

MARKETS TODAY

The Quiet achiever



Good Morning

In what has been a quiet night of data releases and tweets from President Trump, the USD has been the quiet achiever amid simmering political and fiscal uncertainties in Europe, softer oil prices, flat US equities and lower US Treasury yields.

Last week we wrote about our concerns that the USD (DXY index) was looking vulnerable to a big downside move given the index was probing below a key support level. Over the past few days, however, slowly but surely the USD has managed to crawl its way back up. To some extent, the USD has won the least ugly context as the focus appears to have shifted away from the US towards political and fiscal uncertainty in Europe. Although last night the 10y French-German spread were little changed, Italian, Greek and Spanish spreads to Bunds have continued to widen, not only reflecting political concerns in the EU, but also a rising anxiety on the fiscal position of southern EU countries amid their debt issuance requirement and expected reduction of ECB bond buying. This is a theme worth keeping an eye on.

So the EUR is one of the underperformers overnight, losing 0.5% against the USD while the CAD and NOK are at the bottom of the G10 leader board, down 0.64% and 0.68% respectively and dragged lower by a decline in oil prices (WTI -1.6% and Brent -1.2%). GBP has been the only G10 currency that has managed to gain some ground against the USD, thanks to a 1.3% rally triggered by hawkish comments from a BoE policy maker. Although BoE Forbes is a known hawk, her comments that the U.K. may soon need a rate increase saw the pound initially gain 40 pips on the headline, but the move then gathered momentum ahead of the 4pm fix.

The AUD has essentially given back all the gains post the RBA yesterday and is currently trading at 0.7636. Yesterday the RBA left the policy rate unchanged as expected, however the currency got some support by the seemingly more optimistic economic outlook by the Bank. While inflation is still expected to slowly return to target, the RBA sounded more upbeat on the labour market and also on the domestic growth outlook with the latter largely thanks to improvements in the global economy.

As for the currency, the Statement noted that "The depreciation of the exchange rate since 2013 has also assisted the economy in its transition following the mining investment boom. An appreciating exchange rate would complicate this adjustment". In saying a rising exchange rate would complicate the adjustment, the RBA is still not acknowledging that on a trade weighted basis the exchange rate has been steadily appreciating since September 2015. In addition we would note that based on our own version of the RBA equilibrium model, the AUD Real trade weighted index (TWI) is back trading in the significantly overvalued zone. So unless the Real TWI

overvaluation reverses soon, we think the RBA will be compelled to raise some concerns on the level of the currency. The RBA are evidently not there yet, but watch upcoming speeches with Governor Lowe the first cab off the ranks on Thursday.

Core global yields were well supported overnight with political and fiscal uncertainty helping 10y Bunds move lower while 10y US treasury yields found additional support from weakness in oil prices and dovish statement from Fed Kashkari (dove, voter) stressing that the Fed wasn't meeting its inflation mandate and that accommodative policy remained appropriate while also noting that a strong USD will likely continue to put downward pressure on inflation.

Coming Up

We have a pretty light calendar today. In our Asian session, the BoJ Summary of Opinions from its January 30-31 Meeting will no doubt fill some of the headlines (due for release at 10:50 am Sydney time), but given the Bank made no changes to its Yield Curve Control policy and QQE Programme, the chances are that we won't learn anything new today. That being said, any comments around JGB buying strategy (i.e target volumes in 5-10y part of the curve or switch to fixed rate operations) would be of some interest to the market amid concerns around the decline in the easily saleable bond pool.

This morning Japan also releases its December current account balance and although another surplus is expected, Bloomberg is showing consensus expectations are for a mild decline in both the adjusted and unadjusted figures.

Moving on to Europe, Spain gets its industrial production figures for December and there are no major US data releases on the roster today.

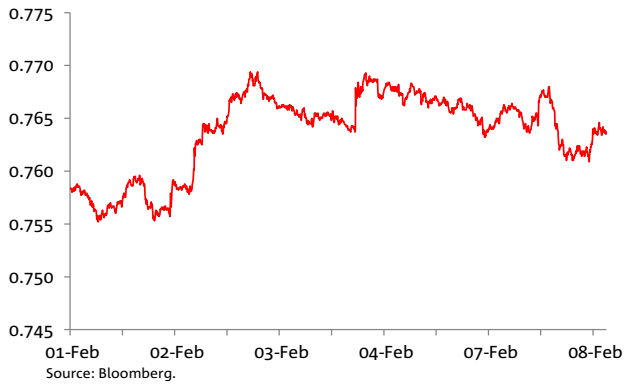
Early on Thursday morning the RBNZ is unanimously expected to leave the OCR unchanged at 1.75%, however the market will be looking at the Monetary Policy Statement (MPS) to see what the Bank's guidance will be on its future OCR track. Our BNZ colleagues believe the Bank will remove its easing bias and if so, the NZD is likely to get some support early tomorrow morning.

Overnight

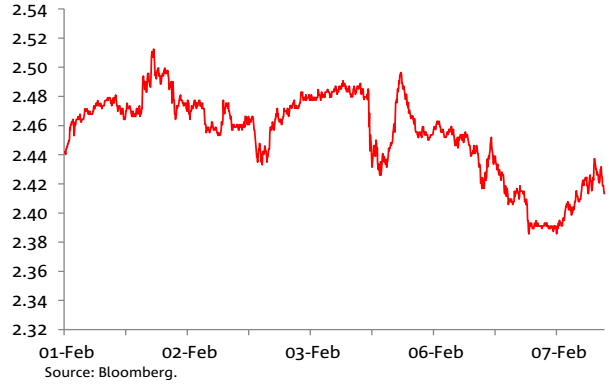
On global stock markets, the S&P 500 was +0.04%. Bond markets saw US 10-years -1.65bp to 2.39%. In commodities, Brent crude oil -1.09% to \$55.11, gold+0.3% to \$1,234, iron ore +3.3% to \$83.29, steam coal -1.1% to \$80.40, met.coal -1.2% to \$167.00. AUD is at 0.7634 and the range since yesterday 5pm Sydney time is 0.7606 to 0.7681.

Markets

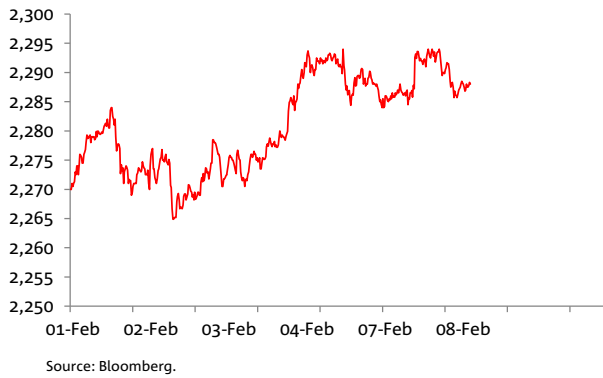
AUD/USD - past week



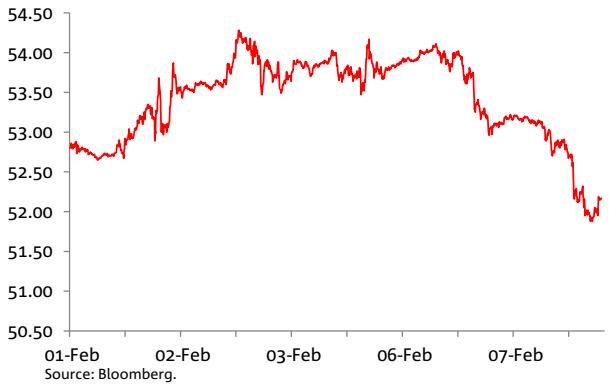
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High		Last	% chge
AUD	0.7634	-0.3	0.7606	0.7681	HKD	7.7589	0.0
NZD	0.7309	-0.2	0.7279	0.7376	CNY	6.8853	0.3
EUR	1.0695	-0.5	1.0656	1.0750	SGD	1.4167	0.5
GBP	1.2515	0.4	1.2347	1.2546	IDR	13,329	0.1
JPY	112.24	0.4	111.60	112.58	THB	35.02	0.0
CAD	1.3161	0.6	1.3075	1.3212	KRW	1,144	0.5
AUD/EUR	0.7138	0.2	0.7114	0.7170	TWD	31.04	0.6
AUD/JPY	85.68	0.1	85.24	85.90	PHP	49.75	0.4
AUD/GBP	0.6100	-0.7	0.6091	0.6172	CHF	1.00	0.5
AUD/NZD	1.0445	-0.2	1.0380	1.0468	SEK	8.86	0.4
AUD/CNH	5.2488	0.1	5.1948	5.2296			

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	0.75	1.04	1.48	2.32	USD 10	2.39	-1.65	
AUD	1.50	1.77	1.91	2.94	AUD 10	2.70	-6.80	0.30
NZD	1.75	2.03	2.42	3.52	NZD 10	3.30	-8.50	0.91
EUR	0.00	-0.33	-0.14	0.77	CAD 10	1.69	-1.00	-0.70
GBP	0.25	0.35	0.64	1.34	EUR 10	0.35	-2.00	-2.04
JPY	-0.03	0.00	0.05	0.30	GBP 10	1.29	-2.80	-1.10
CAD	0.50	0.96	1.08	1.93	JPY 10	0.11	0.20	-2.28

Equities

Major Indices			
	Last	% day	% y/y
Dow	20,093	0.20	24.0
S&P 500	2,293	0.04	22.0
Nasdaq	5,673	0.17	30.0
VIX	11	0.00	-51.4
FTSE	7,186	0.2	22.9
DAX	11,549	0.3	24.4
CAC 40	4,754	-0.5	13.2
Nikkei	18,911	-0.3	11.2
Shanghai	3,153	-0.1	14.1
Hang Seng	23,332	-0.1	21.0
ASX 200	5,622	0.1	13.0

Commodities*

	Last	% day
Oil (Brent)	55.11	-1.1
Oil (WTI)	52.19	-1.5
Oil (Tapis)	56.63	-2.5
Gold	1233.60	0.3
CRB	191.37	-0.4
GS Metals	323.6	0.0
Aluminium	1813.5	-0.3
Copper	5779.0	-0.9
Nickel	10306.3	-0.9
Zinc	2796.5	0.1
Ch. steel	3143.0	1.5
Iron ore	83.3	3.3
St. Coal	80.4	-1.1
Met.coal	167.0	-1.2
Wheat Chic.	442.5	1.6
Sugar	20.7	-2.2
Cotton	75.1	-0.7
Coffee	145.1	-1.0

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.22	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.28	12.50
3/10 sprd	0.52	-9.50
SPI	5573.0	-8.0

*Change in bps

CO₂ Emissions - Euros

	Last	% day
Jun-2017	5.15	1.2
Dec-2017	5.17	1.4

* 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
Wednesday, 8 February 2017								
NZ	ANZ Truckometer Heavy MoM	Jan				-0.1	22.00	8.00
JN	BOJ Summary of Opinions at Jan. 30-31 Meeting						0.50	10.50
JN	BoP Current Account Adjusted	Dec		1709.4		1799.6	0.50	10.50
JN	Eco Watchers Survey Current SA	Jan		51.8		51.4	6.00	16.00
CH	BoP Current Account Balance	4Q P				69.3	8.15	18.15
US	MBA Mortgage Applications	Feb 3				-3.2	13.00	23.00
CH	Foreign Direct Investment YoY CNY	Jan		1.4		5.7	8-18 Feb release	
UK	BoE's Cunliffe speaks in Birmingham						14.00	0.00
CA	Housing Starts	Jan		198		207.0	14.15	0.15
NZ	RBNZ Official Cash Rate	Feb 9		1.75		1.8	21.00	7.00
Thursday, 9 February 2017								
NZ	RBNZ OCR		1.75	1.76		1.78	21.00	7.00
NZ	Building Permits MoM	Dec				-9.2	22.45	8.45
JN	Housing Loans YoY	4Q				2.7	0.50	10.50
JN	Machine Orders MoM/YoY	Dec		3		-5.1/10.4	0.50	10.50
AU	HIA New Home Sales MoM	Dec				6.1	1.00	11.00
NZ	RBNZ's Wheeler speaks at Parliament on Monetary Policy Statement						1.10	11.10
UK	RICS House Price Balance	Jan		22		24.0	1.10	11.10
AU	NAB Business Confidence	4Q				5	1.30	11.30
JN	Machine Tool Orders YoY	Jan P				4.4	7.00	17.00
AU	RBA Governor Lowe Speech in Sydney						10.00	20.00
CA	New Housing Price Index MoM/YoY	Dec		0.15		0.2/3.0	14.30	0.30
US	Initial Jobless Claims	Feb 4		249		246.0	14.30	0.30
US	Fed's Bullard (nv) Speaks in St. Louis						15.10	1.10
US	Wholesale Trade Sales/Inventories MoM	Dec		/1		0.4/1.0	16.00	2.00
CA	BOC's Schembri speaks at Western University						17.20	3.20
US	Fed's Evans (v) Speaks on Economy and Policy in Chicago						19.10	5.10
UK	BoE's Carney speaks in London						19.30	5.30
Friday, 10 February 2017								
JN	PPI MoM/YoY	Jan		0.2/0		0.6/-1.2	0.50	10.50
AU	Home Loans, Owner Occupied #/Investment \$, MoM	Dec	-0.1	1		0.9/4.9	1.30	11.30
AU	RBA Statement on Monetary Policy						1.30	11.30
CH	Trade Balance	Jan		48.75		40.8	3.45	13.45
CH	Exports/Imports YoY	Jan		3/10		-6.1/3.1	3.45	13.45
JN	Tertiary Industry Index MoM	Dec		-0.2		0.2	5.30	15.30
UK	Trade Balance	Dec		-3500		-4167.0	10.30	20.30
UK	Industrial Production MoM/YoY	Dec		0.2/3.2		2.1/2.0	10.30	20.30
UK	Construction Output SA MoM/YoY	Dec		1		-0.2	10.30	20.30
CH	New Yuan Loans/Aggregate financing CNY	Jan		2410/3000		1040/1630	10-15 Feb release	
NZ	REINZ House Sales YoY	Jan				-10.7	10-14 Feb release	
US	Import Price Index/ex Petroleum MoM	Jan		0.2/		0.4/-0.2	14.30	0.30
CA	Net Change in Employment/Unemployment Rate	Jan		-10/6.9		53.7/6.9	14.30	0.30
UK	NIESR GDP Estimate	Jan				0.5	16.00	2.00
US	U. of Mich. Sentiment/5-10 Yr Inflation Expectations	Feb P		97.8		98.5/2.6	16.00	2.00
US	Monthly Budget Statement	Jan		43		-27.5	20.00	6.00
Saturday, 11 February 2017								
US	Fed's Fischer (v) addresses Economic Conference in the UK						13.30	23.30
Monday, 13 February 2017								
CH	Foreign Direct Investment YoY CNY	Jan		1.4		5.7	8-18 Feb release	
CH	New Yuan Loans/Aggregate Financing CNY	Jan		2410/3000		1040/1630	10-15 Feb release	
NZ	REINZ House Sales YoY	Jan				-10.7	10-14 Feb #VALUE!	
NZ	Card Spending Total MoM	Jan				0.0	22.45	8.45
NZ	Card Spending Retail MoM	Jan				-0.1	22.45	8.45
JN	GDP SA QoQ/QoQ saar	4Q P		0.3/1.1		0.3/1.3	0.50	10.50
CA	Bloomberg Nanos Confidence	Feb 10				57.3	16.00	2.00
Upcoming Central Bank Interest Rate Announcements								
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%		
US Federal Reserve		16-Mar	0.5-0.75%	0.5-0.75%		0.5-0.75%		
Japan, BoJ		16-Mar	-0.1%	-0.1%		-0.1%		
UK BOE		16-Mar	0.25%	0.25%		0.25%		

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

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