

MARKETS TODAY

Walking on a dream



Good Morning

Walking on a Dream was the inaugural 2008 hit song by Aussie electropop outfit Empire of the Sun. That seems an apt description of how markets have been since the election of Trump with a dream run for equities and the US dollar all premised on the idea of a Trump fiscal stimulus boosting growth and inflation. Now with inauguration just a week away (20 Jan), markets are asking “is it real”?

Some hint of that was gleaned in Trump’s press conference on Wednesday where he provided little in the way of policy detail besides making remarks on the drug industry, defence contracts, and tweets on US car manufacturers. That saw a rally in US Treasuries and a fall in the US dollar which continued overnight. The US dollar has fallen by around 1.5% since Trump’s press confidence and was down by around 0.5% overnight against all major currencies except the Pound. The Kiwi, Yen and Aussie all outperformed overnight, up by around 0.8-9%, while the Euro rose by 0.4%.

The Pound fell 0.5% overnight moved by continued Brexit jitters with EU officials reiterating the UK cannot “cherry pick” and that any Brexit agreement is necessarily worse off for the UK than EU membership. Adding to those notions, a UK finance lobby group (TheCityUK) has seemingly pulled back their request for passporting with banks now pushing for “mutual access” – some acknowledgement that full passporting may not be available if PM May does not accept the free movement of people – PM May is scheduled to give a speech on Tuesday on Brexit.

US Treasury yields fell 2.2 bps to be at 2.35%, erasing all of December’s moves but still noticeably higher than the 1.83% level they were prior to the US election. German Bunds fell 1.2 bps to 0.32%, while UK Gilts continue to outperform down 4.8 bps to 1.30% with likely Brexit jitters weighing. Aussie CGS moved largely in line with Treasuries the previous day, down 6.3 bps to 2.67%.

Four Fed speakers did little then add to the consensus of three rate hikes for 2017. Harker (voter) made the most interesting comments. He sees “three modest rate hikes as appropriate” and the timing for the first rate hike will of course depend on a “little more data”. In terms of incorporating Trump’s fiscal stimulus into his forecast, he said he would need to see a solid bill that “looks like it has the support of Congress and the President” and that would have to be balanced against those policies on trade which can also “have a negative effect”.

Harker also made comment on the Fed’s balance sheet and said it should start to be reined in once the Fed Funds rate hits 100bps by stopping reinvestment – note that’s only one to two rate hikes away so expect some debate on this issue in 2017. The US OIS market now prices around a 36% chance of a rate hike by March and

prices 2.1 rate hikes for 2017 compared to the Fed’s median dot points of 3.

Also in central bank news, the ECB Minutes revealed some debate around the length of the extension of the bond buying program (two options were presented: 6 months at €80bn or 9 months at €60bn), while a minority of members – termed “a few members” - did not support an extension. That suggests an ongoing debate about the degree of monetary accommodation needed in the Euro area – no doubt to be enhanced with tentative signs of inflation picking up.

Equities overnight were mostly lower. The S&P500 fell 0.2%, with financials underperforming down 0.8%. The Dow’s magic 20,000 mark is gradually getting further away with the Dow also down 0.4%. European equities were also lower with EuroStoxx down 0.7%.

In commodities, the oil price rose by 1.5-1.7% with the WTI measure at \$53.07 a barrel and Brent at \$56.07. As for Australia’s major commodities, Iron ore was up 0.7% to \$81.0, thermal coal was also up 0.8% to \$82.2 a barrel, while coking coal was unchanged at \$195 a tonne. The moves lower in the coking coal price over recent weeks should see the Q2 contract price fall from the lofty \$285 a tonne it is currently at now.

Coming Up

Friday brings a pick-up in the economic news flow. First up is US Fed Chair Yellen who speaks at 11am AEDT. The Chair’s remarks will be closely watched, but it is also hard to see what more she will add given the plethora of Fed speakers this week.

China releases its Trade Balance which will not only provide an estimate of the pace of demand in China, but also allow analysts to update their estimates of China’s net capital outflows. The market is looking for a surplus of \$47.55bn with exports down 4% y/y and imports up 3% y/y in USD terms.

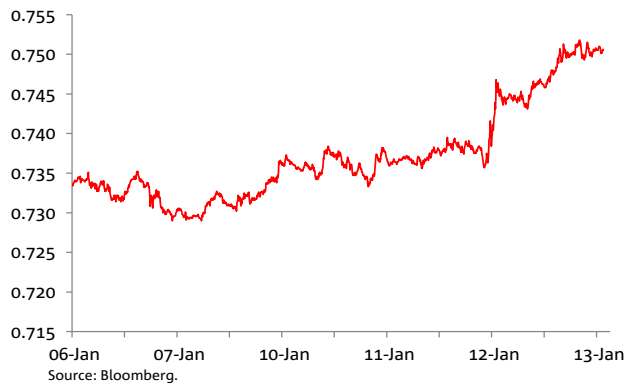
The US quarterly reporting season kicks off for the financials today with JPMorgan Chase, BofA, Wells Fargo and Blackrock all reporting. Financial stocks have rallied hard following Trump’s victory. The US also releases Retail Sales for December, which the market sees as probably having accelerated after the slowing in November. Headline retail sales are expected to rise 0.7% while the core control group is expected to increase 0.4%, up from 0.1% in November.

Overnight

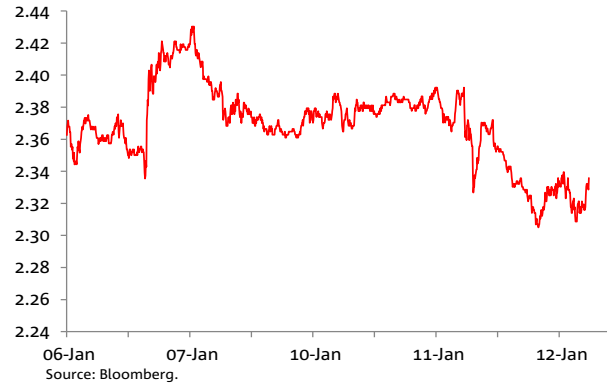
On global stock markets, the S&P 500 was -0.23%. Bond markets saw US 10-years -3.81bp to 2.35%. In commodities, Brent crude oil +1.76% to \$56.07, gold+0.1% to \$1,198, iron ore +0.7% to \$80.99, St. Coal +0.8% to \$82.15, Met. Coal +0.0% to \$195.00. AUD is at 0.7497 and the range since yesterday 5pm Sydney time is 0.7465 to 0.7518.

Markets

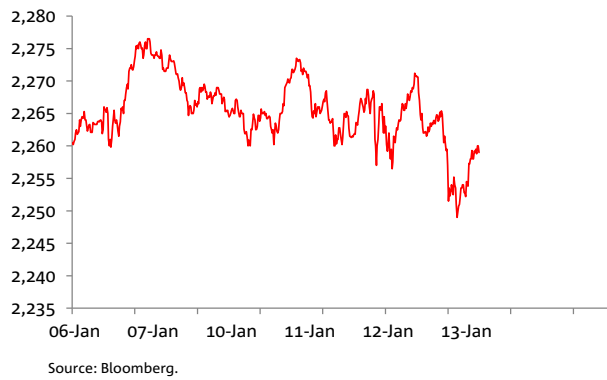
AUD/USD - past week



US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High		Last	% chge
AUD	0.7497	0.8	0.7430	0.7519	HKD	7.7543	0.0
NZD	0.7120	0.9	0.7047	0.7145	CNY	6.8941	-0.6
EUR	1.0627	0.4	1.0572	1.0685	SGD	1.4253	-0.1
GBP	1.2157	-0.5	1.2153	1.2317	IDR	13,281	-0.3
JPY	114.55	-0.7	113.76	115.51	THB	35.36	-0.3
CAD	1.3128	-0.4	1.3030	1.3185	KRW	1,185	-1.0
AUD/EUR	0.7055	0.3	0.7023	0.7063	TWD	31.65	-0.8
AUD/JPY	85.88	0.0	85.36	86.00	PHP	49.49	-0.2
AUD/GBP	0.6167	1.2	0.6091	0.6172	CHF	1.01	-0.4
AUD/NZD	1.0530	-0.2	1.0505	1.0560	SEK	8.94	-0.9
AUD/CNH	5.1725	1.3	5.1190	5.1469			

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	0.75	1.02	1.47	2.23	USD 10	2.35	-2.17	
AUD	1.50	1.78	1.96	2.87	AUD 10	2.67	-6.30	0.32
NZD	1.75	1.99	2.37	3.38	NZD 10	3.10	-7.90	0.75
EUR	0.00	-0.33	-0.18	0.67	CAD 10	1.66	-2.30	-0.69
GBP	0.25	0.36	0.61	1.28	EUR 10	0.32	-1.20	-2.03
JPY	-0.05	-0.03	0.02	0.23	GBP 10	1.30	-4.80	-1.05
CAD	0.50	0.95	1.10	1.84	JPY 10	0.04	-2.50	-2.31

Equities

Major Indices			
	Last	% day	% y/y
Dow	19,886	-0.34	20.4
S&P 500	2,270	-0.23	17.1
Nasdaq	5,542	-0.39	18.3
VIX	11	1.87	-49.0
FTSE	7,292	0.0	23.0
DAX	11,521	-1.1	15.4
CAC 40	4,864	-0.5	11.1
Nikkei	19,135	-1.2	8.0
Shanghai	3,119	-0.6	5.8
Hang Seng	22,829	-0.5	14.5
ASX 200	5,767	-0.1	15.6

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.20	2.00
3 Yr bond	97.8	3.00
10 Yr bond	97.30	6.00
3/10 sprd	0.50	-3.00
SPI	5730.0	-1.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	56.07	1.8
Oil (WTI)	53.07	1.6
Oil (Tapis)	56.24	2.1
Gold	1197.70	0.1
CRB	194.97	1.4
GS Metals	312.2	0.0
Aluminium	1789.0	1.7
Copper	5814.5	2.1
Nickel	10224.8	0.9
Zinc	2709.8	1.0
Ch. steel	3226.0	1.7
Iron ore	81.0	0.7
St. Coal	82.2	0.8
Met.coal	195.0	0.0
Wheat Chic.	439.3	1.6
Sugar	20.8	1.0
Cotton	72.3	-1.1
Coffee	149.6	0.4

CO₂ Emissions - Euros

	Last	% day
Dec-2016	5.09	Clsd
Jun-2017	5.05	-8.5

* 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, 12 January 2017								
JN	BoP Current Account Adjusted	Nov		1870.4		1928.9	0.50	10.50
NZ	ANZ Commodity Price	Dec				2.7	1.00	11.00
GE	Budget Maastricht % of GDP	2016		0.6			10.00	20.00
EC	Industrial Production SA MoM/YoY	Nov		0.5		-0.1/0.6	11.00	21.00
EC	ECB Meeting Minutes	Dec					13.30	23.30
JN	Eco Watchers Survey Current	#N/A Field Not Applicable				48.6		
JN	Eco Watchers Survey Outlook	#N/A Field Not Applicable				49.1		
US	Fed's Harker speaks						14.30	0.30
US	Fed's Evans (voter) and Lockhart in panel in Florida						14.30	0.30
CA	New Housing Price Index MoM/YoY	Nov		0.3		0.4/3.0	14.30	0.30
US	Import Price Index YoY	Dec		1.8		-0.1	14.30	0.30
CA	Teranet/National Bank HPI MoM/YoY	Dec				0.2/11.9	14.30	0.30
US	Fed's Lockhart speaks in Florida; Q&A also						18.30	4.30
US	Fed's Bullard speaks on the US Outlook						19.15	5.15
Friday, 13 January 2017								
NZ	Card Spending Retail MoM/YoY	Dec		1		-0.1/-0.3	22.45	8.45
NZ	Card Spending Total MoM	Dec				-0.3	22.45	8.45
US	Yellen to Address Town Hall with Educators						1.00	11.00
CH	Trade Balance	Dec		47.55		44.6		
UK	BoE's Saunders speaks on the labour market in London							20.30
US	PPI Final Demand MoM/YoY	Dec		0.3/1.6		0.4/1.3	14.30	0.30
US	Retail Sales Advance/Control Group MoM	Dec		0.7/0.4		0.1/0.1	14.30	0.30
US	Fed's Harker (voter) speaks on Economic Mobility						15.30	1.30
US	Business Inventories	Nov		0.6		-0.2	16.00	2.00
US	U. of Mich. Sentiment/5-10 Yr Inflation	Jan P		98.5/		98.2/2.3	16.00	2.00
Monday, 16 January 2017								
CH	Foreign Direct Investment YoY CNY	Dec		0.8		1.2		
NZ	Food Prices MoM	Dec				-0.1	22.45	8.45
JN	Machine Orders MoM	Nov				4.1	0.50	10.50
AU	Melbourne Institute Inflation MoM/YoY	Dec				0.1/1.5	1.00	11.00
UK	Rightmove House Prices MoM/YoY	Jan				-2.1/3.4	1.10	11.10
JN	Tertiary Industry Index MoM	Nov				0.2	5.30	15.30
EC	Trade Balance SA	Nov				19.7	11.00	21.00
CA	Bloomberg Nanos Confidence	Jan 13				56.5	16.00	2.00
Tuesday, 17 January 2017								
AU	Home Loans #/Investment Lending \$ MoM	Nov				-0.8	1.30	11.30
AU	New Motor Vehicle Sales MoM/YoY	Dec				-0.6/-1.1	1.30	11.30
JN	Industrial Production MoM/YoY	Nov F		/		1.5/4.6	5.30	15.30
EC	EU27 New Car Registrations	Dec				5.8	8.00	18.00
UK	CPI MoM/YoY	Dec		/		0.2/1.2	10.30	20.30
UK	CPI Core YoY	Dec				1.4	10.30	20.30
UK	PPI Output Core NSA MoM/YoY	Dec		/		0.0/2.2	10.30	20.30
UK	House Price Index YoY	Nov				6.9	10.30	20.30
GE	ZEW Survey Expectations	Jan				13.8/63.5	11.00	21.00
EC	ZEW Survey Expectations	Jan				18.1	11.00	21.00
US	Fed's Dudley Speaks on Consumer Behavior in New York						14.45	0.45
Wednesday, 18 January 2017								
CH	GDP SA QoQ/YoY	4Q		1.7/6.7		1.8/6.7	20 Jan release	
CH	GDP YTD YoY	4Q		6.7		6.7	20 Jan release	
CH	Industrial Production YoY/YTD YoY	Dec		6.1/6		6.2/6.0	20 Jan release	
CH	Retail Sales YoY/YTD YoY	Dec		10.7/10.4		10.8/10.4	20 Jan release	
CH	Fixed Assets Ex Rural YTD YoY	Dec		8.3		8.3	20 Jan release	
US	Fed's Dudley Speaks on Consumer Behavior in New York						14.45	0.45
AU	Westpac Consumer Conf Index/MoM	Jan				97.3/-3.9	0.30	10.30
NZ	Non Resident Bond Holdings	Dec				63.6	3.00	13.00
GE	CPI EU Harmonized MoM/YoY	Dec F		/		1.0/1.7	8.00	18.00
UK	Jobless Claims Change	Dec				2.4	10.30	20.30
UK	Average Weekly Earnings 3M/YoY	Nov				2.5	10.30	20.30
UK	Employment Change 3M/3M/ILO Unemployment rate 3M	Nov		/		-6.0/4.8	10.30	20.30
EC	Construction Output MoM	Nov				0.8	11.00	21.00
EC	CPI MoM/YoY	Dec		/		-0.1/0.6	11.00	21.00
EC	CPI Core YoY	Dec F				0.9	11.00	21.00
CH	Property Prices	Dec						
US	CPI MoM/YoY	Dec		0.3/2.1		0.2/1.7	14.30	0.30
US	CPI Ex Food and Energy MoM/YoY	Dec		0.2/2.1		0.2/2.1	14.30	0.30
US	Industrial Production MoM	Dec		0.55		-0.4	15.15	1.15
CA	Bank of Canada Rate Decision	Jan 18		0.5		0.5	16.00	2.00
Upcoming Central Bank Interest Rate Announcements								
Europe ECB		19-Jan		0.00%		0.00%		
Canada, BoC		19-Jan				0.50%		
US Federal Reserve		28-Jan				0.5-0.75%		
Japan, BoJ		31-Jan		-0.1% to +0.1%		-0.1% to +0.1%		
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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