

# MARKETS TODAY

## *A Hard Rain's A-Gonna Fall*



### Good Morning

Ignoring the October 7 'flash crash', Sterling has fallen to its lowest level against the US dollar in over 30 years this morning (since 28 June 1985 to be precise). A two cent drop at the Wellington market open follows weekend press reports in the UK Sunday Telegraph and Times newspapers that UK PM Theresa May will say in a speech on Tuesday that Britain must:

- 1) Be prepared to leave the customs union to secure free trade deals across the world.
- 2) Regain full control of its borders even if that means ending single market membership.
- 3) No longer be bound by European Court of Justice rulings after Brexit.

The latter is seen as likely to be particularly problematic for the rest of the EU in terms of agreeing any sort of post-Brexit transitional arrangement.

Government spin doctors are busy trying to substitute 'clean' for 'hard' as the appropriate adjective to stick in front of 'Brexit'. The foreign exchange market isn't having a bar of it.

The other big event since our local markets left off on Friday is an interview with US President-elect Donald Trump in the Wall Street Journal published on Friday evening. In it, Trump says he won't now be labelling China a currency manipulator on day one even though he repeats his claim they are manipulators. Yet he also laments the strength of the dollar as 'killing us'. Expect the US Treasury's 'strong dollar policy' to soon be swapped out for plenty of 'weak dollar' Trump tweets.

Trump also touched on infrastructure spending (the lack of reference to which in last week's press conference was one of the triggers for the subsequent move lower in bond yields and the dollar). In the interview, he described a special council, made up of 15 to 20 builders and engineers, who would monitor spending on his \$1 trillion plan to improve the nation's roads, bridges and other public works. "Some of the projects they'll throw out, some of the projects they'll expand, but all of the projects they'll make sure we get a tremendous bang for the buck," Mr Trump said.

We're none the wiser on whether he plans to use public money here or merely incentivise private companies via the tax system, but markets are likely to take some heart from this ahead of this Friday's inauguration and subsequent commencement of a more detailed 'first 100 days' policy agenda.

It was a fairly subdued Friday in front of a three-day U.S. weekend for the MLK day holiday. US retail sales, the night's main economic event, underwhelmed versus expectations particularly ex-autos (0.2% against 0.5% expected). Aided by a slightly stronger than expected PPI reading, the data nevertheless appears to have been

responsible for driving bond yields and – initially at least – the US dollar higher in its aftermath having been weaker into the release, before pulling back on a slightly weaker than expected preliminary January consumer confidence reading (98.1 from 98.2 and 98.5 expected).

The S&P ended 0.18% higher Friday for a loss of 0.1% on the week. No big move in bank stocks following results from JP Morgan, BAML and Wells Fargo. All met or beat their street estimates for EPS, but revenue numbers for both BAML and Wells Fargo fell shy of expectations. The Dow ended 0.03% lower Friday and 0.4% down on the week. The NASDAQ was +0.48% for a 1% weekly gain and a new record closing high.

In bonds, US Treasury yields were modestly firmer across the curve (2-3bps). In FX, The narrow DXY dollar index lost 0.17% to be 1.0% down on the week. The NZD was the biggest G10 winner Friday, +0.51% to 0.7131 and 2.5% up on the week. The AUD was the week's biggest gainer however, up only 0.24% Friday to 0.7502 but 2.8% or two cents up on the week. It's now 0.7485.

### Coming Up

Donald Trump's inauguration as the 44th President of the United States (45th if you count Grover Cleveland as both the 22nd and 24th President) will capture the world's attention on Friday. Expect more 'vision' than policy specifics in his inauguration speech. We also get two speeches from Fed chair Janet Yellen this week, on Wednesday and Thursday. Wednesday's looks more theoretical, Thursday's, titled "The Economic Outlook and the Conduct of Monetary Policy", looks the more interesting. Dudley, Williams, Kashkari and Harker all have scheduled appearances dotted through the week.

In the UK as well as PM May Tuesday speech, we should also this week learn the fate of the Supreme Court hearing into the legality of the government triggering Article 50 - and so initiating the Brexit negotiation process - without requiring parliamentary approval. This follows report last week that the government expected to lose its case. Any relief rally for GBP on the prospect of a delay triggering Article 50 beyond March should prove short-lived.

Thursday's December labour force survey is the standout on the Australian calendar, with the consensus looking for a 10k rise in employment and unchanged 5.7% unemployment rate.

### Overnight

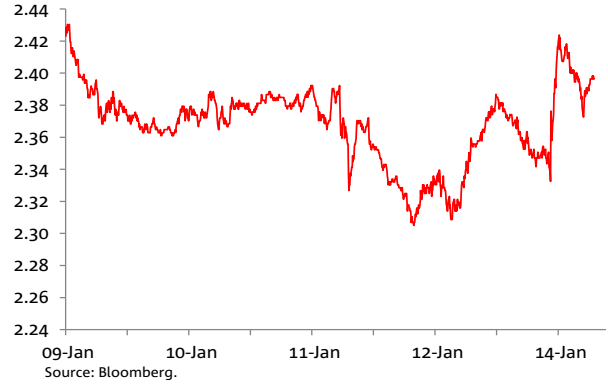
On global stock markets, the S&P 500 was +0.18%. Bond markets saw US 10-years +3.33bp to 2.40%. In commodities, Brent crude oil -1.00% to \$55.45, gold -0.3% to \$1,196, iron ore -0.6% to \$80.54, Steaming Coal -0.7% to \$83.50, Met. Coal -2.6% to \$190.00. AUD is at 0.7485 and the range since Friday 5pm Sydney time is 0.7453 to 0.7506.

Markets

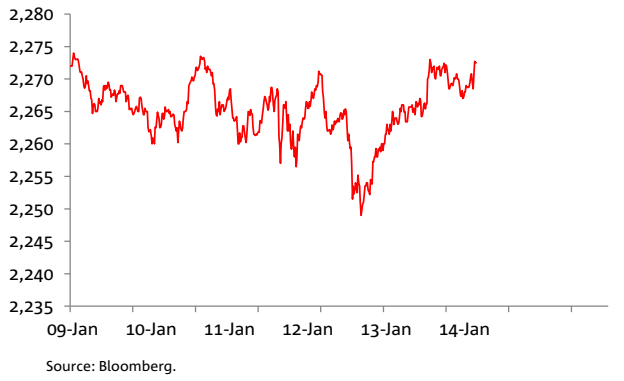
AUD/USD - past week



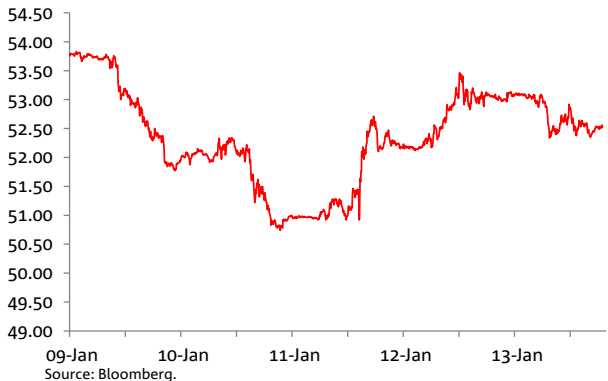
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

	Indicative 24hr ranges (**)				Other FX		
	Last	% chge	Low	High	Last	% chge	
AUD	0.7485	0.0	0.7449	0.7510	HKD	7.7550	0.0
NZD	0.7108	0.2	0.7071	0.7141	CNY	6.9005	0.1
EUR	1.0609	0.0	1.0596	1.0673	SGD	1.4283	0.1
GBP	1.2011	-1.2	1.1986	1.2233	IDR	13,338	0.4
JPY	114.39	-0.3	114.11	115.45	THB	35.42	0.2
CAD	1.3142	0.0	1.3104	1.3168	KRW	1,175	-0.8
AUD/EUR	0.7058	0.1	0.7016	0.7079	TWD	31.57	-0.3
AUD/JPY	85.62	-0.3	85.49	86.28	PHP	49.70	0.4
AUD/GBP	0.6233	1.3	0.6124	0.6256	CHF	1.01	0.0
AUD/NZD	1.0530	-0.2	1.0494	1.0558	SEK	8.95	-0.1
AUD/CNH	5.1590	-0.3	5.1049	5.1529			

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.75	1.02	1.49	2.28	USD 10	2.40	3.33
AUD	1.50	1.78	1.98	2.92	AUD 10	2.69	2.50 0.30
NZD	1.75	1.98	2.40	3.41	NZD 10	3.12	2.30 0.73
EUR	0.00	-0.33	-0.18	0.67	CAD 10	1.72	5.10 -0.68
GBP	0.25	0.36	0.62	1.34	EUR 10	0.34	2.20 -2.06
JPY	-0.04	-0.03	0.03	0.21	GBP 10	1.36	6.50 -1.03
CAD	0.50	0.96	1.13	1.90	JPY 10	0.05	1.00 -2.35

Equities

Major Indices			
	Last	% day	% y/y
Dow	19,886	-0.03	24.4
S&P 500	2,275	0.18	21.0
Nasdaq	5,574	0.48	24.2
VIX	11	-2.69	-58.4
FTSE	7,338	0.6	26.4
DAX	11,629	0.9	21.8
CAC 40	4,922	1.2	16.9
Nikkei	19,287	0.8	12.5
Shanghai	3,113	-0.2	7.3
Hang Seng	22,937	0.5	17.5
ASX 200	5,721	-0.8	16.9

Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.20	1.00
3 Yr bond	97.8	0.00
10 Yr bond	97.26	0.50
3/10 sprd	0.55	-0.50
SPI	5707.0	21.0

\*Change in bps

Commodities\*

	Last	% day
Oil (Brent)	55.45	-1.0
Oil (WTI)	52.37	-1.2
Oil (Tapis)	57.05	1.4
Gold	1196.20	-0.3
CRB	194.54	-0.2
GS Metals	323.4	1.6
Aluminium	1809.0	1.1
Copper	5884.3	1.2
Nickel	10399.5	1.7
Zinc	2773.3	2.3
Ch. steel	3238.0	0.8
Iron ore	80.5	-0.6
St. Coal	83.5	-0.7
Met.coal	190.0	-2.6
Wheat Chic.	439.8	0.1
Sugar	20.5	-1.2
Cotton	72.3	-0.1
Coffee	149.3	-0.2

CO<sub>2</sub> Emissions - Euros

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

\* 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
<b>Monday, 16 January 2017</b>								
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		-1.4		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		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
<b>Tuesday, 17 January 2017</b>								
AU	Home Loans #/Investment Lending \$ MoM	Nov		0		-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		0.3/1.4		0.2/1.2	10.30	20.30
UK	CPI Core YoY	Dec		1.4		1.4	10.30	20.30
UK	PPI Output Core NSA MoM/YoY	Dec		0.2/2.2		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		19		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
<b>Wednesday, 18 January 2017</b>								
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		1/1.7		1.0/1.7	8.00	18.00
UK	Jobless Claims Change	Dec		5		2.4	10.30	20.30
UK	Average Weekly Earnings 3M/YoY	Nov		2.6		2.5	10.30	20.30
UK	Employment Change 3M/3M/ILO Unemployment rate 3M	Nov		-26/4.8		-6.0/4.8	10.30	20.30
EC	Construction Output MoM	Nov				0.8	11.00	21.00
EC	CPI MoM/YoY	Dec		0.5/1.1		-0.1/0.6	11.00	21.00
EC	CPI Core YoY	Dec F		0.9		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		0.65		-0.4	15.15	1.15
CA	Bank of Canada Rate Decision	Jan 18		0.5		0.5	16.00	2.00
<b>Thursday, 19 January 2017</b>								
NZ	BusinessNZ Manufacturing PMI	Dec				54.4	22.30	8.30
NZ	CPI QoQ/YoY	4Q		/		0.2/0.2	22.45	8.45
AU	Consumer Inflation Expectation	Jan				3.4	1.00	11.00
UK	RICS House Price Balance	Dec		30		30.0	1.10	11.10
AU	Employment Change/Unemployment rate	Dec		10		39.1	1.30	11.30
AU	RBA FX Transactions Market	Dec				503.0	1.30	11.30
JN	Tokyo Condominium Sales YoY	Dec				-22.7	5.00	15.00
EC	ECB Current Account SA	Nov				28.4	10.00	20.00
EC	ECB Main Refinancing Rate	Jan 19		0		0.0	13.45	23.45
EC	ECB Marginal Lending Facility	Jan 19		0.25		0.3	13.45	23.45
EC	ECB Deposit Facility Rate	Jan 19		-0.4		-0.4	13.45	23.45
EC	ECB Asset Purchase Target	Jan		80		80.0	13.45	23.45
CA	Int'l Securities Transactions	Nov				15.8	14.30	0.30
CA	Manufacturing Sales MoM	Nov				-0.8	14.30	0.30
US	Housing Starts #/MoM	Dec		1195/9.6		1090/-18.7	14.30	0.30
US	Building Permits #/MoM	Dec		1220/0.7		1201/-4.7	14.30	0.30
US	Philadelphia Fed Business Outlook	Jan		15		21.5	14.30	0.30
<b>Friday, 20 January 2017</b>								
NZ	ANZ Consumer Confidence Index/MoM	Jan				124.5/-2.1	1.00	11.00
AU	HIA New Home Sales MoM	Nov				-8.5	1.00	11.00
GE	PPI MoM/YoY	Dec		0.3/0.9		0.3/0.1	8.00	18.00
EC	ECB Survey of Professional Forecasters						10.00	20.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Dec		0.1/7.5		0.5/6.6	10.30	20.30
UK	CBI Trends Total Orders/Selling Prices	Jan				0.0	20-26 Jan release	
UK	CBI Business Optimism	Jan				-8.0	20-26 Jan release	
CA	Retail Sales/Ex Autos MoM	Nov		/		1.1/1.4	14.30	0.30
CA	CPI NSA MoM/YoY	Dec		/		-0.4/1.2	14.30	0.30
CA	CPI SA MoM	#N/A Field Not Applicable				-0.2	#VALUE!	#VALUE!
US	Fed's Harker speaks in New Jersey on Economic Outlook						15.00	1.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
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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