

# MARKETS TODAY

## *Beware the ides of March.*



### Good Morning

Reaction to Fed Chair Yellen's semi-annual testimony before the senate triggered a sell-off in US Treasury yields and a broad USD rally as she left the door open for a rate hike as soon as the next FOMC meeting in March. US equities initially wobbled, dragged lower by the rate sensitive utility sector, but they have now recovered and look set to end the day higher between 0.15%- 0.35%.

In line with previous comments, Dr Yellen noted "waiting too long to remove accommodation would be unwise, potentially requiring the FOMC to eventually raise rates rapidly, which could risk disrupting financial markets and pushing the economy into recession". She also noted that if job gains and rising inflation continue as the Fed expects, an increase in the benchmark federal-funds rate likely would be appropriate "at our upcoming meetings". In regards to potential changes to fiscal policy, the Fed Chair reiterated her view that it is too early to know, noting that most Fed officials "have taken the view that they want greater clarity about the size, timing, and composition" of fiscal policy before factoring its impact in their forecast.

Ahead of Yellen's testimony the USD was trading with a soft tone and UST yields were essentially range bound following yesterday's news of the resignation of Trump's National Security Adviser Michael Flynn. But reaction to Yellen's testimony triggered a selloff in UST yields and a broad USD rally. 10y UST initially jumped from 2.4376% to 2.50% and have settled around 2.47%. 2y UST climbed 3bps to 1.23% and OIS pricing for a March rate hike nudged up slightly from 9bps to 10bps. Meanwhile more than two full hikes are now priced for this year, some 57bps (previous close was 54bps).

The USD index is up 0.36% and the currency is stronger against most G10 with AUD and CAD the two exceptions. The AUD is once again at the top of the leader board, up 0.13% seemingly still basking in the sun following yesterday's solid NAB business survey. The report showed Conditions jumped a solid 6 points to +16 in January, while confidence also rose, up 4 to +10, both clearly above their long term average. GBP and JPY are at the bottom of the pile, down 0.44% and 0.39% respectively. UK CPI figures were expected to show 1.9% y/y but actual print was 1.8%; lower than US, China and Germany despite last year's Brexit vote. Meanwhile, the move lower in JPY was consistent with its inverse relationship with longer dated UST yields.

As for commodities, it has been a bit of a mixed night. Iron ore had a quiet day, down 0.6%, but it is still trading above \$91. Oil prices are up between 0.6% and 0.8%, gold is unchanged at \$1223.6 and copper is down 1.5%.

Fed Lockhart (none voter) said that he could easily be persuaded 3 hikes would be appropriate in 2017, but he doesn't see compelling reason for a March hike. Meanwhile Fed Kaplan (voter, hawk) said the US is

making good progress toward full employment and inflation near its 2 percent goal. He then added that if you wait to see evidence of overheating, you've probably waited too long.

### Coming Up

This morning RBA's chief economist, Alexandra Heath, gives a speech and participates in a panel at the ABE Forecasting Conference in Sydney. Yours truly will be attending and hopefully we get some interesting snippets on how the RBA goes about its forecasting as well as further colour on the Bank's glass half full outlook on the economy. Australia's monthly consumer confidence reading and new motor vehicle sales are also out this morning.

There are no major Asian data releases on the roster today and the UK labour market report is the highlight in Europe. The UK unemployment rate is expected to have remained unchanged at 4.8% in December and importantly for the BoE, weekly earnings are also seen unchanged at 2.7%. Following the softer than expected CPI print overnight we probably need to see a big upward surprise in weekly earnings to pose any challenge to the current policy stance by the BoE.

Fed Chair Yellen delivers her Testimony before the House Financial Services Committee. The speech is expected to be an almost exact replica to her Senate testimony, but there is always the potential that we may learn something new in the Q&A session.

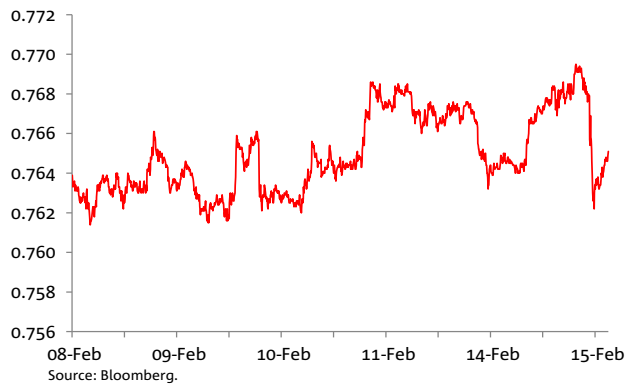
Meanwhile it is going to be a busy day of US data releases with CPI (Jan), retail sales (Jan), industrial production (Jan) and Empire Manufacturing (Jan) all due out tonight. The median forecast in Bloomberg suggests a 0.2% m/m Core CPI print should be expected resulting in a 2.1% y/y reading, down from 2.2% in the previous month. Retail sales ex autos likely rose by 0.4% versus a 0.2% rise in the previous month and industrial productions was probably flat dragged, lower by a sharp drop in utility output thanks to warmer than usual weather.

### Overnight

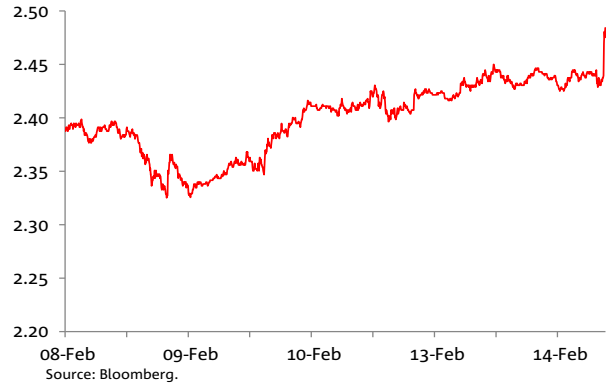
On global stock markets, the S&P 500 was +0.24%. Bond markets saw US 10-years +3.05bp to 2.47%. In commodities, Brent crude oil +0.59% to \$55.92, gold +0.4% to \$1,229, iron ore -0.6% to \$91.71, steam coal +0.0% to \$79.90, met.coal -0.9% to \$161.50. AUD is at 0.7652 and the range since yesterday 5pm Sydney time is 0.7618 to 0.7696.

# Markets

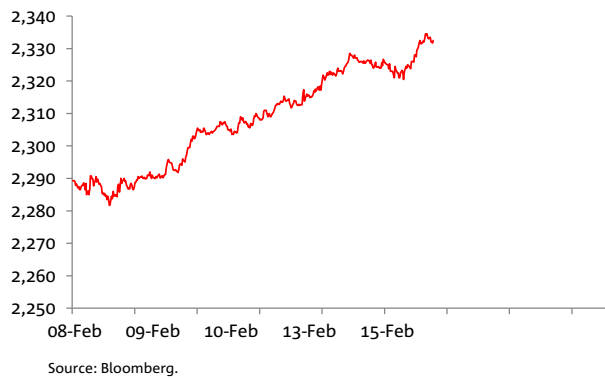
AUD/USD - past week



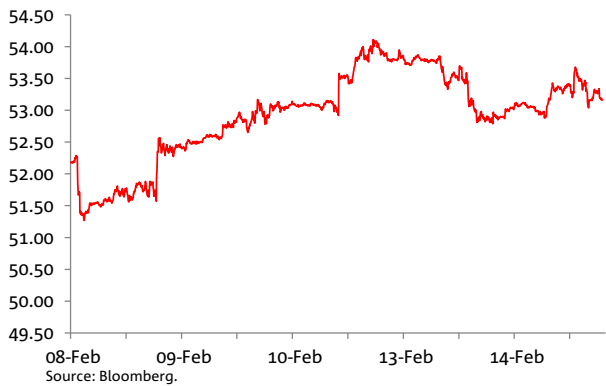
US 10yr - past week



S&P Future - past week



WTI - past week



## Foreign Exchange

| Indicative 24hr ranges (**) |        |        |        |        | Other FX |        |        |
|-----------------------------|--------|--------|--------|--------|----------|--------|--------|
|                             | Last   | % chge | Low    | High   |          | Last   | % chge |
| AUD                         | 0.7652 | 0.2    | 0.7618 | 0.7696 | HKD      | 7.7597 | 0.0    |
| NZD                         | 0.7165 | -0.1   | 0.7135 | 0.7198 | CNY      | 6.8675 | -0.2   |
| EUR                         | 1.0572 | -0.2   | 1.0561 | 1.0633 | SGD      | 1.4204 | -0.3   |
| GBP                         | 1.2465 | -0.5   | 1.2444 | 1.2548 | IDR      | 13,330 | 0.0    |
| JPY                         | 114.16 | 0.4    | 113.25 | 114.50 | THB      | 35.01  | -0.2   |
| CAD                         | 1.3075 | 0.0    | 1.3025 | 1.3107 | KRW      | 1,137  | -1.3   |
| AUD/EUR                     | 0.7237 | 0.4    | 0.7206 | 0.7244 | TWD      | 30.79  | -0.5   |
| AUD/JPY                     | 87.35  | 0.5    | 86.86  | 87.46  | PHP      | 49.84  | -0.2   |
| AUD/GBP                     | 0.6139 | 0.6    | 0.6096 | 0.6174 | CHF      | 1.01   | 0.1    |
| AUD/NZD                     | 1.0680 | 0.3    | 1.0637 | 1.0702 | SEK      | 8.94   | 0.0    |
| AUD/CNH                     | 5.2552 | 0.0    | 5.2285 | 5.2797 |          |        |        |

## Interest Rates

| Indicative Swap Rates |       |       |       |      | Benchmark 10 Year Bonds |      |      |       |
|-----------------------|-------|-------|-------|------|-------------------------|------|------|-------|
|                       | Cash  | 3mth  | 2Yr   | 10Yr |                         | Last | chge | Sprd  |
| USD                   | 0.75  | 1.04  | 1.55  | 2.40 | USD 10                  | 2.47 | 3.05 |       |
| AUD                   | 1.50  | 1.78  | 1.98  | 3.04 | AUD 10                  | 2.74 | 3.10 | 0.27  |
| NZD                   | 1.75  | 2.03  | 2.37  | 3.53 | NZD 10                  | 3.25 | 3.90 | 0.78  |
| EUR                   | 0.00  | -0.33 | -0.14 | 0.81 | CAD 10                  | 1.77 | 3.70 | -0.70 |
| GBP                   | 0.25  | 0.36  | 0.64  | 1.35 | EUR 10                  | 0.37 | 3.50 | -2.10 |
| JPY                   | -0.04 | -0.02 | 0.05  | 0.29 | GBP 10                  | 1.31 | 1.70 | -1.16 |
| CAD                   | 0.50  | 0.96  | 1.13  | 1.99 | JPY 10                  | 0.10 | 0.50 | -2.37 |

## Equities

| Major Indices |        |       |       |
|---------------|--------|-------|-------|
|               | Last   | % day | % y/y |
| Dow           | 20,470 | 0.28  | 28.1  |
| S&P 500       | 2,334  | 0.24  | 25.1  |
| Nasdaq        | 5,773  | 0.16  | 33.1  |
| VIX           | 11     | -0.27 | -56.5 |
| FTSE          | 7,269  | -0.1  | 27.3  |
| DAX           | 11,772 | 0.0   | 31.3  |
| CAC 40        | 4,896  | 0.2   | 22.5  |
| Nikkei        | 19,239 | -1.1  | 20.1  |
| Shanghai      | 3,218  | 0.0   | 17.2  |
| Hang Seng     | 23,703 | 0.0   | 25.3  |
| ASX 200       | 5,755  | -0.1  | 18.8  |

## Overnight Futures

|                  | Last   | Chge* |
|------------------|--------|-------|
| <b>Australia</b> |        |       |
| 3 mth bill       | 98.22  | 1.00  |
| 3 Yr bond        | 97.8   | 3.00  |
| 10 Yr bond       | 97.19  | -8.50 |
| 3/10 sprd        | 0.61   | 11.50 |
| SPI              | 5723.0 | -10.0 |

\*Change in bps

## Commodities\*

|  | Last    | % day |
|--|---------|-------|
| Oil (Brent)                                    | 55.92   | 0.6   |
| Oil (WTI)                                      | 53.16   | 0.4   |
| Oil (Tapis)                                    | 57.09   | 0.4   |
| Gold   | 1229.20 | 0.4   |
| CRB  | 192.28  | 0.1   |
| GS Metals                                      | 335.1   | 0.0   |
| Aluminium                                      | 1879.0  | 0.6   |
| Copper   | 6009.3  | -1.5  |
| Nickel   | 10732.0 | 0.5   |
| Zinc   | 2900.3  | -0.8  |
| Ch. steel                                      | 3410.0  | 0.3   |
| Iron ore                                       | 91.7    | -0.6  |
| St. Coal                                       | 79.9    | 0.0   |
| Met.coal                                       | 161.5   | -0.9  |
| Wheat Chic.                                    | 463.5   | -0.7  |
| Sugar  | 20.5    | 2.3   |
| Cotton   | 76.3    | -0.4  |
| Coffee   | 146.0   | -0.4  |
| <b>Prob. of 25bps hike/cut at next meeting</b> |         |       |
|  | bps     | %     |
| RBA  | 0.6     | 2.2%  |
| FED  | 10      | 40.4% |

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>Monday, 13 February 2017</b>                          |   |        |           |           |        |             |                   |       |
| NZ   | REINZ House Sales YoY (Pending release)   | Jan    |           |           |        | -10.7       | 10-14 Feb release |       |
| NZ   | Card Spending Total/Retail MoM  | Jan    | 0.5/..    | /0.7      |        | 0.0/-0.1    | 22.45             | 8.45  |
| JN   | GDP SA QoQ/GoQ 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  |
| <b>Tuesday, 14 February 2017</b>                         |   |        |           |           |        |             |                   |       |
| NZ   | Food Prices MoM   | Jan    | 1.7       |           |        | -0.8        | 22.45             | 8.45  |
| AU   | ANZ Roy Morgan Weekly Consumer Confidence Index   | Feb 12 |           |           |        | 117.5       | 23.30             | 9.30  |
| AU   | NAB Business Conditions/Confidence  | Jan    |           |           |        | 11/6        | 1.30              | 11.30 |
| CH   | CPI/PPI YoY   | Jan    |           | 2.4/6.6   |        | 2.1/5.5     | 2.30              | 12.30 |
| NZ   | Household Inflation Expectations (RBNZ Survey), median, 1Y ahead CPI, YoY   |        |           |           |        | 2.0         | 3.00              | 13.00 |
| JN   | Industrial Production MoM   | Dec F  |           |           |        | 0.5         | 5.30              | 15.30 |
| GE   | GDP SA QoQ/YoY  | 4Q P   |           | 0.5/1.8   |        | 0.2/1.7     | 8.00              | 18.00 |
| GE   | CPI MoM/YoY   | Jan F  |           | -0.6/1.9  |        | -0.6/1.9    | 8.00              | 18.00 |
| GE   | CPI EU Harmonized MoM/YoY   | Jan F  |           | -0.8/1.9  |        | -0.8/1.9    | 8.00              | 18.00 |
| UK   | CPI MoM/YoY   | Jan    |           | -0.5/1.9  |        | 0.5/1.6     | 10.30             | 20.30 |
| UK   | CPI Core YoY  | Jan    |           | 1.7       |        | 1.6         | 10.30             | 20.30 |
| UK   | PPI Input NSA MoM/YoY   | Jan    |           | 1/18.5    |        | 1.8/15.8    | 10.30             | 20.30 |
| UK   | PPI Output Core NSA MoM/YoY   | Jan    |           | 0.3/2.2   |        | 0.0/2.1     | 10.30             | 20.30 |
| UK   | House Price Index YoY   | Dec    |           | 6.5       |        | 6.7         | 10.30             | 20.30 |
| EC   | Industrial Production SA MoM/YoY  | Dec    |           | -1.5/1.7  |        | 1.5/3.2     | 11.00             | 21.00 |
| GE   | ZEW Survey Current Situation/Expectations   | Feb    |           | 77/15     |        | 77.3/16.6   | 11.00             | 21.00 |
| EC   | ZEW Survey Expectations   | Feb    |           |           |        | 23.2        | 11.00             | 21.00 |
| EC   | GDP SA QoQ/YoY  | 4Q P   |           | 0.5/1.8   |        | 0.5/1.8     | 11.00             | 21.00 |
| US   | NFIB Small Business Optimism  | Jan    |           | 104.9     |        | 105.8       | 12.00             | 22.00 |
| US   | PPI Final Demand MoM/YoY  | Jan    |           | 0.3/1.5   |        | 0.3/1.6     | 14.30             | 0.30  |
| CA   | Teranet/National Bank HPI MoM/YoY   | Jan    |           | /         |        | 0.3/12.3    | 14.30             | 0.30  |
| US   | Fed's Lacker to Speak at University of Delaware   |        |           |           |        |             | 14.50             | 0.50  |
| US   | Fed's Yellen Gives Semi-Annual Testimony on Monetary Policy to Senate Banking Panel   |        |           |           |        |             | 16.00             | 2.00  |
| US   | Fed's Kaplan (v) speaks in Houston  |        |           |           |        |             | 19.00             | 5.00  |
| US   | Fed's Lockhart to Speak on Economy in Huntsville, Alabama   |        |           |           |        |             | 19.15             | 5.15  |
| <b>Wednesday, 15 February 2017</b>                       |   |        |           |           |        |             |                   |       |
| AU   | RBA'S Heath (Chief Economist) Speech and Panel Participation at ABE Conference in Sydney                                      |        |           |           |        |             | 21.50             | 7.50  |
| AU   | Westpac Consumer Conf Index/MoM   | Feb    |           | /         |        | 97.4/0.1    | 0.30              | 10.30 |
| AU   | New Motor Vehicle Sales MoM/YoY   | Jan    |           | /         |        | 0.3/0.2     | 1.30              | 11.30 |
| UK   | Jobless Claims Change/ILO Unemployment rate   | Jan    |           | 1/4.8     |        | -10.1/4.8   | 10.30             | 20.30 |
| UK   | Average Weekly Earnings/AWE ex bonus 3M/YoY   | Dec    |           | 2.8/2.7   |        | 2.8/2.7     | 10.30             | 20.30 |
| EC   | Trade Balance SA  | Dec    |           | 22        |        | 22.7        | 11.00             | 21.00 |
| US   | MBA Mortgage Applications   | Feb 10 |           |           |        | 2.3         | 13.00             | 23.00 |
| CA   | Manufacturing Sales MoM   | Dec    |           | 0.3       |        | 1.5         | 14.30             | 0.30  |
| US   | Empire Manufacturing  | Feb    |           | 7         |        | 6.5         | 14.30             | 0.30  |
| US   | CPI MoM/YoY   | Jan    |           | 0.3/2.4   |        | 0.3/2.1     | 14.30             | 0.30  |
| US   | CPI Ex Food and Energy MoM/YoY  | Jan    |           | 0.2/2.1   |        | 0.2/2.2     | 14.30             | 0.30  |
| US   | Retail Sales Advance/Control Group MoM  | Jan    |           | 0.1/0.3   |        | 0.6/0.2     | 14.30             | 0.30  |
| CA   | Existing Home Sales MoM   | Jan    |           |           |        | 2.2         | 15.00             | 1.00  |
| US   | Industrial Production MoM   | Jan    |           | 0         |        | 0.8         | 15.15             | 1.15  |
| US   | Manufacturing (SIC) Production  | Jan    |           | 0.2       |        | 0.2         | 15.15             | 1.15  |
| US   | NAHB Housing Market Index   | Feb    |           | 67        |        | 67.0        | 16.00             | 2.00  |
| US   | Fed Chair Yellen Delivers Semi-Annual Testimony to House Panel  |        |           |           |        |             | 16.00             | 2.00  |
| US   | Business Inventories  | Dec    |           | 0.4       |        | 0.7         | 16.00             | 2.00  |
| US   | Fed's Rosengren to Address NY Assoc for Business Economics  |        |           |           |        |             | 18.00             | 4.00  |
| US   | Fed's Harker Speaks in Philadelphia   |        |           |           |        |             | 18.45             | 4.45  |
| <b>Thursday, 16 February 2017</b>                        |   |        |           |           |        |             |                   |       |
| US   | Net Long-term/Total Net TIC Flows   | Dec    |           | /         |        | 30.8/23.7   | 22.00             | 8.00  |
| AU   | RBA's Ellis (Assistant Governor, Economic) Panel Participation at 2017 Australasian Housing Researchers Conference, Melbourne |        |           |           |        |             | 23.00             | 9.00  |
| NZ   | Finance Minister Joyce speaks on the Economic Outlook to Auckland Chamber of Commerce   |        |           |           |        |             | 0.00              | 10.00 |
| NZ   | ANZ Consumer Confidence MoM/Index   | Feb    |           |           |        | 3.4/128.7   | 1.00              | 11.00 |
| AU   | Consumer Inflation Expectation  | Feb    |           |           |        | 4.3         | 1.00              | 11.00 |
| AU   | Employment Change/Unemployment rate   | Jan    | 20/5.8    | 10/5.8    |        | 13.5/5.8    | 1.30              | 11.30 |
| AU   | Participation Rate  | Jan    | 64.7      | 64.7      |        | 64.7        | 1.30              | 11.30 |
| AU   | RBA FX Transactions Market  | Jan    |           |           |        | 1799.0      | 1.30              | 11.30 |
| NZ   | Non Resident Bond Holdings  | Jan    |           |           |        | 63.2        | 3.00              | 13.00 |
| JN   | Machine Tool Orders YoY   | Jan F  |           |           |        | 3.5         | 7.00              | 17.00 |
| EC   | ECB account of the monetary policy meeting  |        |           |           |        |             | 13.30             | 23.30 |
| EC   | EU's Moscovici, ECB's Nowotny on panel in Vienna  |        |           |           |        |             | 14.30             | 0.30  |
| US   | Housing Starts #/MoM  | Jan    |           | 1226/0    |        | 1226.0/11.3 | 14.30             | 0.30  |
| US   | Building Permits #/MoM  | Jan    |           | 1230/0.2  |        | 1210.0/-0.2 | 14.30             | 0.30  |
| US   | Initial Jobless Claims  | Feb 11 |           | 244       |        | 234.0       | 14.30             | 0.30  |
| US   | Philadelphia Fed Business Outlook   | Feb    |           | 18        |        | 23.6        | 14.30             | 0.30  |
| <b>Friday, 17 February 2017</b>                          |   |        |           |           |        |             |                   |       |
| NZ   | Crown Financial Statements  | Dec    |           |           |        |             | 22.00             | 8.00  |
| NZ   | BusinessNZ Manufacturing PMI  | Jan    |           |           |        | 54.5        | 22.30             | 8.30  |
| NZ   | Retail Sales Ex Inflation GoQ   | 4Q     | 0.6       | 1         |        | 0.9         | 22.45             | 8.45  |
| EC   | ECB Current Account SA  | Dec    |           |           |        | 36.1        | 10.00             | 20.00 |
| UK   | Retail Sales Ex Auto Fuel MoM/YoY   | Jan    |           | 0.7/3.9   |        | -2.0/4.9    | 10.30             | 20.30 |
| UK   | Retail Sales Inc Auto Fuel MoM/YoY  | Jan    |           | 1/3.4     |        | -1.9/4.3    | 10.30             | 20.30 |
| EC   | Construction Output MoM/YoY   | Dec    |           | /         |        | 0.4/0.0     | 11.00             | 21.00 |
| CA   | Int'l Securities Transactions   | Dec    |           |           |        | 7.2         | 14.30             | 0.30  |
| US   | Leading Index   | Jan    |           | 0.5       |        | 0.5         | 16.00             | 2.00  |
| <b>Upcoming Central Bank Interest Rate Announcements</b> |   |        |           |           |        |             |                   |       |
| Canada, BoC  |   | 2-Mar  | 0.5%      | 0.5%      |        | 0.5%        |                   |       |
| Australia, RBA   |   | 7-Mar  | 1.50%     | 1.50%     |        | 1.50%       |                   |       |
| 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%       |                   |       |
| New Zealand, RBNZ  |   | 23-Mar | 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

### Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.