

MARKETS TODAY

Why I got [March] On My Mind



Good Morning

My colleague Rodrigo Catril warned yesterday of the possibility of a US Fed March rate hike – what he termed the Ides of March. That argument gained further currency overnight with the US CPI and core-Retail Sales printing double the market consensus. That has seen the OIS market lift pricing for a March rate hike to 48% from 37% a couple of days ago. Movements in other markets were more muted than what your scribe would have expected – perhaps suggestive that recent political events (Russian links to Trump’s election team and the resignation of Mike Flynn as National Security Adviser) may be weighing. Nevertheless, it seems a March rate hike is a distinct possibility, inspiration for today’s title courtesy of Ellie Goulding [Why I got you on my mind](#).

First to the data. Economic data was very strong with Headline CPI for January printing double the market consensus at 0.6% m/m which takes the annual rate to 2.5% y/y. Some of that stellar increase reflects petrol prices, but even when excluding that, the core measure also rose strongly up 0.3% m/m to be 2.3% higher y/y. While the Fed targets the PCE measure, a general rule of thumb is that the CPI gives a good indication of the PCE which usually translates to the CPI less 0.5% points. That means with annual core inflation at 2.3%, core PCE is likely to be at 1.8% y/y and very close to the Fed’s 2% target, while the headline measure is likely to be already there.

US Retail Sales were also strong, with Sales Ex-Autos up 0.8%, double the consensus of 0.4%. However, that does come on the back of a weak December, so averaging the two months is suggestive of solid consumer spending rather than an acceleration. The manufacturing sector also continued its strength with the Empire State rising to 18.7 from 6.5 and well above consensus of 7.0. The rise in the Empire is also suggestive of another strong ISM Manufacturing number for February.

US Treasury yields were higher on the back of the strong data, with yields up 3.4 bps to 2.50%. The inflation component almost entirely drove the increase with breakeven inflation rates up 3.5 bps. Other major sovereign bond yields were also higher with German Bund yields up 0.70bps to 0.37% while UK Gilts yields fell 1.3bps to 1.30% on the back of a mixed labour market report (while employment was strong, wage growth was below expectations). Australian CGS rose 5.1 bps reflecting the moves in Treasuries the previous day.

The US dollar did rise on the news, being up almost 0.5% before reversing to end the day broadly unchanged. There does not appear to be a clear catalyst for the reversal. The Kiwi, Norwegian Krone and the Aussie all outperformed overnight, up 0.6%, 0.6%, and 0.5% respectively. The Aussie broke up through the \$US0.77 barrier this morning and is currently sitting at \$US0.7703. The Aussie labour market data could provide the catalyst

for a firmer footing at 77 with NAB seeing upside risk (more on that later).

Yellen’s testimony before Congress mostly reiterated the points made yesterday to the Senate. The Fed Chair did note the improvement in Business and Consumer Confidence was real and her comments on the US economy generally provided support to the equity market. Equities were higher across the board with the S&P500 up 0.4% and at a new record high. European equities were also stronger with the EuroStoxx and FTSE up 0.5% each.

There were also a number of Fed speakers overnight, but these had little market impact. Of interest was the Fed’s Rosengren (non-voter and recent hawk) who indicated that more than three rate hikes was possible for 2017, stating “likely be appropriate to raise short-term interest rates at least as quickly as suggested by the Fed’s current...median forecast, and possibly even a bit more rapidly”.

Political events also developed overnight with further commentary in the press on Trump’s pre-election teams links with Russia. Nevertheless it appears to your scribe that Trump is starting to tone down is rhetoric with Japan’s PM Abe inferring that Trump backed away on his comments of the Japanese manipulating their currency stating “Trump shared the view that our monetary policy is not for currency manipulation but for ending deflation.

Finally, while the US is clearly set to raise rates this year, Sweden’s Riskbank is unlikely to follow with the Bank sticking to its dovish tone.

Coming Up

The focus today will be on Aussie Employment and Unemployment data at 11.30am AEDT. The market consensus is for employment growth of +10k and an unchanged unemployment rate at 5.8%. NAB sees possible upside risks to employment this month following the recent pick-up in a number of indicators and is expecting employment growth of +20k. That growth rate is consistent with the NAB survey with the employment index out of the survey suggestive of employment growth averaging around 21k a month for the next three months or so. It’s also worth noting here that employment has generally undershot leading indicators for the past six months and some catch up could be expected over the next few months – though of course picking the right month has proven to be bit of a lottery in the past.

The RBA’s Ellis, who acts as the RBA’s chief economist, also makes remarks to a housing research conference which is unlikely to yield anything new in terms of the outlook given last week’s Statement on Monetary Policy and a recent speech by Governor Lowe. Coincidentally, Dr Ellis’ former boss ex-Governor Glenn Stevens was

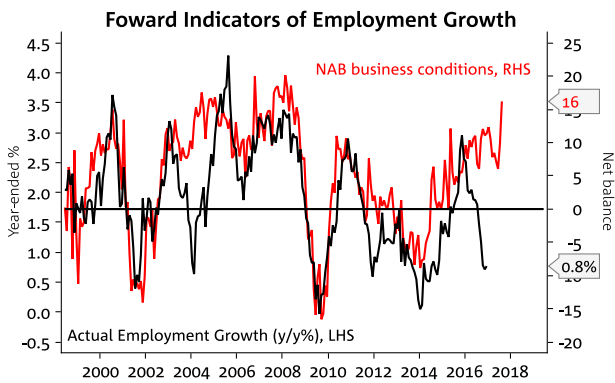
appointed yesterday to advise the NSW state government on housing affordability issues.

Internationally it's a very quiet day ahead. Bank of Japan Governor Kuroda speaks in Tokyo, while economic data is mostly second-tier with US Construction Starts, US Weekly Jobless Claims, and the Phili Fed Manufacturing Index. Finally, G20 foreign ministers meet for a two-day meeting in Germany so headlines around trade or geopolitics are always possible.

Overnight

On global stock markets, the S&P 500 was +0.40%. Bond markets saw US 10-years +3.96bp to 2.50%. In commodities, Brent crude oil -0.41% to \$55.74, gold+0.6% to \$1,231, iron ore -0.7% to \$91.05, steam coal +0.1% to \$80.00, met.coal +0.0% to \$161.50. AUD is at 0.7699 and the range since yesterday 5pm Sydney time is 0.7637 to 0.7709.

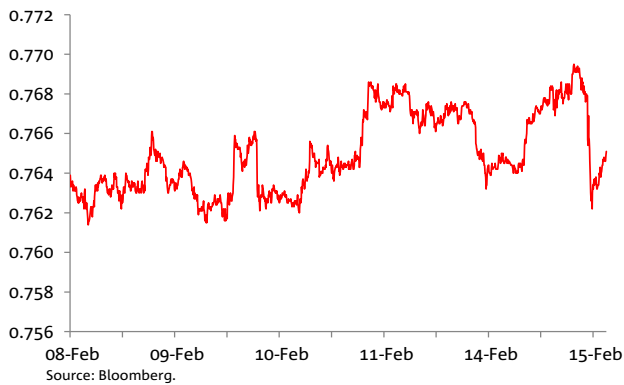
Chart 1: Employment undershoots surveys – to reverse?



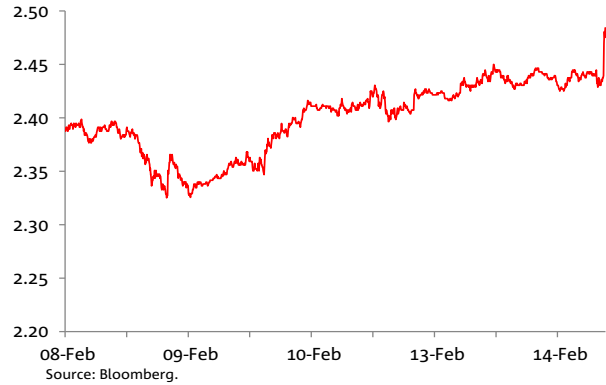
Source: National Australia Bank, ABS

Markets

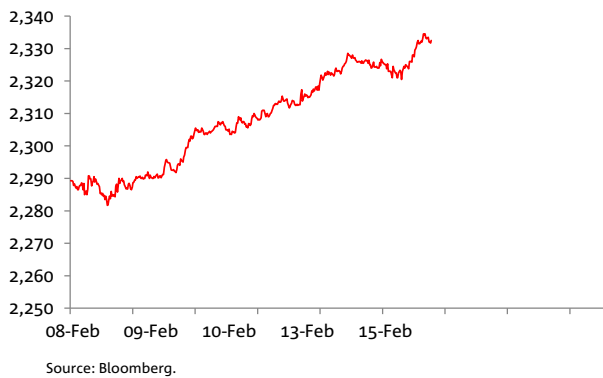
AUD/USD - past week



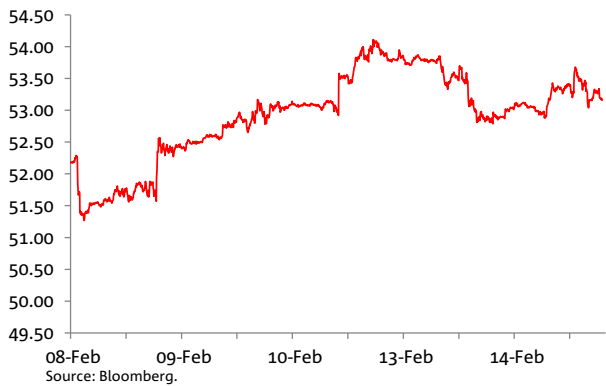
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

	Indicative 24hr ranges (**)				Other FX		
	Last	% chge	Low	High	Last	% chge	
AUD	0.7699	0.5	0.7637	0.7709	HKD	7.7604	0.0
NZD	0.7211	0.6	0.7146	0.7214	CNY	6.8711	0.1
EUR	1.0583	0.0	1.0521	1.0609	SGD	1.4202	-0.1
GBP	1.2441	-0.2	1.2383	1.2481	IDR	13,317	-0.1
JPY	114.36	0.1	113.87	114.96	THB	35.03	0.0
CAD	1.3085	0.1	1.3065	1.3120	KRW	1,142	0.4
AUD/EUR	0.7275	0.4	0.7242	0.7286	TWD	30.73	-0.2
AUD/JPY	88.04	0.6	87.52	88.16	PHP	49.92	0.2
AUD/GBP	0.6188	0.7	0.6143	0.6189	CHF	1.01	0.1
AUD/NZD	1.0676	-0.1	1.0669	1.0708	SEK	8.93	0.0
AUD/CNH	5.2788	0.4	5.2424	5.2731			

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spnd
USD	0.75	1.04	1.59	2.44	USD 10	2.50	3.42
AUD	1.50	1.78	1.98	3.06	AUD 10	2.79	5.10 0.28
NZD	1.75	2.04	2.38	3.56	NZD 10	3.30	5.50 0.79
EUR	0.00	-0.33	-0.14	0.80	CAD 10	1.79	2.10 -0.72
GBP	0.25	0.36	0.63	1.35	EUR 10	0.37	0.70 -2.13
JPY	-0.02	0.00	0.05	0.30	GBP 10	1.30	-1.30 -1.21
CAD	0.50	0.96	1.14	2.00	JPY 10	0.09	-0.70 -2.41

Equities

Major Indices			
	Last	% day	% y/y
Dow	20,606	0.50	29.0
S&P 500	2,347	0.40	25.8
Nasdaq	5,812	0.51	34.0
VIX	11	6.80	-54.8
FTSE	7,302	0.5	25.4
DAX	11,794	0.2	28.1
CAC 40	4,925	0.6	19.7
Nikkei	19,438	1.0	21.1
Shanghai	3,213	-0.2	13.3
Hang Seng	23,995	1.2	25.5
ASX 200	5,809	0.9	18.3

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.22	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.16	-10.00
3/10 sprd	0.64	13.00
SPI	5758.0	-56.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	55.74	-0.4
Oil (WTI)	53.13	-0.1
Oil (Tapis)	56.80	-0.5
Gold	1231.00	0.6
CRB	193.26	0.5
GS Metals	333.1	0.0
Aluminium	1904.5	1.4
Copper	6056.5	0.8
Nickel	10891.5	1.5
Zinc	2866.5	-1.2
Ch. steel	3368.0	-1.5
Iron ore	91.1	-0.7
St. Coal	80.0	0.1
Met.coal	161.5	0.0
Wheat Chic.	468.3	1.0
Sugar	20.5	0.0
Cotton	75.7	-0.8
Coffee	147.0	0.7

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	1.5	5.8%
FED	#N/A	#N/A

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, 13 February 2017								
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
Tuesday, 14 February 2017								
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
Wednesday, 15 February 2017								
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
Thursday, 16 February 2017								
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
Friday, 17 February 2017								
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
Upcoming Central Bank Interest Rate Announcements								
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

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