

MARKETS TODAY



CPI - Hot Potato [or cold spaghetti]?

Good Morning

Today's 1994 classic [Hot Potato](#) by The Wiggles is likely to be seared into the memory banks of parents and children alike – likewise for your scribe. A staple the humble spud may be, but possibly an expensive one in the 4th quarter according to our economists. If we get an upside surprise to the Australian CPI this morning, the potato could be the main culprit. More on that later, first to overnight developments.

Brexit news dominates headlines this morning with the UK Supreme Court ruling Parliament must vote before the formal Brexit mechanism (article 50) can be activated. However, in positive news for Brexiters the court also ruled that the devolved Scottish, Welsh and N. Ireland assemblies do not get a vote on the process. UK Secretary of State for Exiting the EU David Davis said the government would present such legislation “within days” and activation of the formal Brexit processes by the end of March 2017 still looks likely. The pound did experience some intraday volatility, but ended the day down 0.3% and trades some 3.9% higher than its lows in early January at around 1.2514.

As for other currencies, it was a night of mild US dollar strength with the DXY up 0.3%. The rise in the dollar mostly reverses the falls seen after Trump's Trade Secretary nominee Steven Mnuchin noted an “excessively strong dollar may have negative short-term implications on the economy”. What was not widely reported though was that Mnuchin's comments were in response to a hypothetical question of a 25% rise in the dollar so no surprises there for the reversal. Most G10 currencies were weaker with the Euro down 0.33%, Yen down 1.02% and Aussie almost unchanged (down just 0.1%). The Kiwi and the CAD outperformed, up 0.2% and 0.62%.

Trump news flow continued overnight with focus on protectionist policies and winding back regulations then on boosting infrastructure spending. In a meeting with the CEOs of major car manufacturers, President Trump tweeted “I want new plants to be built here for cars sold here” and vowed to cut regulations and taxes as an incentive, repeating his mantra of “buy American and hire American”. Trump also signed off on some executive orders to help advance the Dakota Access and Keystone XL Pipelines and to expedite environmental reviews for “high priority infrastructure projects”.

Solid European PMIs and a mostly positive company earnings season contributed to higher bond yields overnight. US Treasury yields were up 7.4 bps to 2.47%, German Bunds up 4.5bps to 0.41% and UK Gilts up 3.5 bps to 1.40%. Australian CGS largely followed the moves in Treasuries the previous night, down 6.3 bps to 2.70%.

Equities were mostly higher on the back of solid earnings from homebuilders and DuPont. The S&P500 rose 0.7% with the Dow Jones also up by 0.7% and building momentum for a second tilt at the psychological 20,000

mark – it currently sits at 19,934. The EuroStoxx was up 0.3% while the FTSE was unchanged overnight. Dragging on the FTSE was a near 20% fall in BT Group on the back of “improper practices” in its Italian arm which saw a £530m write-down.

In commodities, oil was higher, up 1.2% to \$53.38 (WTI) while Brent was also up 0.7% to \$55.62. Comments by Iraq that it was progressing with its commitment to cut oil production supported. Australia's key commodity prices were unchanged to higher with Iron ore up 1.9% to 82.9, Thermal coal up 0.1% to 83.8, while Coking coal was unchanged at \$185.0.

Coming Up

The main game this morning is Australia's Q4 CPI, out at 11:30 AEDT. Forecasts for Headline CPI centre on 0.7% q/q, but range from 0.3-1.0%. Strength this quarter is expected to come from petrol prices, housing construction costs, domestic travel and tobacco excise. NAB is closer to the top end this quarter at 0.9% q/q with some of our higher read stemming from indicators that suggest a strong increase in vegetable prices on the back of Australia's 2nd wettest winter.

Winter rains were reported to have affected a number of crops with the price of wholesale potatoes surging some 70.9% in the quarter. In your scribe's opinion, to what extent these wholesale price developments get translated into retail prices will determine whether Headline CPI is at consensus or slightly higher.

On the core measures, NAB is in line with the consensus in looking for a pair of 0.5s. This would put annual growth for the Trimmed mean at 1.7% y/y and the Weighted Median at 1.4% y/y and average out at 1.5% to be broadly in line with the RBA's November forecasts. Such outcomes are unlikely to sway the RBA. Governor Lowe has expressed a willingness to be patient in getting inflation back to the 2-3% target and the RBA's own forecasts sees this as only happening by mid-2018.

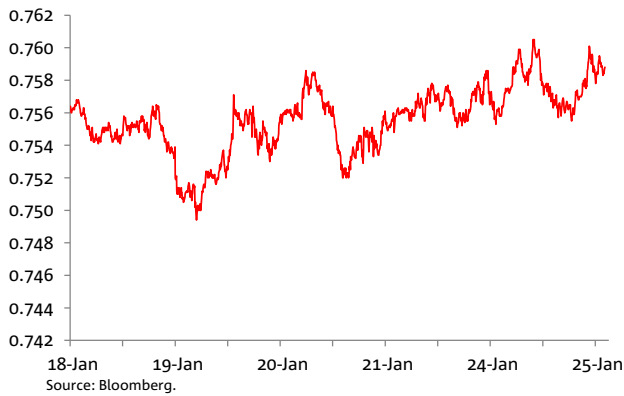
Internationally it's a fairly light calendar. Japan has its Trade Balance at 10.50am AEDT, and the German Ifo is out at 8.00pm AEDT. Finally, there is a G20 conference on digitising finance which includes a plethora of central bank speakers, including BoE Governor Carney and Bundesbank President Weidmann with the potential for headlines from any side discussions.

Overnight

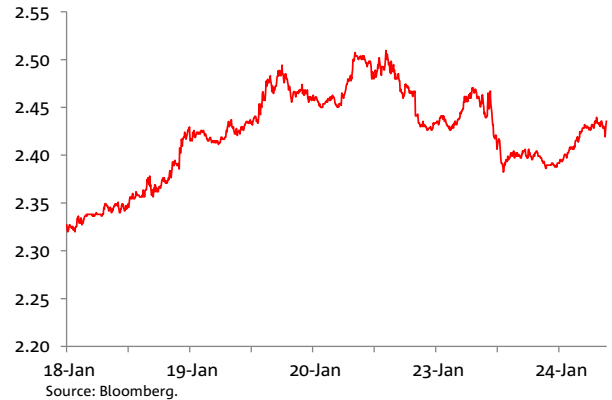
On global stock markets, the S&P 500 was +0.73%. Bond markets saw US 10-years +6.44bp to 2.47%. In commodities, Brent crude oil +0.27% to \$55.38, gold-0.6% to \$1,208, iron ore +1.9% to \$82.69, steam coal +0.1% to \$83.75, met.coal +0.0% to \$185.00. AUD is at 0.7579 and the range since yesterday 5pm Sydney time is 0.7554 to 0.7609.

Markets

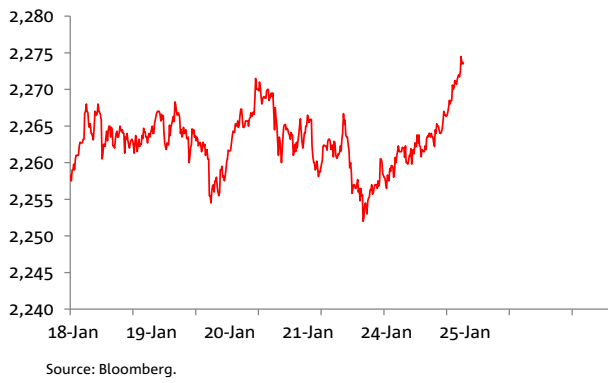
AUD/USD - past week



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	0.7579	-0.1	0.7554	0.7609	HKD	7.7579	0.0
NZD	0.7249	0.2	0.7209	0.7277	CNY	6.8590	0.1
EUR	1.0722	-0.4	1.0721	1.0775	SGD	1.4217	0.3
GBP	1.2500	-0.3	1.2419	1.2545	IDR	13,322	-0.4
JPY	113.88	1.0	112.53	113.89	THB	35.27	0.0
CAD	1.3155	-0.6	1.3106	1.3299	KRW	1,166	0.0
AUD/EUR	0.7069	0.3	0.7032	0.7069	TWD	31.38	-0.1
AUD/JPY	86.31	1.0	85.39	86.32	PHP	49.83	-0.3
AUD/GBP	0.6063	0.2	0.6033	0.6096	CHF	1.00	0.5
AUD/NZD	1.0455	-0.3	1.0441	1.0493	SEK	8.86	0.3
AUD/CNH	5.2083	0.3	5.1528	5.1829			

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	0.75	1.04	1.50	2.36	USD 10	2.47	7.37
AUD	1.50	1.78	2.01	3.01	AUD 10	2.70	-6.30 0.22
NZD	1.75	1.98	2.43	3.51	NZD 10	3.25	0.00 0.78
EUR	0.00	-0.33	-0.16	0.78	CAD 10	1.76	8.00 -0.71
GBP	0.25	0.36	0.67	1.39	EUR 10	0.41	4.50 -2.06
JPY	-0.05	-0.02	0.03	0.21	GBP 10	1.40	3.50 -1.07
CAD	0.50	0.95	1.10	1.96	JPY 10	0.05	-0.50 -2.42

Equities

Major Indices			
	Last	% day	% y/y
Dow	19,936	0.69	23.9
S&P 500	2,282	0.73	19.7
Nasdaq	5,603	0.90	22.0
VIX	11	-2.38	-48.6
FTSE	7,150	0.0	21.2
DAX	11,595	0.4	18.7
CAC 40	4,830	0.2	11.4
Nikkei	18,788	-0.5	9.8
Shanghai	3,143	0.2	6.9
Hang Seng	22,950	0.2	18.7
ASX 200	5,650	0.7	12.9

Commodities*

	Last	% day
Oil (Brent)	55.38	0.3
Oil (WTI)	53.16	0.8
Oil (Tapis)	57.00	0.9
Gold	1207.70	-0.6
CRB	194.95	0.3
GS Metals	322.3	0.0
Aluminium	1861.8	0.9
Copper	5932.0	2.6
Nickel	9757.0	0.9
Zinc	2819.0	1.3
Ch. steel	3281.0	3.4
Iron ore	82.7	1.9
St. Coal	83.8	0.1
Met.coal	185.0	0.0
Wheat Chic.	441.0	-1.3
Sugar	20.6	-0.3
Cotton	73.6	-1.4
Coffee	152.4	-2.0

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.20	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.21	3.00
3/10 sprd	0.59	0.00
SPI	5632.0	-66.0

*Change in bps

CO2 Emissions - Euros

	Last	% day
Dec-2016	5.09	Clsd
Jun-2017	5.08	-4.5

* 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
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		53.8/54.5		53.7/54.4	10.00	20.00
UK	Public Finances (PSNCR)/Public Sector Net Borrowing	Dec		/6.8		13.5/12.2	10.30	20.30
US	Markit US Manufacturing PMI	Jan P		54.5		54.3	15.45	1.45
US	Existing Home Sales #/MoM	Dec		5.5/-1.96		5.6/0.7	16.00	2.00
US	Richmond Fed Manufact. Index	Jan		6		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		209.9		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		117/105.8		116.6/105.6	10.00	20.00
UK	CBI Trends Total Orders/Selling Prices	Jan		2/30		0.0/26.0	12.00	22.00
UK	CBI Business Optimism	Jan		-8		-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		0.4		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 public 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		0.3		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		41000		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		0.2/0.9		0.3/1.0	10.30	20.30
UK	CBI Total Dist./Retail Reported Sales	Jan		36.5/27		42.0/35.0	12.00	22.00
US	Advance Goods Trade Balance	Dec		-64.7		-66.6	14.30	0.30
US	Wholesale/Retail Inventories MoM	Dec P		0.3		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		247		234.0	14.30	0.30
US	Markit US Services/Composite PMI	Jan P		54.6		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		7.5		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	12.1/0.4		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		2.2		3.5	14.30	0.30
US	Durable Goods Orders/Core Orders	Dec P		2.7/0.3		-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
Monday, 30 January 2017								
NZ	Trade Balance/12m NZD	Dec		/		-705.0/-3175.0	22.45	8.45
JN	Retail Sales MoM/YoY	Dec		/		0.2/1.7	0.50	10.50
US	Personal Income/Spending	Dec		0.4/0.5		0.0/0.2	14.30	0.30
US	PCE Deflator MoM/YoY	Dec		0.3/		0.0/1.4	14.30	0.30
US	PCE Core MoM/YoY	Dec		0.1/		0.0/1.6	14.30	0.30
CA	Bloomberg Nanos Confidence	Jan 20				56.2	16.00	2.00
US	Pending Home Sales MoM/YoY	Dec		1.5/		-2.5/1.4	16.00	2.00
US	Dallas Fed Manf. Activity	Jan		15		15.5	16.30	2.30
Upcoming Central Bank Interest Rate Announcements								
Japan, BoJ		31-Jan	-0.1%	-0.1%		-0.1%		
US Federal Reserve		2-Feb	0.5-0.75%	0.5-0.75%		0.5-0.75%		
UK BOE		2-Feb	0.25%	0.25%		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	0.5%	0.5%		0.5%		
Europe ECB		9-Mar	-0.4%	-0.4%		-0.4%		

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

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