

MARKETS TODAY



Walking on a dream redux? - watch Trump at 1pm AEDT

Good Morning

Astute readers (and listeners to our early morning podcast) will note Empire of the Sun's [Walking on a dream](#) was one of our first song titles for 2017. That title was prompted by a lack of detail around Trump's policies ahead of inauguration day which led markets to ask "is it real"? Today presents a possible redux with markets expected to watch closely Trump's joint address to Congress (1.00pm AEDT) to see whether legs are starting to develop on his visionary statements of increased infrastructure spending ("Big time" "1 Trillion") and Tax ("Phenomenal"). Overnight moves suggest markets have already judged that Trump will be again long on vision, but short on detail.

The traditional safe haven currencies of the Yen and Swiss Franc were higher overnight – by 0.4% each – and suggestive of a very mild risk-off tone. It's no surprise then to see the USD dollar (DXY) down 0.1% across to the board. Other currency moves were fairly muted with the Euro up 0.1% and the Pound down 0.3% with Brexit jitters weighing (Nissan said it may need to adjust business based on Brexit – it employees 7,000 in Sunderland). The Aussie was unchanged overnight, though a stronger than expected GDP print this morning could see it retesting the 77c barrier – it currently sits at \$0.7672.

Moves in yields were fairly subdued. US Treasury yields fell 1bps to 2.36%, while German Bunds rose 1bps to 0.21%. French OATs were unchanged overnight, but have fallen by around 10 bps to 0.89% over the past couple of days with Eurosceptic Le Pen losing momentum in the polls – betting odds now put Macron at 50% of winning the French Presidency (Le Pen at 34% and Fillion at 24%).

Despite muted yield moves, the probability of a Fed March rate hike rose to 59% according to the OIS market, up from 56% yesterday. There are now 2.3 rate hikes priced for 2017. It appears the market is reacting to recent Fed rhetoric – particularly from hawks such as the Fed's Kaplan (voter). Kaplan said yesterday morning that raising rates "sooner rather than later means in the near future" while Williams (non-voter) was out as we go to print stating March was getting "serious consideration" and that we've reached full employment.

In terms of the economic data, it was mixed. US Q4 GDP remained unrevised at a 1.9% annual rate, below the consensus that was expecting an upgrade to 2.1%. Looking ahead to Q1 2017, the advanced goods trade deficit is likely to drag on GDP growth being worse than expected due to a 2.3% jump in imports resulting in a headline goods deficit of \$69.2bn - the highest since March 2015. Nevertheless, looking through the monthly volatility, the trend for GDP is sitting at around 2% which

has still been strong enough to bring the unemployment rate down and keep printing payrolls at around 200k. Speaking of GDP, Trump said in an interview overnight that his plan to increase military spending by \$US54bn will come from a "revved up economy...we were probably GDP of a little more than 1% and if I can get that up to 3 or maybe more, we have a whole different ball game". Last night's GDP figures suggest he may struggle. Trump also said he was not going to touch Social Security in expected budget cuts – implying the axe will fall on other programs. Underlying the political uncertainty continues to bubble away with Trump accusing Obama of being behind anti-Trump protests "I think that President Obama's behind it".

Equity moves were also fairly muted with the S&P500 down 0.2% while the EuroStoxx was up 0.3%. Commodity moves were also muted with Brent up 0.1% to \$56.47. Australia's major commodity exports were also marginally unchanged except Iron ore which fell 1.1%.

Coming Up

Domestic focus will be on Australia's Q4 GDP figures. The market consensus looks for a 0.8% q/q increase. NAB is expecting a slightly stronger print at 0.9% q/q with upside risk. A mechanical calculation of the partial data to date on the expenditure-side could produce a GDP(E) print as high as 1.2% q/q, so risks are tilted to the upside with a further kick from the farm sector possible after a bumper grain harvest. We await 11.30am AEDT.

Focus then turns to China with the official PMIs at 12.00pm AEDT (manufacturing likely close to consensus at 51.2) and then to President Trump's joint address to Congress (1.00pm AEDT). Treasury Secretary Mnuchin said earlier that Trump was likely to be "touching on tax reform" as part of the speech, but to your scribe it is hard to see how a speech will provide specifics in terms of how infrastructure and tax cuts are funded. A lack of detail could see scepticism build – something that bond and currency markets have become in recent weeks.

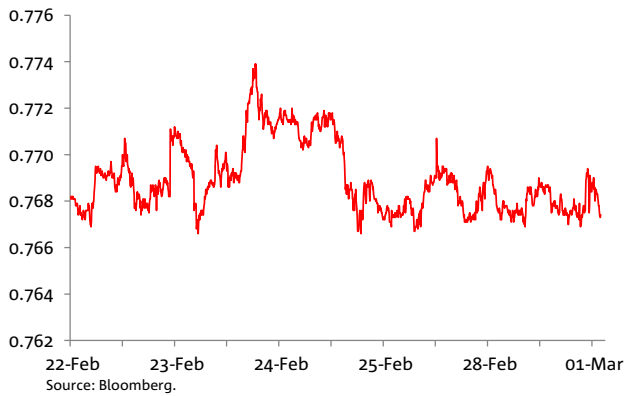
While focus in the US has been on politics, economic data continues to be strong. Tonight we get the Manufacturing ISM and PCE Deflators. On the ISM, a number of regional indicators have surged in recent days and suggestive of upward risks to the market consensus of 56.2. Core PCE is expected to increase 0.3% m/m which would take the annual increase to 1.7%, while the Headline PCE is expected to be at 2.0% y/y – at the Fed's target. The Fed also releases its Beige Book while Canada has its latest rates decision (likely firm hold).

Overnight

On global stock markets, the S&P 500 was -0.24%. Bond markets saw US 10-years -1.78bp to 2.36%. In commodities, Brent crude oil +0.09% to \$56.47, gold-0.6% to \$1,251, iron ore -1.1% to \$91.27, steam coal -

0.1% to \$83.45, met.coal +0.1% to \$162.34. AUD is at 0.7667 and the range since yesterday 5pm Sydney time is

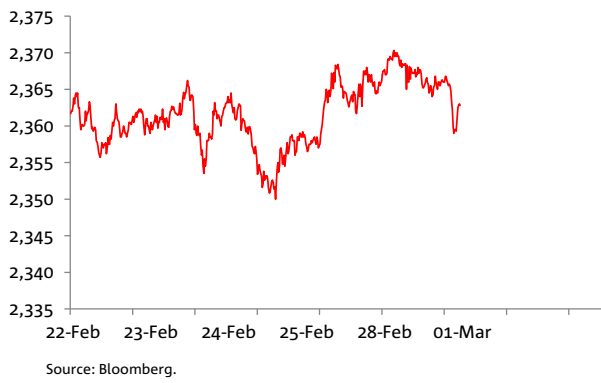
AUD/USD - past week



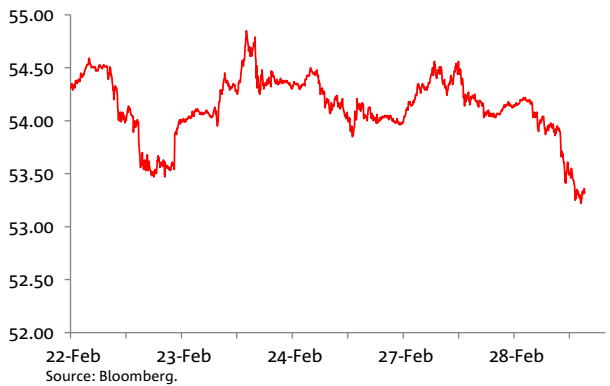
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High		Last	% chge
AUD	0.7667	-0.1	0.7666	0.7695	HKD	7.7628	0.0
NZD	0.7207	0.2	0.7177	0.7237	CNY	6.8670	-0.1
EUR	1.0593	0.1	1.0570	1.0630	SGD	1.4015	-0.2
GBP	1.2404	-0.3	1.2403	1.2471	IDR	13,338	0.0
JPY	112.23	-0.4	111.69	112.82	THB	34.94	0.3
CAD	1.3294	0.9	1.3165	1.3295	KRW	1,130	-0.3
AUD/EUR	0.7237	-0.2	0.7231	0.7263	TWD	30.68	-0.1
AUD/JPY	86.05	-0.5	85.86	86.61	PHP	50.27	0.0
AUD/GBP	0.6181	0.2	0.6165	0.6190	CHF	1.00	-0.4
AUD/NZD	1.0637	-0.2	1.0618	1.0699	SEK	9.03	-0.4
AUD/CNH	5.2831	0.0	5.2517	5.2878			

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	0.75	1.05	1.58	2.34	USD 10	2.36	-0.71	
AUD	1.50	1.78	1.93	3.00	AUD 10	2.72	1.10	0.36
NZD	1.75	2.00	2.34	3.47	NZD 10	3.23	2.30	0.87
EUR	0.00	-0.33	-0.17	0.67	CAD 10	1.63	-1.70	-0.73
GBP	0.25	0.35	0.57	1.15	EUR 10	0.21	1.00	-2.15
JPY	-0.03	-0.01	0.04	0.25	GBP 10	1.15	0.10	-1.21
CAD	0.50	0.95	1.09	1.87	JPY 10	0.06	0.20	-2.30

Equities

Major Indices			
	Last	% day	% y/y
Dow	20,813	-0.12	26.0
S&P 500	2,364	-0.24	22.3
Nasdaq	5,828	-0.58	27.9
VIX	13	5.54	-37.9
FTSE	7,263	0.1	19.1
DAX	11,834	0.1	24.6
CAC 40	4,859	0.3	11.6
Nikkei	19,119	0.1	18.9
Shanghai	3,242	0.4	18.6
Hang Seng	23,741	-0.8	22.3
ASX 200	5,712	-0.2	16.0

Commodities*

	Last	% day
Oil (Brent)	56.47	0.1
Oil (WTI)	53.95	-0.2
Oil (Tapis)	57.12	-1.3
Gold	1251.00	-0.6
CRB	190.62	0.4
GS Metals	330.0	0.0
Aluminium	1921.3	1.1
Copper	5965.0	0.7
Nickel	10937.5	-0.6
Zinc	2823.0	0.7
Ch. steel	3495.0	-2.2
Iron ore	91.3	-1.1
St. Coal	83.5	-0.1
Met.coal	162.3	0.1
Wheat Chic.	443.8	1.1
Sugar	19.3	1.2
Cotton	75.3	0.5
Coffee	142.6	1.1

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-1.0	-4.0%
FED	#N/A	#N/A

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.22	0.00
3 Yr bond	97.8	3.00
10 Yr bond	97.24	-5.00
3/10 sprd	0.56	8.00
SPI	5683.0	10.0

*Change in bps

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

0.7666 to 0.7695.

CALENDAR

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Wednesday, 1 March 2017								
US	Fed's Williams Speaks in Santa Cruz						21.30	7.30
NZ	Terms of Trade Index QoQ	4Q	4.6	4		-1.8	22.45	8.45
AU	AiG Perf of Mfg Index	Feb				51.2	23.30	9.30
AU	CoreLogic House Px MoM	Feb	0.6			0.7	0.00	10.00
US	Fed's Bullard (nv) Speaks in Washington						0.50	10.50
UK	BRC Shop Price Index YoY	Feb		-1.4		-1.7	1.10	11.10
AU	GDP SA QoQ/YoY	4Q	0.9/2.1	0.8/2		-0.5/1.8	1.30	11.30
JN	Nikkei Japan PMI Mfg	Feb F				53.5	1.30	11.30
CH	Manufacturing/Non-manufacturing PMI	Feb		51.2/		51.3/54.6	2.00	12.00
US	President Trump addresses joint session of Congress						3.00	13.00
JN	BoJ's Policy Board member Sato speaks in Tokushima							
CH	Caixin China PMI Mfg	Feb		50.8		51.0	2.45	12.45
AU	Commodity Index AUD/SDR YoY	Feb		/		120.9/55.7	6.30	16.30
GE	Markit/BME Germany Manufacturing PMI	Feb F		57		57.0	9.55	19.55
GE	Unemployment Change (000's/Rate)	Feb		-10/5.9		-26.0/5.9	9.55	19.55
EC	Markit Eurozone Manufacturing PMI	Feb F		55.5		55.5	10.00	20.00
UK	Markit UK PMI Manufacturing SA	Feb		55.8		55.9	10.30	20.30
UK	Net Lending Sec. on Dwellings	Jan		3.7		3.8	10.30	20.30
GE	CPI EU Harmonized MoM/YoY	Feb P		0.6/2.1		-0.8/1.9	14.00	0.00
CA	Current Account Balance	4Q		-9.75		-18.3	14.30	0.30
US	Personal Income/Spending	Jan		0.3/0.3		0.3/0.5	14.30	0.30
US	PCE Deflator MoM/YoY	Jan		0.5/2		0.2/1.6	14.30	0.30
US	PCE Core MoM/YoY	Jan		0.3/1.7		0.1/1.7	14.30	0.30
US	Markit US Manufacturing PMI	Feb F		54.5		54.3	15.45	1.45
CA	Bank of Canada Rate Decision	Mar 1		0.5		0.5	16.00	2.00
US	ISM Manufacturing	Feb		56.2		56.0	16.00	2.00
US	Construction Spending MoM	Jan		0.6		-0.2	16.00	2.00
US	Fed's Kaplan speaks in Dallas						19.00	5.00
US	U.S. Federal Reserve Releases Beige Book						20.00	6.00
Thursday, 2 March 2017								
AU	Trade Balance	Jan	3640	3800		3511.0	1.30	11.30
AU	Building Approvals MoM/YoY	Jan	-2.7/-13.5	-0.5/-11.6		-1.2/-11.4	1.30	11.30
EC	Unemployment Rate	Jan		9.6		9.6	11.00	21.00
US	Challenger Job Cuts YoY	Feb				-38.8	13.30	23.30
US	Wards Total Vehicle Sales	Feb		17.7		17.5		
CA	GDP MoM/YoY	Dec		0.3/1.7		0.4/1.6	14.30	0.30
CA	Quarterly GDP Annualized	4Q		2		3.5	14.30	0.30
US	Initial Jobless Claims	Feb 25		245		244.0	14.30	0.30
Friday, 3 March 2017								
NZ	ANZ Job Advertisements MoM	Feb				-0.2	22.00	8.00
NZ	Crown Accounts	Jan 7m					22.00	8.00
NZ	Value of All Buildings SA QoQ	4Q	1.0	1.5		1.4	22.45	8.45
AU	AiG Perf of Services Index	Feb				54.5	23.30	9.30
JN	Jobless Rate/Jobs-to-applicants ratio	Jan		3/1.44		3.1/1.4	0.30	10.30
JN	Natl CPI/ex fresh food YoY	Jan		0.4/0		0.3/-0.2	0.30	10.30
NZ	ANZ Commodity Price	Feb				-0.1	1.00	11.00
US	Fed's Mester speaks on Leadership in New York						1.00	11.00
JN	Nikkei Japan PMI Services/Composite	Feb		/		51.9/52.3	1.30	11.30
NZ	RBNZ Assistant Governor McDermott Speaks (Not Public)						1.30	11.30
CH	Caixin China PMI Services/Composite	Feb		/		53.1/52.2	2.45	12.45
GE	Markit Germany Services/Composite PMI	Feb F		54.4/56.1		54.4/56.1	9.55	19.55
EC	Markit Eurozone Services/Composite PMI	Feb F		55.6/56		55.6/56.0	10.00	20.00
UK	Markit/CIPS UK Services/Composite PMI	Feb		54/55.6		54.5/55.5	10.30	20.30
EC	Retail Sales MoM/YoY	Jan		0.3/1.5		-0.3/1.1	11.00	21.00
US	Markit US Services/Composite PMI	Feb F		54/		53.9/54.3	15.45	1.45
US	ISM Non-Manf. Composite	Feb		56.5		56.5	16.00	2.00
US	Fed's Evans (v) and Lacker (nv) Speak on Panel in New York						16.15	2.15
US	Fed Vice Chair Fischer Speaks in New York						18.00	4.00
US	Fed Chair Yellen Speaks at Executives Club in Chicago						19.00	5.00
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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