

MARKETS TODAY

Up, up, and away



Good Morning

It's a rather odd world scene right now. Geopolitical factors abound across the globe, with markets again focussing on European politics again overnight, but despite all this and the uncertain shape of US growth, tax and trade policies, the global economy has started the year in rude economic health with evident momentum.

Earlier this week, we have already seen Euro-zone PMIs printing on the strong side for February with Germany's Manufacturing PMI at 57 and France's only just behind at 56. That level of growth is on a par with the state of US Manufacturing. Last night's German Ifo survey for February was again not only on the strong side of expectations, but "strong". The Current Assessment index component, the component that tracks GDP, printed at 118.4, up from 116.9 (consensus was steady at a still healthy 116.9). Along with a brief period of growth in 2010-11 that was subsequently scuttled by the European debt crisis, February's reading was the strongest reflection of the economy since 2006.

This release did not spur buying of the Euro, nor push up bund yields. The opposite was occurring, the market instead focussing on polls for the upcoming Dutch and French elections. A Dutch poll showed the far right PVV party gaining in popularity, spurring selling of the Euro below 1.05 and a widening in the German-French 10y bond spread to 82bps. Later in the European session, this all reversed with news that French Presidency centrist candidate Francois Bayrou withdrawing from the race and throwing his hat in the ring behind Emmanuel Macron to support the campaign against Le Pen.

The Euro, along with other major non-USD currencies has in the past hour had another leg up courtesy of some selling of the USD in the wake of the FOMC Minutes from their January 31-February 1 meeting. The markets were looking for guidance on whether the upcoming March 16 meeting was any more likely than the one third chance being priced by the market. Instead, there was no killer punch to suggest March is closer to if not above a 50% chance.

Many (FOMC members) saw a hike "fairly soon" providing the economy is on track. Fairly soon is more evasive than say "soon". There were also comments (again) emphasising the gradual pace of hiking rates, tinged with concerns about downside risks of further dollar strength against upside risks from fiscal stimulus. But even there, some saw risks from some "potential policies" (trade wars?). Fed Governor Powell has also been speaking this morning and he was also unspecific on timing, saying that the Fed can raise rates gradually and that a hike is warranted "reasonably soon if the economy is on track".

Next Friday's payrolls will be especially important in what it says about wages growth and thus the implications for inflation. January average hourly

earnings underwhelmed, and even then despite mandated increases in the minimum wage across many States.

What data that was available from the US was positive. Existing Home Sales continued growing in January, sales up 3.3%, more than countering December's 1.6% decline (revised a tad higher). Median sales prices in January (\$US 230,400 for single family homes; think about that in the Australian context) were up 7.3% y/y, seemingly unruffled to date by higher mortgage rates in recent months.

The AUD has been in cross fire of all this, having been untouched yesterday by a somewhat underwhelming Construction report for Q3 and still soft wages (though not softer). Since the FOMC minutes, it's been one of the beneficiaries of this little spate of USD selling, popping above 0.77 again and ahead of Capex today. On the commodity front overnight, iron ore has held on to most of the previous day's rally, down \$0.56/t to \$94.30, while coking coal was up \$0.55/t to \$161.55. Oil was down while gold is little changed, on net.

Coming Up

It's the second leg of the Q4 investment partials today with the New Private Capital Expenditure Survey. There's what it says about business investment in the December quarter, the market looking for a 0.5% contraction as the LNG project spend wind down continues. NAB is looking for a somewhat larger 3.2% q/q decline. And there is the investment intentions data update for the current financial year and the first estimate for 2017-18. NAB's estimate for the current financial year is for practically no change from the previous survey's \$107bn and then a decline to \$74bn for next year on the back of further LNG wind downs. We will be interested to see whether the move up in bulk and base metal prices has driven any noticeably increase in capex spend to lift current production, let alone lift capacity.

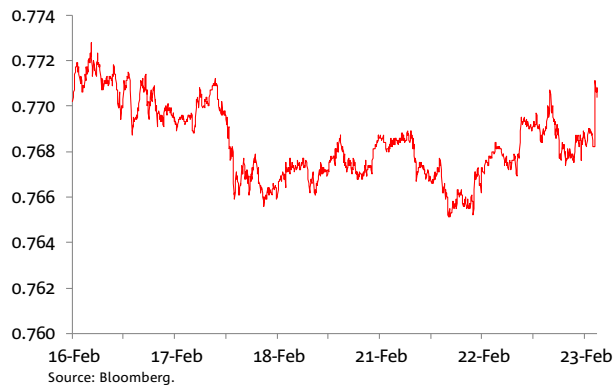
More Fed speak tonight with Fed Presidents Lockhart (nv) and Kaplan (v, more hawkish, in the "three" camp, estimating three recently as a "pretty good guess" (his words). It's not a heavy night for data with a revised Q4 GDP estimates for Germany, the UK CBI Trends Survey, with weekly Jobless Claims in the US along with house prices, the Chicago Fed National Activity Index and the Kansas City Fed Manufacturing survey.

Overnight

On global stock markets, the S&P 500 was -0.14%. Bond markets saw US 10-years -0.89bp to 2.42%. In commodities, Brent crude oil -1.54% to \$55.79, gold -0.4% to \$1,232, iron ore -0.6% to \$94.30, steam coal -0.5% to \$79.75, met.coal +0.3% to \$161.55. AUD is at 0.7705 and the range since yesterday 5pm Sydney time is 0.7667 to 0.7715.

Markets

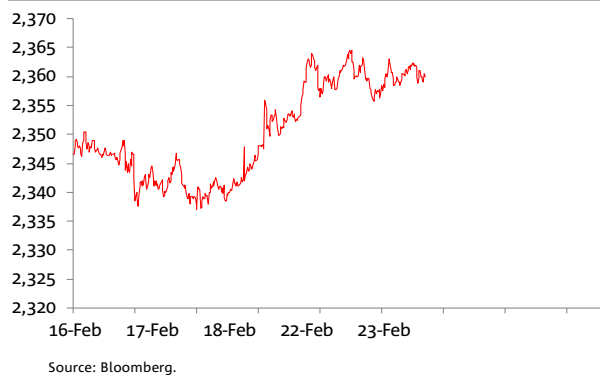
AUD/USD - past week



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	0.7705	0.4	0.7667	0.7715	HKD	7.7604 0.0
NZD	0.7188	0.7	0.7145	0.7198	CNY	6.8744 -0.1
EUR	1.0569	0.3	1.0494	1.0577	SGD	1.4117 -0.7
GBP	1.2454	0.3	1.2407	1.2481	IDR	13,331 -0.3
JPY	113.17	-0.5	112.91	113.82	THB	35.01 -0.1
CAD	1.3156	0.0	1.3154	1.3210	KRW	1,139 -0.7
AUD/EUR	0.729	0.2	0.7272	0.7321	TWD	30.77 -0.1
AUD/JPY	87.20	0.1	86.69	87.37	PHP	50.19 -0.3
AUD/GBP	0.6186	0.2	0.6159	0.6193	CHF	1.01 0.0
AUD/NZD	1.0718	-0.1	1.0710	1.0746	SEK	8.96 -0.2
AUD/CNH	5.2998	0.5	5.2642	5.2937		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Spnd
USD	0.75	1.05	1.57	2.40	USD 10	2.42	-0.89
AUD	1.50	1.78	1.96	3.05	AUD 10	2.83	3.40 0.41
NZD	1.75	2.01	2.35	3.53	NZD 10	3.30	0.10 0.88
EUR	0.00	-0.33	-0.14	0.73	CAD 10	1.72	-0.70 -0.70
GBP	0.25	0.36	0.60	1.26	EUR 10	0.28	-2.20 -2.14
JPY	-0.04	-0.01	0.05	0.28	GBP 10	1.20	-3.30 -1.22
CAD	0.50	0.95	1.11	1.95	JPY 10	0.08	-1.20 -2.34

Equities

Major Indices			
	Last	% day	% y/y
Dow	20,764	0.10	24.9
S&P 500	2,362	-0.14	21.4
Nasdaq	5,856	-0.17	28.1
VIX	12	1.82	-39.2
FTSE	7,302	0.4	20.9
DAX	11,999	0.3	25.3
CAC 40	4,896	0.1	13.9
Nikkei	19,380	0.0	20.7
Shanghai	3,261	0.2	12.3
Hang Seng	24,202	1.0	24.7
ASX 200	5,805	0.2	16.6

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.22	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.16	-1.50
3/10 sprd	0.64	4.50
SPI	5758.0	-19.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	55.79	-1.5
Oil (WTI)	53.56	-1.4
Oil (Tapis)	57.59	-0.3
Gold	1232.00	-0.4
CRB	191.23	-0.4
GS Metals	332.7	0.0
Aluminium	1878.5	0.0
Copper	6031.3	-0.3
Nickel	10768.0	-0.4
Zinc	2864.0	-0.4
Ch. steel	3523.0	-1.8
Iron ore	94.3	-0.6
St. Coal	79.8	-0.5
Met.coal	161.6	0.3
Wheat Chic.	469.8	1.2
Sugar	20.7	-0.4
Cotton	74.1	0.8
Coffee	150.9	-0.6

Prob. of 25bps hike/cut at next meeting	
bps	%
RBA	-1.0 -4.0%
FED	9 37.2%

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
Thursday, 23 February 2017								
JN	PPI Services YoY	Jan		0.5		0.4	0.50	10.50
AU	Private Capital Expenditure	4Q	-3.2	-0.5		-4.0	1.30	11.30
AU	Capex intentions, 2016-17 (5th estimate)/2017-18 (first estimate)		107/74	./84		106.9/..	1.30	11.30
JN	BOJ Kiuchi speaks in Kofu						2.00	12.00
CH	Swift Global Payments, CNY YoY	Jan				1.68		
JN	Leading Index CI	Dec F				105.2	6.00	16.00
GE	GDP SA QoQ/WDA YoY	4Q F		0.4/1.7		0.4/1.7	8.00	18.00
GE	GfK Consumer Confidence	Mar		10.1		10.2	8.00	18.00
UK	CBI Total Dist./Retailing Reported Sales	Feb		24/3.5		26.0/-8.0	12.00	22.00
US	Chicago Fed Nat Activity Index	Jan		0		0.1	14.30	0.30
US	Initial Jobless Claims	Feb 18		240		239.0	14.30	0.30
US	Fed's Lockhart to Speak on His 10-Year Tenure at the Fed						14.35	0.35
US	House Price Purchase Index QoQ	4Q				1.5	15.00	1.00
US	FHFA House Price Index MoM	Dec		0.5		0.5	15.00	1.00
US	Bloomberg Consumer Comfort	Feb 19				48.1	15.45	1.45
US	Kansas City Fed Manf. Activity	Feb		9		9.0	17.00	3.00
US	Fed's Kaplan (voter) speaks						19.00	5.00
Friday, 24 February 2017								
AU	Appearance by Philip Lowe, Governor, before the House of Representatives' Standing Committee on Economics						23.30	9.30
UK	BBA Loans for House Purchase	Jan		42600		43228	10.30	20.30
CA	CFIB Business Barometer	Feb				60.1		
CA	CPI NSA MoM/YoY	Jan		0.4/1.6		-0.2/1.5	14.30	0.30
CA	CPI Core- Common YoY%	Jan				1.4	14.30	0.30
CA	CPI Core- Median/Trim YoY%	Jan		/		2.0/1.6	14.30	0.30
US	New Home Sales #/MoM	Jan		572/6.7		536.0/-10.4	16.00	2.00
US	U. of Mich. Sentiment/5-10Yr Inflation	Feb F		96/		95.7/2.5	16.00	2.00
Monday, 27 February 2017								
NZ	Net Migration SA	Jan				6010.0	22.45	8.45
AU	Inventories SA QoQ/Company operating profits QoQ	4Q				0.8	1.30	11.30
EC	Economic Confidence	Feb				107.9	11.00	21.00
EC	Business Climate Indicator	Feb				0.8	11.00	21.00
US	Durable Goods Orders/Core orders	Jan P		2/0.5		-0.5/0.7	14.30	0.30
CA	Bloomberg Nanos Confidence	Feb 17				57.3	16.00	2.00
US	Pending Home Sales MoM/YoY	Jan		0.9/		1.6/-2.0	16.00	2.00
US	Dallas Fed Manf. Activity	Feb		19		22.1	16.30	2.30
Tuesday, 28 February 2017								
NZ	Trade Balance NZD	Jan				-41.0	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Feb 26				113.7	23.30	9.30
JN	Industrial Production MoM/YoY	Jan P		/		0.7/3.2	0.50	10.50
JN	Retail Sales MoM	Jan				-1.7	0.50	10.50
JN	Retail Trade YoY	Jan				0.6	0.50	10.50
NZ	ANZ Activity Outlook/Business Confidence	Feb		/		39.6/21.7	1.00	11.00
AU	HIA New Home Sales MoM	Jan				0.2	1.00	11.00
UK	GfK Consumer Confidence	Feb				-5.0	1.10	11.10
UK	Lloyds Business Barometer	Feb				29.0	1.10	11.10
AU	Net Exports, % of GDP/Current Account Balance \$Abn	4Q		/		-0.2/-11.0	1.30	11.30
AU	Private Sector Credit MoM/YoY	Jan		/		0.7/5.6	1.30	11.30
JN	Vehicle Production YoY	Jan				4.2	5.00	15.00
JN	Housing Starts YoY	Jan				3.9	6.00	16.00
JN	Construction Orders YoY	Jan				7.1	6.00	16.00
JN	Small Business Confidence	Feb				48.3	6.00	16.00
EC	CPI Estimate/Core YoY	Feb		/0.9		1.8/0.9	11.00	21.00
US	GDP Annualized QoQ	4Q S		2.1		1.9	14.30	0.30
CA	Industrial Product Price MoM	Jan				0.4	14.30	0.30
US	Core PCE QoQ	4Q S				1.3	14.30	0.30
CA	Raw Materials Price Index MoM	Jan				6.5	14.30	0.30
US	Advance Goods Trade Balance	Jan		-65.9		-64.4 r	14.30	0.30
US	Wholesale Inventories MoM	Jan P		0.4		1.0	14.30	0.30
US	S&P CoreLogic CS 20-City MoM SA/YoY	Dec		/		0.9/5.3	15.00	1.00
US	S&P CoreLogic CS US HPI YoY NSA	Dec				5.6	15.00	1.00
US	Chicago Purchasing Manager	Feb		52.8		50.3	15.45	1.45
US	Conf. Board Consumer Confidence	Feb		110.9		111.8	16.00	2.00
US	Richmond Fed Manufact. Index	Feb				12.0	16.00	2.00
NZ	QV House Prices YoY	Feb				13.5	17.00	3.00
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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