	8.45
NZ	BoP Current Account Balance, NZD/% of GDP	3Q		-4.894/-3		-0.9/-2.9	22.45	8.45
UK	GfK Consumer Confidence	Dec		-7		-8.0	1.10	11.10
NZ	Money Supply M3 YoY	Nov				7.1	3.00	13.00
EC	ECB Publishes Economic Bulletin							
US	Chicago Fed Nat Activity Index	Nov				-0.1	14.30	0.30
US	GDP Annualized QoQ	3Q T		3.3		3.2	14.30	0.30
US	Durable Goods Orders/Core orders	Nov P		-4.7/0.5		4.6/0.2	14.30	0.30
US	Initial Jobless Claims	Dec 10		255		254.0	14.30	0.30
CA	Statistics Canada to Report New Measure of Core CPI						14.30	0.30
CA	Retail Sales/Ex autos MoM	Oct		0.2/0.7		0.6/0.0	14.30	0.30
CA	CPI NSA MoM/YoY	Nov		-0.1/1.4		0.2/1.5	14.30	0.30
US	FHFA House Price Index MoM	Oct		0.3		0.6	15.00	1.00
US	Personal Income/Spending	Nov		0.3/0.4		0.6/0.3	16.00	2.00
US	PCE Deflator MoM/YoY	Nov		0.2/1.5		0.2/1.4	16.00	2.00
US	PCE Core MoM/YoY	Nov		0.1/1.8		0.1/1.7	16.00	2.00
US	Leading Index	Nov		0.2		0.1	16.00	2.00
US	Kansas City Fed Manf. Activity	Dec				1.0	17.00	3.00
Friday, 23 December 2016								
CH	MNI December Business Indicator							
GE	GfK Consumer Confidence	Jan				9.8	8.00	18.00
UK	GDP QoQ/YoY	3Q F		0.5/2.3		0.5/2.3	10.30	20.30
UK	Current Account Balance	3Q		-28.7		-28.7	10.30	20.30
UK	Index of Services MoM/3M/3M	Oct		0.2/0.8		0.2/0.8	10.30	20.30
UK	Total Business Investment QoQ/YoY	3Q F		0.9/-1.5		0.9/-1.6	10.30	20.30
CA	GDP MoM/YoY	Oct		0.1/1.9		0.3/1.9	14.30	0.30
US	New Home Sales/MoM	Nov		575/2.1		563.0/-1.9	16.00	2.00
US	U. of Mich. Sentiment/5-10 Yr Inflation expectations	Dec F		98.1/		98.0/2.5	16.00	2.00
Upcoming Central Bank Interest Rate Announcements								
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%		
US Federal Reserve		28-Jan				0.5-0.75%		
UK BOE		2-Feb				0.25%		
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

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

Tapas Strickland
Economist
+61 2 9237 1980
tapas.strickland@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.