

We can work it out

Hot on the heels of the Government's Budget MYEFO yesterday, both Fitch and Moody's re-affirmed Australia's rating at AAA. Mid-afternoon, S&P also reaffirmed its AAA rating, saying the mid-year update had no immediate rating impact. They did though warn that the update "further pressures the rating" and that "they remain pessimistic about the government's ability to close existing budget deficits and return a balanced budget by 2020-21. They went on to note that "over the coming months, we will continue to monitor the government's willingness and ability to enact new budget savings or revenue measures to reduce fiscal deficits materially over the next few years." Next year's Budget will likely be the next assessment.

The AUD seemed to take all this news in its stride. It did rally "small" initially on release of MYEFO's revelation of the still-expected 2020-21 return to surplus (despite larger interim deficits) but some selling was evident in both sessions overnight. We would note that copper and other base metals were lower and equity markets have been choppy, though the VIX has been lower, US equity markets managing modest gains.

The AUD has been testing lower levels in a session not marked by further aggressive USD buying. Rather, the USD has been mixed with US Treasury yields showing some signs of tiring above the 2.50% area for the 10s, buying given some further impetus by the assassination of the Russian ambassador to Turkey at an art gallery in Ankara and perhaps in the last few minutes from just-released news of a truck ploughing into a Christmas crowd in Berlin, apparently killing one person. Late in the session, Janet Yellen's upbeat speech on the labour market to students at the University of Baltimore had put a floor in the session under the USD and US Treasury yields.

Her speech was not a detailed exposition of the US labour market but rather an upbeat assessment to students about very good current career opportunities for those now entering the job market that is the strongest for a decade. She said the right things as far as a positive assessment of the job market is concerned, noting "job creation is continuing at a steady pace; the layoff rate is low, that job openings are up over the past couple years, which is another sign of a healthy job market. There are also indications that wage growth is picking up, and weekly earnings for younger workers have made strong gains over the past couple of years." She then went on to espouse to students why those with degrees do better in the job market.

On the wider currency front, while the AUD has been an under-performer overnight, at the other end of the spectrum was the yen that was bought on the back of the news out of Turkey to as low as 116.60, before the US afternoon renewed Yellen-inspired USD buying. Some very recent post Berlin yen buying has resumed.

While European markets continue to fret about Italy's banking system, the zone's largest economy has shown signs of picking up economic momentum into end year. Germany's December Ifo Survey for December was very solid, the Current Assessment index rising to 116.6, the strongest since early 2012 and more consistent with growth comfortably in the 2s than its last reported GDP pace of 1.7% growth.

Coming up

For today, there is the RBA's Minutes from this month's Board meeting later this morning at 11.30 and then the outcome of the BoJ Board meeting at lunchtime, likely around 1.30/2pm. As far as the RBA Minutes is concerned, the meeting was held the day before the September quarter -0.5% GDP surprise, though the direction of the outcome was increasingly clear that week given the flow of pre-GDP partials. Labour market and inflation will be important call out points for the market to focus on in the Minutes with soft wages and the tilt of employment growth away from full-time employment is one area of the economy that's under close official watch. The Minutes are not expected to be market moving, but more of interest to assess whether they view the economy as making more or less growth progress with the transition and inflation risks.

The BoJ meeting should be a relatively uncontentious meeting in the light of USD strength over the past month or so, and associated yen weakness even though recent geopolitics serve as a reminder of what could recur for safe-haven yen buying.

Overnight

On global stock markets, the S&P 500 was +0.15%. Bond markets saw US 10-years -5.71bp to 2.53%. In commodities, Brent crude oil -0.42% to \$54.98, gold +0.2% to \$1,138, iron ore -0.3% to \$81.22, St. Coal -0.3% to \$86.20, Met. Coal not traded from \$270.00. AUD is at 0.7254 and the range since yesterday 5pm Sydney time is 0.7245 to 0.7299.

Good luck.

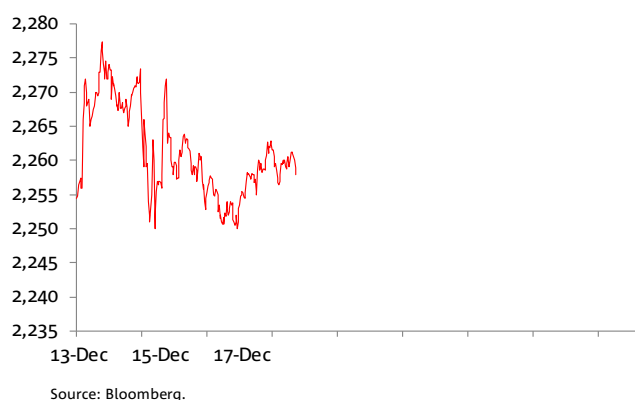
AUD/USD - past week



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 | 0.7254 | -0.7 | 0.7242 | 0.7313 | HKD | 7.7667 0.1 |
| NZD | 0.6938 | -1.4 | 0.6930 | 0.6970 | CNY | 6.9252 -0.5 |
| EUR | 1.0402 | -0.5 | 1.0395 | 1.0467 | SGD | 1.4486 0.5 |
| GBP | 1.2407 | -0.3 | 1.2355 | 1.2495 | IDR | 13,360 -0.3 |
| JPY | 117.19 | -0.8 | 116.55 | 117.46 | THB | 35.86 0.2 |
| CAD | 1.3408 | 0.4 | 1.3355 | 1.3421 | KRW | 1,190 0.3 |
| AUD/EUR | 0.6976 | -0.9 | 0.6942 | 0.6976 | TWD | 31.99 0.0 |
| AUD/JPY | 85.02 | -2.1 | 84.65 | 85.50 | PHP | 49.94 -0.1 |
| AUD/GBP | 0.5847 | -1.1 | 0.5838 | 0.5872 | CHF | 1.03 -0.1 |
| AUD/NZD | 1.0458 | 0.0 | 1.0439 | 1.0475 | SEK | 9.37 0.0 |
| AUD/CNH | 5.0239 | -1.8 | 5.0201 | 5.0883 | | |

Interest Rates

| | Indicative Swap Rates | | | | Benchmark 10 Year Bonds | | |
|-----|-----------------------|-------|-------|------|-------------------------|------|-------------|
| | Cash | 3mth | 2Yr | 10Yr | Last | chge | Sprd |
| USD | 0.75 | 1.00 | 1.49 | 2.44 | USD 10 | 2.53 | -5.71 |
| AUD | 1.50 | 1.79 | 1.96 | 3.05 | AUD 10 | 2.86 | 3.00 0.33 |
| NZD | 1.75 | 2.03 | 2.41 | 3.58 | NZD 10 | 3.42 | 1.20 0.89 |
| EUR | 0.00 | -0.31 | -0.16 | 0.68 | CAD 10 | 1.80 | -3.60 -0.74 |
| GBP | 0.25 | 0.37 | 0.66 | 1.38 | EUR 10 | 0.25 | -6.70 -2.29 |
| JPY | -0.04 | -0.03 | 0.06 | 0.27 | GBP 10 | 1.40 | -3.90 -1.14 |
| CAD | 0.50 | 0.92 | 1.15 | 2.01 | JPY 10 | 0.09 | 0.70 -2.45 |

Equities

| Major Indices | Last | % day | % y/y |
|---------------|--------|--------|-------|
| | Dow | 19,880 | 0.18 |
| S&P 500 | 2,262 | 0.15 | 12.8 |
| Nasdaq | 5,457 | 0.36 | 10.8 |
| VIX | 12 | -3.28 | -43.0 |
| FTSE | 7,017 | 0.1 | 15.9 |
| DAX | 11,427 | 0.2 | 7.7 |
| CAC 40 | 4,823 | -0.2 | 4.3 |
| Nikkei | 19,392 | 0.0 | 2.1 |
| Shanghai | 3,118 | -0.2 | -12.9 |
| Hang Seng | 21,833 | -0.9 | 0.4 |
| ASX 200 | 5,562 | 0.5 | 8.9 |

Overnight Futures

| | Last | Chge* |
|------------------|--------|-------|
| Australia | | |
| 3 mth bill | 98.18 | -2.00 |
| 3 Yr bond | 97.8 | 0.00 |
| 10 Yr bond | 97.16 | 9.50 |
| 3/10 sprd | 0.64 | -9.50 |
| SPI | 5521.0 | -28.0 |

*Change in bps

Commodities*

| | Last | % day |
|-------------|---------|-------|
| Oil (Brent) | 54.98 | -0.4 |
| Oil (WTI) | 52.19 | 0.6 |
| Oil (Tapis) | 56.40 | 2.7 |
| Gold | 1137.90 | 0.2 |
| CRB | 191.22 | -0.1 |
| GS Metals | 311.7 | 0.0 |
| Aluminium | 1720.8 | -0.2 |
| Copper | 5486.5 | -2.5 |
| Nickel | 10825.5 | -2.7 |
| Zinc | 2588.5 | -4.5 |
| Ch. steel | 3153.0 | -6.2 |
| Iron ore | 81.2 | -0.3 |
| St. Coal | 86.2 | -0.3 |
| Met.coal | 270.0 | 0.0 |
| Wheat Chic. | 417.5 | -1.0 |
| Sugar | 18.2 | 0.1 |
| Cotton | 69.6 | -2.1 |
| Coffee | 144.3 | 1.3 |

CO₂ Emissions - Euros

| | Last | % day |
|----------|------|-------|
| Dec-2016 | 5.09 | 4.3 |
| Jun-2017 | 5.10 | 4.1 |

* cld = 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 |
|--|--|--------|----------|----------------|--------|----------------|-------|-------|
| 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 | | 0.6 | | -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 | | 11.6/12.15 | | 4.3/4.8 | 10.30 | 20.30 |
| EC | Consumer Confidence | Dec A | | -6 | | -6.1 | 16.00 | 2.00 |
| US | Existing Home Sales/MoM | Nov | | 5.5/-1.79 | | 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 | | -8 | | -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 | | -0.15 | | -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 | | -4.5/0.5 | | 4.6/0.2 | 14.30 | 0.30 |
| US | Initial Jobless Claims | Dec 17 | | 258.5 | | 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 | | 0.3/0.7 | | 0.6/0.0 | 14.30 | 0.30 |
| CA | CPI NSA MoM/YoY | Nov | | -0.2/1.4 | | 0.2/1.5 | 14.30 | 0.30 |
| US | FHFA House Price Index MoM | Oct | | 0.4 | | 0.6 | 15.00 | 1.00 |
| US | Personal Income/Spending | Nov | | 0.3/0.3 | | 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 | | 0.1/1.7 | | 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 | | 1.0 | 17.00 | 3.00 |
| Friday, 23 December 2016 | | | | | | | | |
| CH | MNI December Business Indicator | | | | | | | |
| GE | GfK Consumer Confidence | Jan | | 9.9 | | 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 | | -28.2 | | -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/-1.6 | | 0.9/-1.6 | 10.30 | 20.30 |
| CA | GDP MoM/YoY | Oct | | 0/1.8 | | 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 | | 98.0/2.5 | 16.00 | 2.00 |
| Monday, 26 December 2016 | | | | | | | | |
| UK | BBA Loans for House Purchase | Nov | | 41500 | | 40851 | 10.30 | 20.30 |
| UK | CBI Total Dist. Reported Sales | Dec | | | | 34.0 | 12.00 | 22.00 |
| JN | PPI Services YoY | Nov | | | | 0.5 | 0.50 | 10.50 |
| JN | Leading Index CI | Oct F | | | | 101.0 | 6.00 | 16.00 |
| JN | Jobless Rate/Job-applicant ratio | Nov | | 3/ | | 3.0/1.4 | 0.30 | 10.30 |
| JN | Overall Household Spending YoY | Nov | | | | -0.4 | 0.30 | 10.30 |
| JN | Natl CPI YoY | Nov | | 0.4 | | 0.1 | 0.30 | 10.30 |
| CH | Industrial Profits YoY | Nov | | | | 9.8 | 2.30 | 12.30 |
| JN | Natl CPI Ex Fresh Food, Energy YoY | Nov | | | | 0.3 | 6.00 | 16.00 |
| JN | Small Business Confidence | Dec | | | | 48.3 | 6.00 | 16.00 |
| US | S&P CoreLogic CS 20-City MoM/YoY | Oct | | 0.5/4.9 | | 0.4/5.1 | 15.00 | 1.00 |
| US | Consumer Confidence Index | Dec | | 108.75 | | 107.1 | 16.00 | 2.00 |
| US | Richmond Fed Manufact. Index | Dec | | 5 | | 4.0 | 16.00 | 2.00 |
| US | Dallas Fed Manf. Activity | Dec | | 10.2 | | 10.2 | 16.30 | 2.30 |
| 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

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