

MARKETS TODAY

Walking back to happiness



Good Morning

It's been a reversal back to USD strength overnight – including a late session kick along from the Fed Chair, more on that below - the Bloomberg spot dollar index up 0.35% before she stepped up to the plate, and another ½% since. Most major crosses are bearing losses from the re-rising USD. The mantle has gone to the CAD that was down 1.05% earlier in the session, USD/CAD up from less than 1.31 to over 1.32 (and since Yellen seeing more buying to the mid 1.32s) as the press conference from BoC Governor Poloz kept the prospect of another rate cut alive. Canadian short term bond yields rallied against what has been a heavy US Treasury market, 2y Treasuries up 5.7bps and 10s up a chunky+8.8bps, at 2.41%. After touching 0.7565 a little earlier in the NY session, the AUD/USD pulled back down to 0.7535 and has given back another 10-20 points since Yellen's speech, now at 0.7518.

Having rocketed back to hit 1.24 after PM May's speech, Sterling spent yesterday retracing some of those gains. That retracement was interrupted in the wake of a better than expected UK labour market report for December revealing somewhat stronger earnings growth and less employment attrition than expected. Later in the session, Cable has also succumbed to the stronger USD.

The US data set of the December CPI and Industrial Production and January NAHB Home Builders index were not too far at all from expectations, least not reasons to drive any new dollar enthusiasm. The CPI headline and core were bang on expectations (0.3%/2.1% for headline and 0.2%/2.2% for core CPI), IP was two tenths better in December but came with a negative revision, while the home builders' optimism index missed slightly, though at 67 (69 expected) remains very upbeat. While not shooting the lights out, it didn't dislodge the recovering US economy story either, from what was seen.

In the last hour, the Fed has released its Beige Book regional review of the US ahead of the February 2 FOMC. It very much played to the positive continued growth story, one of a tightening labour market and signs of rising wages and inflation story, adding some USD support and weakening Treasuries. Businesses and contacts reported signs of rising price pressure, firms were optimistic about the outlook this year and even in areas reporting some layoffs, most businesses were adding to employment, on balance.

Fed Presidents Kaplan (Dallas) and Kashkari (Minneapolis), both voters this year have been speaking. Kaplan said the Fed should be raising rates in a gradual, patient manner and that it would be healthy to have a balance sheet debate sometime in 2017 (discussion of winding back QE/the Fed's balance sheet). He also said more balance will be needed between monetary and fiscal policy. (We are going to hear a whole lot more about that this year.) Kaplan is tilted to the more

hawkish end of the policy spectrum. Kashkari said we don't know enough about Trump policies to alter forecasts, but made no monetary policy comments in his speech.

As we go to press, Fed Chair Yellen has been speaking in San Francisco on *"The Goals of Monetary Policy and How We Pursue Them"*. Wire service headlines are carrying such quotes as US near maximum employment and inflation is moving toward its goal, rates will creep higher, not rise dramatically, it makes sense to gradually reduce monetary policy support, that the Fed is close to its dual goals but can't give the timing of the next hike, and a warning that rates delay risks a "nasty surprise". That last one sounds about as hawkish as we're likely to see from the Fed Chair.

In the immediate aftermath of those grabs hitting the wires, the USD has been bought further. The AUD/USD has pulled back to 0.7527, with most of the major crosses seeing similar directional moves. In the commodity space, iron ore was back up, as were base metals in London, but oil and gold were back down.

Coming Up

The main event in our time zone today is the December Labour Force report at 11.30. We have no model disposition to suggest this is likely to be biased more likely as an especially weak or strong headline. It's not to say it necessarily won't work out that way, it's just that our models are not suggesting a big correction one way or the other.

NAB's short-term labour market models point to an increase in employment of 13K (market +10K), sufficient with an unchanged participation rate to keep the unemployment rate steady at 5.7%. The range of forecasts on employment is -21/+30K, while the range on the unemployment rate is 5.6%-5.8%. The main interest we suspect will be whether the report plays into the soft/weak full-time employment story or not. Before employment comes the BNZ/Business NZ Manufacturing PMI (8.30 AEST), NZ Building Permits (8.45), and the NZ ANZ Consumer Confidence survey (11.00).

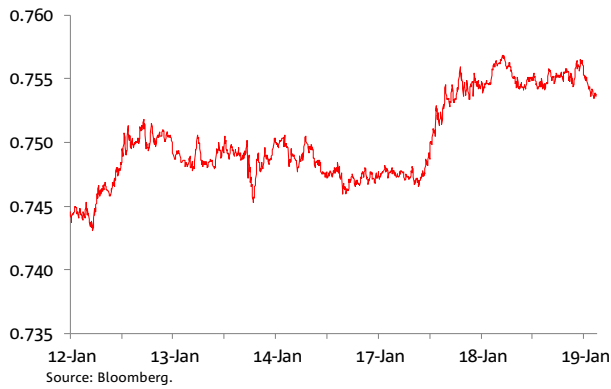
Tonight, in the European session is the ECB meeting and what ECB President Draghi has to say in his press conference, followed by US Housing Starts, Jobless Claims, and the Philly Fed survey for January. (The second speech from Yellen comes at midday AEST tomorrow.)

Overnight

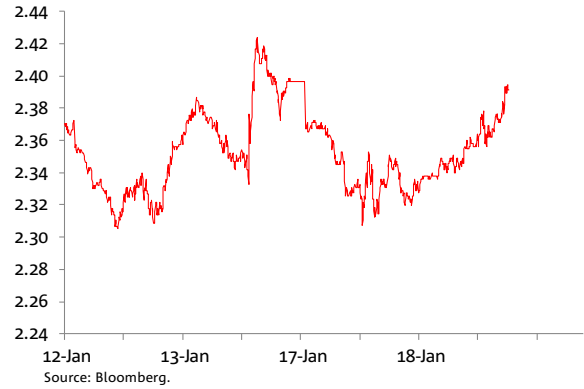
On global stock markets, the S&P 500 was +0.07%. Bond markets saw US 10-years +8.41bp to 2.41%. In commodities, Brent crude oil -2.47% to \$54.1, gold -0.6% to \$1,205, iron ore +0.6% to \$82.05, steam coal -0.8% to \$83.85, met.coal +0.0% to \$190.00. AUD is at 0.752 and the range since yesterday 5pm Sydney time is 0.7535 to 0.7565.

Markets

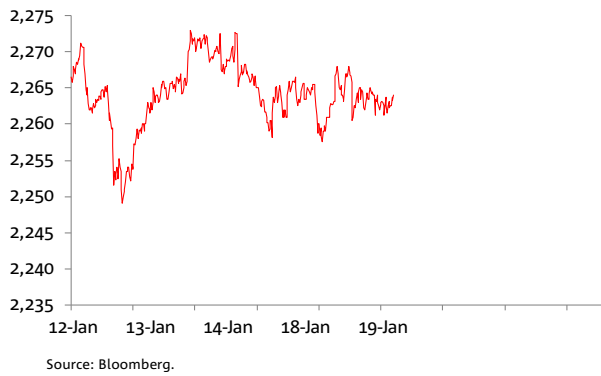
AUD/USD - past week



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	0.7520	-0.6	0.7515	0.7567	HKD	7.7562 0.0
NZD	0.7152	-0.4	0.7146	0.7208	CNY	6.8733 0.2
EUR	1.0648	-0.3	1.0640	1.0705	SGD	1.4279 0.7
GBP	1.2272	0.9	1.2255	1.2350	IDR	13,366 0.3
JPY	114.06	0.9	113.19	114.13	THB	35.38 0.2
CAD	1.3250	1.6	1.3055	1.3264	KRW	1,177 0.8
AUD/EUR	0.7064	0.0	0.7053	0.7085	TWD	31.66 0.6
AUD/JPY	85.77	0.6	85.49	85.81	PHP	50.01 0.6
AUD/GBP	0.6128	-1.2	0.6123	0.6157	CHF	1.01 0.2
AUD/NZD	1.0513	0.1	1.0483	1.0526	SEK	8.94 0.4
AUD/CNH	5.1690	-0.1	5.1385	5.1518		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spnd
USD	0.75	1.02	1.51	2.29	USD 10	2.41	8.41
AUD	1.50	1.78	2.01	2.97	AUD 10	2.68	-1.60 0.27
NZD	1.75	2.00	2.43	3.45	NZD 10	3.14	2.50 0.73
EUR	0.00	-0.33	-0.18	0.72	CAD 10	1.68	1.70 -0.73
GBP	0.25	0.36	0.63	1.32	EUR 10	0.36	3.40 -2.05
JPY	-0.05	-0.02	0.03	0.20	GBP 10	1.34	2.70 -1.07
CAD	0.50	0.96	1.08	1.88	JPY 10	0.06	1.00 -2.35

Equities

Major Indices			
	Last	% day	% y/y
Dow	19,797	-0.15	23.8
S&P 500	2,269	0.07	20.7
Nasdaq	5,547	0.14	23.6
VIX	13	5.56	-53.6
FTSE	7,248	0.4	25.4
DAX	11,599	0.5	21.8
CAC 40	4,853	-0.1	15.8
Nikkei	18,894	0.4	10.8
Shanghai	3,113	0.1	3.5
Hang Seng	23,098	1.1	17.6
ASX 200	5,679	-0.4	15.8

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.20	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.22	-5.00
3/10 sprd	0.58	8.00
SPI	5625.0	26.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	54.10	-2.5
Oil (WTI)	51.22	-2.4
Oil (Tapis)	56.22	-2.3
Gold	1205.20	-0.6
CRB	193.36	-0.9
GS Metals	317.5	0.0
Aluminium	1831.0	2.1
Copper	5753.0	0.2
Nickel	10140.0	0.1
Zinc	2768.5	2.2
Ch. steel	3244.0	-2.5
Iron ore	82.1	0.6
St. Coal	83.9	-0.8
Met.coal	190.0	0.0
Wheat Chic.	446.0	-0.5
Sugar	21.0	1.2
Cotton	72.3	0.2
Coffee	149.2	-0.5

CO₂ Emissions - Euros

	Last	% day
Dec-2016	5.09	Clsd
Jun-2017	4.84	-2.8

* 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, 16 January 2017								
CH	Foreign Direct Investment YoY CNY	Jan				5.7		
NZ	Food Prices MoM	Dec				-0.1	22.45	8.45
JN	Machine Orders MoM	Nov		-1.7		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		20.8		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		0.3		-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	UK PM May on Major Brexit Speech "Brexit Approach"							time unknown
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		6.1		6.9	10.30	20.30
GE	ZEW Survey Expectations	Jan		18.4		13.8/63.5	11.00	21.00
EC	ZEW Survey Expectations	Jan				18.1	11.00	21.00
US	Fed's Dudley (voter) Speaks on Consumer Behavior in New York						14.45	0.45
US	Fed's Williams (non-voter) speaks in Sacramento						0.00	10.00
Wednesday, 18 January 2017								
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		-35/4.8		-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		0.2/2.2		0.2/2.1	14.30	0.30
US	Industrial Production MoM	Dec		0.6		-0.4	15.15	1.15
US	Fed's Kaplan (voter) speaks in Dallas							1.00
CA	Bank of Canada Rate Decision	Jan 18		0.5		0.5	16.00	2.00
US	Fed's Kashkari speaks in San Francisco							3.00
US	Fed Chair Yellen speaks in San Francisco						21.00	7.00
Thursday, 19 January 2017								
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		1		-0.8	14.30	0.30
US	Housing Starts #/MoM	Dec		1184/8.6		1090/-18.7	14.30	0.30
US	Building Permits #/MoM	Dec		1225/1.1		1201/-4.7	14.30	0.30
US	Philadelphia Fed Business Outlook	Jan		16		21.5	14.30	0.30
US	Fed Chair Yellen speaks at Stanford						2.00	12.00
Friday, 20 January 2017								
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
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	
GE	PPI MoM/YoY	Dec		0.4/1		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		-0.4/7.5		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		0.5/0.1		1.1/1.4	14.30	0.30
CA	CPI NSA MoM/YoY	Dec		0/1.7		-0.4/1.2	14.30	0.30
CA	CPI SA MoM	#N/A Field Not Applicable				-0.2		
US	Fed's Harker speaks in New Jersey on Economic Outlook						15.00	1.00
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

CONTACT DETAILS

Authors

David de Garis
Senior Economist
+61 3 8641 3045
david.degaris@nab.com.au

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848
ray.attrill@nab.com.au

Rodrigo Catril
Currency Strategist
+61 2 9293 7109
rodrigo.h.catril@nab.com.au

Tapas Strickland
Economist
+61 2 9237 1980
tapas.strickland@nab.com.au

Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406
peter.jolly@nab.com.au

Group Economics

Alan Oster
Chief Economist
+61 3 8634 2927
alan_oster@national.com.au

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