

# MARKETS TODAY

## Brexit Poker Face



Global equities were mostly lower overnight, dragged lower by the oil price. That added to an already uncertain tone following indications that the UK may be hurtling towards a harder Brexit than first thought.

UK PM Theresa May stated on the Weekend that the upcoming Brexit negotiations will be about “getting the right relationship, not about keeping bits of membership”. Running counter to the EU’s free movement of people, PM May also reinforced her commitment to border control: “we will have control of our borders, control of our laws”. German Chancellor Angela Merkel put the kybosh to such thoughts stating that “access to the single market can only be possible on the condition of respecting the four basic freedoms. Otherwise one has to talk about limits”. This implies the UK cannot cherry pick without concessions. In this round of high stakes poker it seems May lost the first hand – giving inspiration to today’s title [Poker Face](#) by Lady Gaga.

Against those headlines it’s no surprise to see the Pound at the bottom of the G10 leader board – down 1.0% overnight to 1.2161 and close to the October closing low of 1.2123. The US dollar was also lower overnight, down 0.2% alongside the fall in global bond yields. Correspondingly the Euro was up 0.4% to 1.0589. The Aussie and the Kiwi outperformed overnight both up 0.9% and the Yen was also 0.8% higher. While the clear underperformer was the pound, the Norwegian Krone was also lower, down 0.1% – likely due to the moves in the oil price.

In rates, 10-year bond yields were mostly lower overnight. US Treasuries fell 5.10bps to 2.37% and German Bunds were down 2 bps to 0.28%. UK Gilts fell similarly, down 4.8 bps to 1.34% and likely partly in reaction to PM May’s comments which would imply an easier BoE policy rate for longer (see above). Movements in Aussie CGS yields followed the move in Treasuries yesterday and were up 8.20bps to 2.76%.

More Fed speak did little to add to the debate around the Fed which mostly reiterated the views of three rate hikes for 2017 being reasonable and that fiscal stimulus was not needed. The Fed’s Williams (non-voter) repeated remarks given last week in an FT Interview overnight that three rate hikes for 2017 was “very reasonable”, and Rosenreg (non-voter) also said that he was looking for a “a still gradual but somewhat more regular increase in the federal funds rate”. The OIS market now prices a 41% chance of a rate hike by March and 2.2 rate hikes in 2017, still a bit little less than the FOMC’s median dot point of three hikes.

The oil price fell around 3% overnight with the WTI measure at \$52.37 a barrel. The fall comes amid signs that US producers are set to ramp up production in response to the higher oil price with the Baker Hughes Rig Count rising to 665 rigs – the highest since the beginning of 2016. Higher US production could offset some of the

cuts committed to by OPEC and non-OPEC countries which were designed to move the oil price into a \$55-60 a barrel range – note breakeven costs for US shale producers are estimated to be in the \$40-50 a barrel range.

Global equities were mostly lower, driven lower by the oil price. The S&P500 fell 0.3% with energy stocks down 1.4% on the day. The Dow looks less likely to make the magic 20,000 level soon despite coming close in recent days, with this also down 0.3% to 19,896. European equities were also lower with the Dax down 0.3% and the CAC40 down 0.5%.

In commodities, Coking coal continued its downward run, down 3.3% to \$206 a tonne. Thermal coal also declined, down 2.6% to \$83.50 a tonne. Iron ore bucked the trend, up 1.9% to \$77.7 a tonne. Gold was higher overnight, up 0.9% given the mixed tone and some notion of Chinese New Year demand.

### Coming Up

Domestically all eyes will be on November Retail Sales. While the market consensus is looking for a 0.4% m/m increase, your scribe suggests there is likely upside risk and NAB is looking for a 0.7% m/m outcome. Major retailers reported solid sales in the lead up to Christmas, NAB’s Online Retail Sales Index was strong in November and there is some upside from the risk that the incorporation of major US shopping events in the Australian retail calendar (e.g. Black Friday and Cyber Monday) is not being fully adjusted for by seasonal adjustment – this is what the UK Statistician reported in their November retail report. There is also the potential for a small boost coming from South Australia as catch-up to the weak read it had in October due to the blackout in late September/early October.

Internationally the calendar is sparse. Across the Ditch we get REINZ House Prices, while China has the CPI and PPI and Japan has Consumer Confidence.

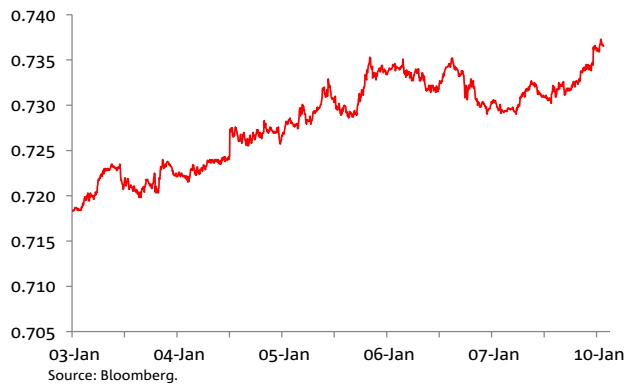
In the US, JOLTS figures are out along with Wholesale Inventories and the NFIB Small Business Optimism index. Otherwise tonight sees outgoing US President Obama giving a farewell speech in Chicago and the US Energy Information Administration gives its latest short-term energy outlook – relevant given the moves in oil overnight.

### Overnight

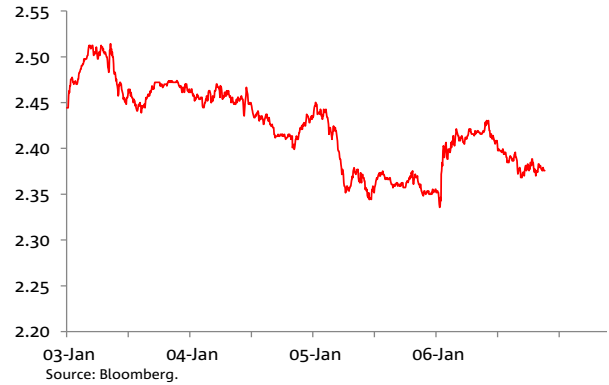
On global stock markets, the S&P 500 was -0.30%. Bond markets saw US 10-years -4.37bp to 2.37%. In commodities, Brent crude oil -3.96% to \$54.84, gold+0.9% to \$1,184, iron ore +1.9% to \$77.73, St. Coal -2.6% to \$83.50, Met. Coal -5.3% to \$195.00. AUD is at 0.736 and the range since yesterday 5pm Sydney time is 0.7302 to 0.7373.

# Markets

AUD/USD - past week



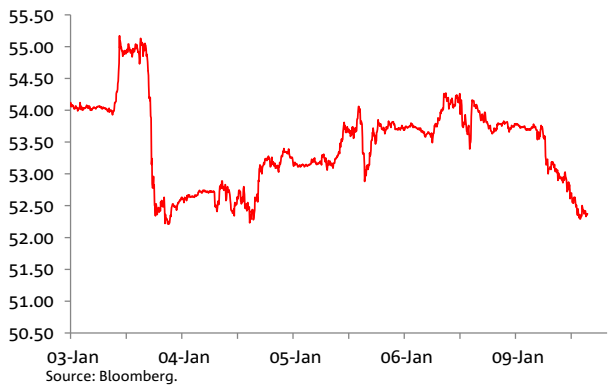
US 10yr - past week



S&P Future - past week



WTI - past week



## Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High		Last	% chge
AUD	0.7360	0.8	0.7289	0.7374	HKD	7.7565	0.0
NZD	0.7016	0.8	0.6949	0.7033	CNY	6.9375	0.2
EUR	1.0571	0.4	1.0511	1.0583	SGD	1.4350	-0.3
GBP	1.2162	-1.0	1.2125	1.2278	IDR	13,362	-0.1
JPY	116.08	-0.8	115.96	117.53	THB	35.65	-0.2
CAD	1.3229	-0.1	1.3197	1.3277	KRW	1,208	1.3
AUD/EUR	0.6962	0.4	0.6915	0.6975	TWD	32.10	0.4
AUD/JPY	85.43	0.0	85.25	85.92	PHP	49.59	0.2
AUD/GBP	0.6051	1.8	0.5940	0.6060	CHF	1.02	-0.3
AUD/NZD	1.0490	0.0	1.0465	1.0519	SEK	9.05	-0.1
AUD/CNH	5.0918	0.5	4.9987	5.0316			

## Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	0.75	1.01	1.47	2.25	USD 10	2.37	-4.73	
AUD	1.50	1.78	1.97	2.92	AUD 10	2.76	8.20	0.39
NZD	1.75	1.99	2.42	3.47	NZD 10	3.21	2.50	0.84
EUR	0.00	-0.32	-0.17	0.69	CAD 10	1.69	-3.90	-0.68
GBP	0.25	0.37	0.62	1.31	EUR 10	0.28	-2.00	-2.09
JPY	-0.05	-0.04	0.03	0.23	GBP 10	1.34	-4.80	-1.04
CAD	0.50	0.95	1.10	1.88	JPY 10	0.06	0.00	-2.31

## Equities

Major Indices			
	Last	% day	% y/y
Dow	19,906	-0.29	21.8
S&P 500	2,270	-0.30	18.1
Nasdaq	5,536	0.27	19.2
VIX	12	3.09	-56.8
FTSE	7,238	0.4	22.4
DAX	11,564	-0.3	17.4
CAC 40	4,888	-0.5	12.8
Nikkei	19,454	0.0	9.9
Shanghai	3,171	0.5	-0.5
Hang Seng	22,559	0.2	10.3
ASX 200	5,807	0.9	16.4

## Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.19	0.00
3 Yr bond	97.8	0.00
10 Yr bond	97.25	-1.50
3/10 sprd	0.55	1.50
SPI	5752.0	-31.0

\*Change in bps

## Commodities\*

	Last	% day
Oil (Brent)	54.84	-4.0
Oil (WTI)	51.89	-3.9
Oil (Tapis)	57.40	-1.6
Gold	1184.30	0.9
CRB	190.60	-1.5
GS Metals	304.6	0.0
Aluminium	1728.8	0.8
Copper	5574.8	0.0
Nickel	10339.8	1.4
Zinc	2651.3	1.8
Ch. steel	3073.0	4.4
Iron ore	77.7	1.9
St. Coal	83.5	-2.6
Met.coal	195.0	-5.3
Wheat Chic.	440.0	1.2
Sugar	20.4	-1.6
Cotton	73.0	-1.4
Coffee	144.2	0.9

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

	Last	% day
Dec-2016	5.09	Clsd
Jun-2017	5.25	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
<b>Tuesday, 10 January 2017</b>								
US	Consumer Credit	Nov		18.4		16.0	21.00	7.00
NZ	Building Permits MoM	Nov				2.6	22.45	8.45
AU	Retail Sales MoM	Nov		0.4		0.5	1.30	11.30
JN	Consumer Confidence Index	Dec				40.9	6.00	16.00
NZ	REINZ House Sales YoY	Dec				-6.0		
CH	CPI YoY	Dec		2.2		2.3	9-11 Jan release	
CH	PPI YoY	Dec		4.6		3.3	9-11 Jan release	
CH	Aggregate Financing CNY	Dec		1300		1740.0	10-15 Jan release	
CH	New Yuan Loans CNY	Dec		676.8		794.6	10-15 Jan release	
CA	Building Permits MoM	Nov		-5		8.7	14.30	0.30
US	Wholesale Inventories MoM	Nov F		0.9		0.9	16.00	2.00
US	IBD/TIPP Economic Optimism					54.8		
US	JOLTS Job Openings	Nov		5500		5534.0	16.00	2.00
<b>Wednesday, 11 January 2017</b>								
NZ	ANZ Job Advertisements MoM	Dec					22.00	8.00
AU	Job vacancies	Nov				4.6	1.30	11.30
JN	Leading Index CI	Nov P		102.6		100.8	6.00	16.00
UK	Trade Balance	Nov		-3500		-1971.0	10.30	20.30
UK	Industrial Production MoM/YoY	Nov		1		-1.3/-1.1	10.30	20.30
UK	Construction Output SA MoM/YoY	Nov		0.2		-0.6/0.7	10.30	20.30
UK	NIESR GDP Estimate	Dec		0.5		0.4	16.00	2.00
NZ	ANZ Truckometer Heavy MoM	Dec				4.0	22.00	8.00
<b>Thursday, 12 January 2017</b>								
JN	BoP Current Account Adjusted	Nov		1880.7		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	Dec				48.6		
JN	Eco Watchers Survey Outlook	Dec				49.1		
US	Fed's Market 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
US	Yellen to Address Town Hall with Educators						1.00	11.00
<b>Friday, 13 January 2017</b>								
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
CH	Trade Balance	Dec		47.1		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
<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%			
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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