

MARKETS TODAY

Numero Uno



Good Morning

In a defiant and brief speech, President Trump made it clear that from now on “It’s going to be only America first” and in what has now become a great economic debate he reiterated his view that “Protection will lead to great prosperity and strength”. Against this view, history and economic theory tells us that protectionism usually involves an increase in tariffs and a decline in trade. Whether Trump achieves prosperity for America it remains to be seen, but from a global perspective while his policies could result in America getting a bigger share of the pie, the pie is unlikely to become bigger if global trade declines.

As a sign of where Trump’s policy priorities lie, after the inaugural parade the new administration announced a loosening of rules linked to Obamacare and it ordered a freeze on new regulation in order to reduce the ‘burden’ of government red tape. The new administration also revealed that it will pull out of the Trans-Pacific Partnership and on Monday it will notify Canada and Mexico that it plans to renegotiate NAFTA. The FT also reports that some analysts predict Mr Trump will use his executive powers next week to boost oil and gas industry by approving pipeline applications. If so oil prices could come under pressure early in the week, but broadly speaking it appears that protectionist policies will come ahead of any fiscal stimulus measures.

Equity market reaction to Donald Trump’s inauguration was a positive one with the S&P 500 closing +0.34%, DJ +0.48% and the NASDAQ +0.28%. That said intraday charts reveal equity gains were pared during Trump’s speech, probably reflecting concerns over the emphasis on protectionism.

For the first time since January 3 and before Trump climbed onto the stage, 10y US Treasury yields briefly traded above 2.50%, but then rallied 5bps to end the week at 2.466%. 2y UST traded in a similar pattern down 3.2bps on the day and closing the week at 1.191%. The 2y10y UST curve ended the day 2.5bps steeper at 128bps and the 5y30y curve steepened 3bps closing at 111bps.

In FX, BBDXY (USD index) gained just over half a per cent before Trump’s speech, but ended the day 0.4% lower. The USD traded softer against all European currencies with SEK leading the way, up 0.79%. The EUR was +0.37% and GBP was +0.27%. Meanwhile G10 commodity linked currencies ended the day little changed but softer against the USD (CAD -0.08%, AUD -0.08% and NZD -0.28%). The AUD traded to a high of 0.7588 ahead of Trump, a level that was last seen in November 12 last year, but pair some gains ending the week at 0.755. Our FV model suggest the AUD is no longer significantly undervalued with model estimate suggesting fair value is currently at 0.766.

In EM currencies, MXN (+1.70) and TRY (+1.57%) ended at the top of the leader board amid rumours of CB intervention, but gains are likely to be short lived, especially for MXN given Trump’s NAFTA renegotiation announcement.

As for commodities, gold closed the week above the \$1200 pivot (+0.28%), iron ore was -0.72%, but remains above \$80. Oil rallied (WTI +2.04% and Brent 2.46%) on news that OPEC and other nations are on their way to achieving promised output cuts.

CFTC data from the week ending January 17 shows USD speculative longs against G10 currencies were paired slightly with the net long position trimmed by 14k to 237k. AUD positioning was the highlight, after three weeks being short, speculators are now long AUD at +4.8k and up 8k on the week. In rates, US Treasury shorts were reduced in all tenors with shorts in 2y flipping to net long (5k from a 14.5k short position).

In central bank news, Fed Williams said he isn’t worried about letting the Fed’s balance sheet shrink in a healthy economy. Fed Harker repeated his support for 3 rate hikes in 2017 and added that the Fed should consider stopping balance sheet reinvestment after Funds rate hits 1%. ECB Draghi says that persistent inflation differentials may become a source of vulnerability” and also noted that any country leaving the euro zone must settle bills first.

Coming Up

Cautiousness is likely to be the theme for the start of the week as the market waits for the new US administration policy announcements. The general uncertainty as well as push back on trade friendly policies suggests the AUD and NZD may struggle to make new highs this week.

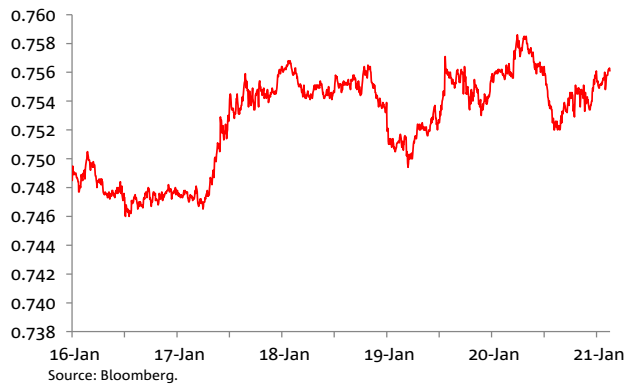
ECB president speaks tonight in Turin and there are no major data releases on the roster today. That being said, there are a few data releases later in the week which should garner some market attention. Global PMIs come out Tuesday, AU CPI is released Wednesday and NZ CPI on Thursday. The UK gets Q4 GDP data on Thursday and the US gets its own on Friday.

Overnight

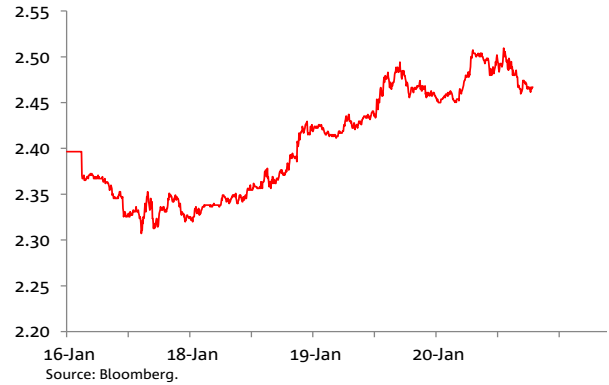
On global stock markets, the S&P 500 was +0.34%. Bond markets saw US 10-years -0.71bp to 2.47%. In commodities, Brent crude oil +2.46% to \$55.49, gold+0.3% to \$1,205, iron ore -0.7% to \$80.41, steam coal +0.4% to \$83.80, met.coal +0.0% to \$190.00. AUD is at 0.756 and the range since Friday 5pm Sydney time is 0.7517 to 0.7588.

Markets

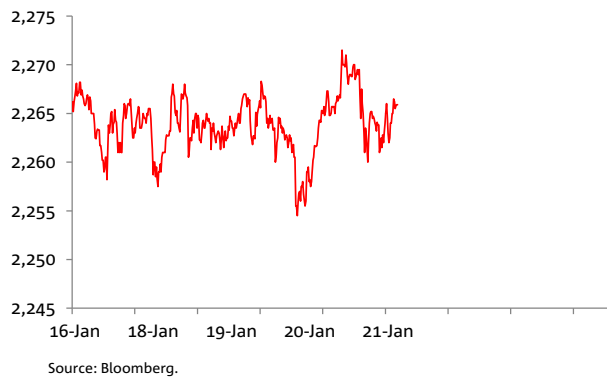
AUD/USD - past week



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	0.7560	0.0	0.7517	0.7588	HKD	7.7582	0.0
NZD	0.7169	-0.3	0.7129	0.7225	CNY	6.8765	0.1
EUR	1.0712	0.5	1.0625	1.0715	SGD	1.4241	-0.1
GBP	1.2379	0.3	1.2261	1.2391	IDR	13,410	0.3
JPY	114.19	-0.6	114.08	115.39	THB	35.43	0.1
CAD	1.3326	0.1	1.3285	1.3388	KRW	1,169	-0.7
AUD/EUR	0.7058	-0.5	0.7051	0.7104	TWD	31.53	-0.3
AUD/JPY	86.35	-0.6	86.22	87.05	PHP	49.97	0.0
AUD/GBP	0.6108	-0.3	0.6101	0.6140	CHF	1.00	-0.4
AUD/NZD	1.0535	0.2	1.0494	1.0567	SEK	8.88	-0.8
AUD/CNH	5.1894	0.1	5.1536	5.1901			

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.75	1.04	1.52	2.36	USD 10	2.47	-0.71
AUD	1.50	1.78	2.01	3.02	AUD 10	2.78	2.40 0.32
NZD	1.75	1.98	2.43	3.50	NZD 10	3.25	4.80 0.78
EUR	0.00	-0.33	-0.16	0.77	CAD 10	1.75	-1.20 -0.72
GBP	0.25	0.36	0.69	1.41	EUR 10	0.42	4.20 -2.05
JPY	-0.05	-0.02	0.04	0.23	GBP 10	1.43	2.30 -1.04
CAD	0.50	0.95	1.08	1.94	JPY 10	0.07	-1.10 -2.40

Equities

Major Indices	Last	% day	% y/y
	Dow	19,827	0.48
S&P 500	2,271	0.34	19.1
Nasdaq	5,555	0.28	21.0
VIX	12	-9.70	-48.3
FTSE	7,198	-0.1	22.0
DAX	11,630	0.3	19.1
CAC 40	4,851	0.2	11.9
Nikkei	19,138	0.3	12.9
Shanghai	3,123	0.7	7.1
Hang Seng	22,886	-0.7	19.9
ASX 200	5,655	-0.7	15.0

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.19	0.00
3 Yr bond	97.8	0.00
10 Yr bond	97.18	-2.50
3/10 sprd	0.63	2.50
SPI	5628.0	9.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	55.49	2.5
Oil (WTI)	53.22	2.1
Oil (Tapis)	55.78	0.2
Gold	1204.90	0.3
CRB	194.02	0.5
GS Metals	320.2	0.4
Aluminium	1843.8	1.1
Copper	5737.0	0.2
Nickel	9663.0	-2.3
Zinc	2761.0	0.0
Ch. steel	3158.0	-3.2
Iron ore	80.4	-0.7
St. Coal	83.8	0.4
Met.coal	190.0	0.0
Wheat Chic.	443.3	0.9
Sugar	20.2	0.0
Cotton	73.0	0.5
Coffee	153.2	1.6

CO₂ Emissions - Euros

	Last	% day
Dec-2016	5.09	Clsd
Jun-2017	5.43	4.4

* 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, 23 January 2017								
NZ	<i>Partial holiday - Wellington Anniversary</i>							
EC	ECB's Draghi Speaks in Torino, Italy						12.30	22.30
JN	Cabinet Office Monthly Economic Report for January						4.00	14.00
JN	All Industry Activity Index MoM	Nov		0.4		0.2	5.30	15.30
JN	Leading Index CI	Nov F				102.7	6.00	16.00
CA	Wholesale Trade Sales MoM	Nov				1.1	14.30	0.30
CH	Conference Board Leading Economic Index	Dec					15.00	1.00
EC	Consumer Confidence	Jan		-5		-5.1	16.00	2.00
CA	Bloomberg Nanos Confidence	Jan 20				56.2	16.00	2.00
Tuesday, 24 January 2017								
NZ	Performance Services Index	Dec				57.9	22.30	8.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jan 22				119.3	23.30	9.30
AU	NAB Residential Property Survey	Q4					1.30	11.30
JN	Nikkei Japan PMI Mfg	Jan P				52.4	1.30	11.30
GE	Markit/BME Germany Manufacturing PMI	Jan P		55.4		55.6	9.30	19.30
GE	Markit Services/Composite PMI	Jan P		54.5/55.3		54.3/55.2	9.30	19.30
EC	Markit Manufacturing PMI	Jan P		54.8		54.9	10.00	20.00
EC	Markit Services/Composite PMI	Jan P		53.7/54.5		53.7/54.4	10.00	20.00
UK	Public Finances (PSNCR)/Public Sector Net Borrowing	Dec				13.5/12.2	10.30	20.30
US	Markit US Manufacturing PMI	Jan P		/		54.3	15.45	1.45
US	Existing Home Sales #/MoM	Dec		5.55/-1.07		5.6/0.7	16.00	2.00
US	Richmond Fed Manufact. Index	Jan				8.0	16.00	2.00
EC	ECB's Praet Speaks at Panel in Rome						17.00	3.00
Wednesday, 25 January 2017								
AU	Westpac Leading Index MoM	Dec				0.0	0.30	10.30
JN	Trade Balance Adjusted	Dec		222.5		536.1	0.50	10.50
JN	Exports/Imports YoY	Dec		1.1/-0.8		-0.4/-8.8	0.50	10.50
AU	Skilled Vacancies MoM	Dec				0.0	1.00	11.00
AU	CPI QoQ/YoY	4Q	0.9/1.8	0.7/1.6		0.7/1.3	1.30	11.30
AU	CPI Trimmed Mean QoQ/YoY	4Q	0.5/1.7	0.5/1.6		0.4/1.7	1.30	11.30
AU	CPI Weighted Median QoQ/YoY	4Q	0.5/1.4	0.5/1.4		0.3/1.3	1.30	11.30
NZ	Credit Card Spending MoM/YoY	Dec		/		-4.2/4.1	3.00	13.00
GE	Ifo Business Climate	Jan		111.3		111.0	10.00	20.00
GE	Ifo Current Assessment/Expectations	Jan		116.9/105.8		116.6/105.6	10.00	20.00
UK	CBI Trends Total Orders/Selling Prices	Jan		/		0.0/26.0	12.00	22.00
UK	CBI Business Optimism	Jan				-8.0	12.00	22.00
US	MBA Mortgage Applications	Jan 20				0.8	13.00	23.00
US	FHFA House Price Index MoM	Nov		0.3		0.4	15.00	1.00
UK	BoE's Carney speaks in Wiesbaden, Germany						17.00	3.00
Thursday, 26 January 2017								
AU	<i>Australia Day holiday</i>							
NZ	CPI QoQ/YoY	4Q	0.4/1.3	0.3/1.2		0.2/0.2	22.45	8.45
NZ	RBNZ Governor Wheeler Speaks in Christchurch (Not public)						0.00	10.00
JN	PPI Services YoY	Dec		0.4		0.3	0.50	10.50
CH	Industrial Profits YoY	Dec				14.5	2.30	12.30
GE	GfK Consumer Confidence	Feb		10		9.9	8.00	18.00
UK	BBA Loans for House Purchase	Dec				40659.0	10.30	20.30
UK	GDP QoQ/YoY	4Q A		0.5/2.1		0.6/2.2	10.30	20.30
UK	Index of Services MoM/YoY	Nov		/		0.3/1.0	10.30	20.30
UK	CBI Total Dist./Retail Reported Sales	Jan		/		42.0/35.0	12.00	22.00
US	Advance Goods Trade Balance	Dec		-64.25		-66.6	14.30	0.30
US	Wholesale/Retail Inventories MoM	Dec P				1.0/1.0	14.30	0.30
US	Chicago Fed Nat Activity Index	Dec				-0.3	14.30	0.30
US	Initial Jobless Claims	Jan 21				234.0	14.30	0.30
US	Markit US Services/Composite PMI	Jan P				53.9/54.1	15.45	1.45
US	Bloomberg Consumer Comfort	Jan 22				45.2	15.45	1.45
US	New Home Sales #/MoM	Dec		586/-1		592.0/5.2	16.00	2.00
US	Leading Index	Dec		0.5		0.0	16.00	2.00
US	Kansas City Fed Manf. Activity	Jan				11.0	17.00	3.00
Friday, 27 January 2017								
JN	Natl CPI/Ex Food & Energy YoY	Dec		0.2/-0.1		0.5/0.1	0.30	10.30
AU	PPI QoQ/YoY	4Q				0.3	1.30	11.30
AU	Export/Import Price Index QoQ	4Q	10.7/-0.3	11.5/0.4		3.5/-1.0	1.30	11.30
EC	ECB's Governing Council Klaas Knot on Dutch TV						12.10	22.10
CA	CFIB Business Barometer	Jan				60.7	12.45	22.45
US	GDP Annualized QoQ	4Q A		2.1		3.5	14.30	0.30
US	Durable Goods Orders/Core Orders	Dec P		2.9/0.5		-4.5/0.9	14.30	0.30
US	U. of Mich. Sentiment/5-10 Yr Inflation	Jan F		98.1		98.1	16.00	2.00
Upcoming Central Bank Interest Rate Announcements								
Japan, BoJ		31-Jan		-0.1% to +0.1%		-0.1% to +0.1%		
US Federal Reserve		2-Feb				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%		
Canada, BoC		2-Mar				0.50%		
Europe ECB		9-Mar		0.00%		0.00%		

GMT: Greenwich Mean Time; AEDT: Australian Daylight Savings Time

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