

MARKETS TODAY

My [oil] delirium weighs on bonds



Good Morning

What was meant to be a quiet night ahead of key risk events (US FOMC and Dutch elections today) turned out to be rather more exciting. The WTI Oil price fell 1.4%, on the back of an OPEC report that stated Saudi Arabia increased oil production in February with oil now back to late November 2016 levels at \$47.85 a barrel. US Treasury yields initially fell up to 4.0 bps on the news driven by the inflation component, while the S&P500 fell 0.4% weighed down by energy stocks (-1.0%).

OPEC reported Saudi Oil production rose 263.3k barrels a day in February to 10.001m. While the production figure is still below Saudi Arabia's agreed OPEC-cut agreement target of 10.058m, it does mark a notable departure from recent rhetoric of being willing to cut beyond what is required to support the agreement. It also plays with the grain of comments by the Saudi Energy Minister Al-Falih that non-OPEC producers should not expect Saudis to take on the bulk of cuts or assume that they will extend the production cuts past May. Can OPEC keep the oil price in their stated \$50-60 a barrel range – or will US shale oil producers play with their delirium given their breakevens sit at \$40-50. For those contemplating, today's title "[My Delirium](#)" by LadyHawke may help.

US Treasury yields fell 2.9 bps to 2.60% (although was initially 4bps lower on the news) with the inflation component driving the moves - down 2.6bps. Bund yields were similarly lower, down 2.6 bps to 0.45%. Movements in Australian CGS differed to the US moves the previous day and were also down 1.4 bps to 2.92%.

The US dollar rose 0.3% across the board with much of the move happening yesterday afternoon. The big move overnight was the Pound which initially fell up to 0.9% (though pared losses to -0.5%) alongside news that the UK Parliament signed off on Brexit bill yesterday which gives PM Theresa May the ability to formally start the Brexit process (unlikely to trigger before March 27) and news that the BoE Deputy Governor resigned for failing to disclose a conflict of interest. The Pound currently sits at 1.2219.

Aside from moves in the Pound and US Treasuries, the overnight session was fairly muted with little in the way of economic data. China monthly activity indicators overall came in slightly stronger than expected except for Retail Sales – but that was due to a decline in automobile sales which may be attributable to a sales tax increase on cars in 2017. US data was largely as expected, though the PPI beat expectations up 0.3% m/m against expectation of a 0.1% outcome – a signal inflation is picking up in the US.

Domestically, the RBA hinted it was going to tighten macro-prudential measures, with Assistant Governor Michelle Bullock noting "we are continuing to monitor their ongoing effects and are prepared to do more if needed". With the RBA Board already questioning the

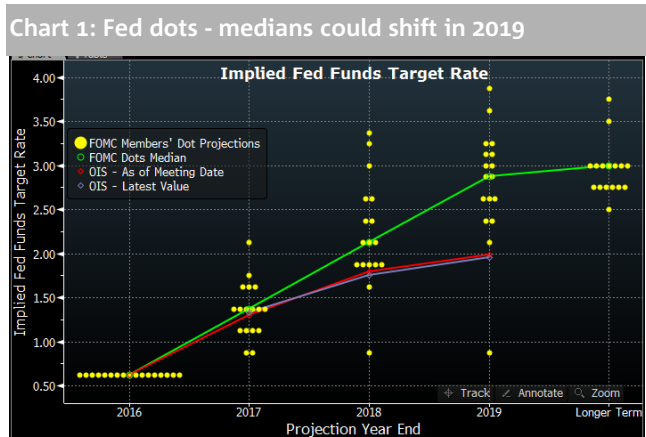
efficacy of current measures (the downgrading of the effectiveness to "some" strengthening in the March Board statement), it is probably an indicator that more is to come. For rates, this would argue the case for more macro-prudential measures to deal with risks in the housing market rather than any near-term contemplation of rate hikes as some had been advocating.

Coming Up

A huge day coming up for markets with the FOMC rate decision (5.00am AEDT) and Dutch elections taking centre stage. There are also a number of key data releases, including the US CPI and Retail Sales, along with UK Employment figures. Downunder we get Westpac Monthly Consumer Sentiment and Car Sales (neither really market moving) while across the Ditch NZ has the Current Account Balance. Finally, the IEA Oil Market Report for March has the potential to move oil especially given last night's moves.

The US FOMC decision is at 5.00am AEDT, with this month's meeting including an update of the Fed's dot points and a press conference by the Fed chair. Virtually all economists (96% on Bloomberg) expect the Fed to lift rates by 25bps and the OIS market prices a 93% chance. What is more uncertain and has the potential to move markets is the timing and magnitude of future rate hikes as embodied in the Fed's dot points. The current medians have interest rates at 1.4% in 2017 (3 hikes), 2.1% in 2018 (3 rate hikes), 2.9% in 2019 (3 rate hikes) and a long-run value of 3.0%. Given the distribution of responses, the risk is the median could shift for 2019 since it requires only one Fed member to change their dot (but unlikely for 2017 and 3/17 dots would have to change to impact on 2018) which will be important for long-term rates. Finally, the balance sheet is likely to become more of a discussion point with many in the Fed stating it was appropriate to consider reducing the balance sheet (via stopping reinvestment) once rates were a comfortable distance from the lower bound – Kaplan and Harker suggested a figure of 1% earlier in the year and the Fed funds rate after tomorrow will sit at 0.75-1.00%.

Polls close in the Dutch election at around 7.00am AEDT Thursday and we are likely to get results throughout the day. While markets aren't necessarily focused on how easily a government will be formed from the disparate parties that make up Dutch politics, it is focused on how well Geert Wilders' Euroskeptic Freedom Party (PVV) does. Recent polling puts the Freedom Party at 15.7% of the vote which would give it 20-24 seats (similar to the 2010 election) – anything higher would likely start to weigh on European markets and cause some reassessment of how Le Pen would go in the upcoming French Presidential election (currently a 30% chance).

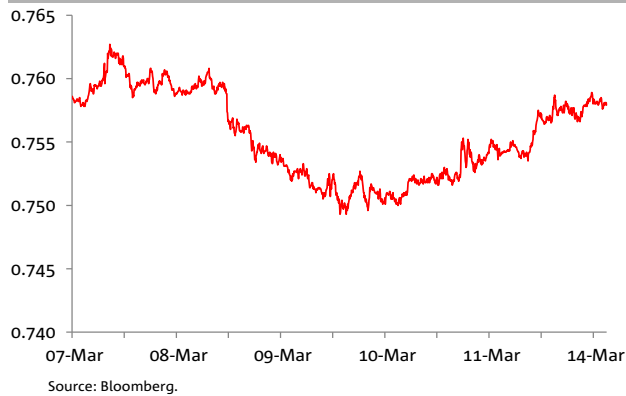


Overnight

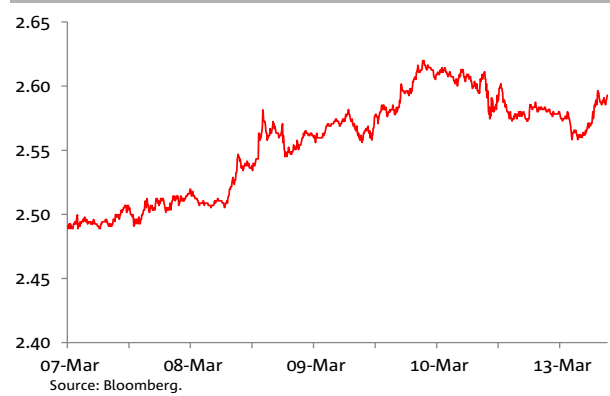
On global stock markets, the S&P 500 was -0.35%. Bond markets saw US 10-years -3.65bp to 2.60%. In commodities, Brent crude oil -0.47% to \$51.11, gold-0.4% to \$1,198, iron ore -0.1% to \$88.14, steam coal -0.2% to \$80.90, met.coal -0.3% to \$159.25. AUD is at 0.7564 and the range since yesterday 5pm Sydney time is 0.7540 to 0.7579.

Markets

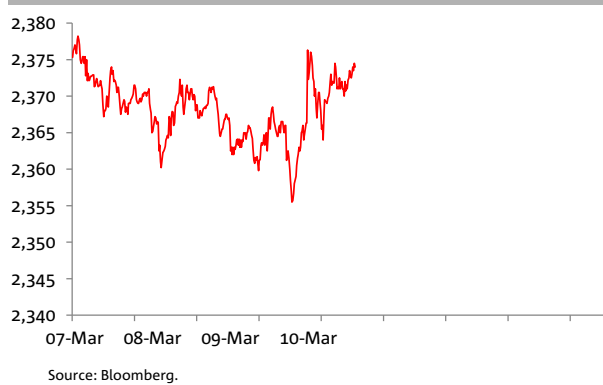
AUD/USD - past week



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	0.7564	-0.1	0.7540	0.7579	HKD	7.7666	0.0
NZD	0.6921	0.0	0.6894	0.6940	CNY	6.9150	0.0
EUR	1.0606	-0.4	1.0603	1.0663	SGD	1.4156	0.1
GBP	1.2154	-0.5	1.2110	1.2224	IDR	13,370	0.1
JPY	114.72	-0.1	114.52	115.20	THB	35.31	0.0
CAD	1.3483	0.3	1.3439	1.3495	KRW	1,149	0.4
AUD/EUR	0.7132	0.4	0.7086	0.7133	TWD	30.96	0.1
AUD/JPY	86.77	-0.2	86.61	87.01	PHP	50.34	0.0
AUD/GBP	0.6223	0.4	0.6184	0.6236	CHF	1.01	0.3
AUD/NZD	1.0928	-0.1	1.0908	1.0946	SEK	8.97	0.3
AUD/CNH	5.2304	-0.3	5.2079	5.2326			

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	0.75	1.13	1.71	2.57	USD 10	2.60	-2.92	
AUD	1.50	1.80	2.02	3.16	AUD 10	2.92	-1.40	0.33
NZD	1.75	1.97	2.33	3.60	NZD 10	3.36	-1.40	0.76
EUR	0.00	-0.33	-0.10	0.88	CAD 10	1.83	-3.80	-0.76
GBP	0.25	0.34	0.62	1.27	EUR 10	0.45	-2.60	-2.15
JPY	-0.03	0.00	0.05	0.29	GBP 10	1.22	-2.30	-1.37
CAD	0.50	0.93	1.18	2.08	JPY 10	0.10	0.70	-2.50

Equities

Major Indices			
	Last	% day	% y/y
Dow	20,838	-0.21	20.9
S&P 500	2,365	-0.35	17.1
Nasdaq	5,857	-0.32	23.3
VIX	12	7.84	-27.7
FTSE	7,358	-0.1	19.2
DAX	11,989	0.0	20.0
CAC 40	4,974	-0.5	10.4
Nikkei	19,610	-0.1	14.6
Shanghai	3,239	0.1	13.1
Hang Seng	23,828	0.0	17.4
ASX 200	5,759	0.0	12.7

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.20	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.04	3.10
3/10 sprd	0.76	-0.10
SPI	5752.0	6.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	51.11	-0.5
Oil (WTI)	47.91	-1.0
Oil (Tapis)	52.70	0.6
Gold	1197.90	-0.4
CRB	182.12	-0.6
GS Metals	322.2	-0.3
Aluminium	1852.8	-0.7
Copper	5810.3	0.6
Nickel	10192.5	0.8
Zinc	2742.5	0.7
Ch. steel	3597.0	3.9
Iron ore	88.1	-0.1
St. Coal	80.9	-0.2
Met.coal	159.3	-0.3
Wheat Chic.	430.5	0.0
Sugar	18.2	-0.1
Cotton	77.2	0.4
Coffee	141.3	-0.8

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-1.0	-4.0%
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
Tuesday, 14 March 2017								
AU	RBA Bullock (Assistant Governor, Financial System) speaks						22:30	8:30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Mar 12				113.9	23:30	9:30
AU	NAB Business Conditions/Confidence	Feb		/		16.0/10.0	1:30	11:30
CH	Retail Sales YTD YoY	Feb		10.6		10.4	3:00	13:00
CH	Fixed Assets Ex Rural YTD YoY	Feb		8.3		8.1	3:00	13:00
CH	Industrial Production YTD YoY	Feb		6.2		6.0	3:00	13:00
GE	CPI EU Harmonized MoM/YoY	Feb F		0.7/2.2		0.7/2.2	8:00	18:00
EC	Industrial Production SA MoM/YoY	Jan		1.4/0.9		-1.6/2.0	11:00	21:00
GE	ZEW Survey Current Situation/Expectations	Mar		77.8/13		76.4/10.4	11:00	21:00
EC	ZEW Survey Expectations	Mar				17.1	11:00	21:00
US	NFIB Small Business Optimism	Feb		105.6		105.9	11:00	21:00
US	PPI Final Demand MoM/YoY	Feb		0.1/1.9		0.6/1.6	13:30	23:30
CA	Teranet/National Bank HPI MoM/YoY	Feb		/		0.5/13.0	13:30	23:30
Wednesday, 15 March 2017								
NZ	BoP Current Account Balance NZD/% of GDP YTD	4Q	../-2.7	-2.425/-2.7		-4.9/-2.9	22:45	8:45
AU	Westpac Consumer Conf Index/MoM	Mar		/		99.6/2.3	0:30	10:30
JN	Industrial Production MoM/YoY	Jan F		/		-0.8/3.2	5:30	15:30
UK	Jobless Claims Change/Average Weekly Earnings 3M/YoY	Feb		/2.4		-42.4/2.6	10:30	20:30
UK	Employment Change/ILO Unemployment Rate 3M	Jan		80/4.8		37.0/4.8	10:30	20:30
EC	Employment QoQ/YoY	4Q		/		0.2/1.2	11:00	21:00
US	MBA Mortgage Applications	Mar 10				3.3	12:00	22:00
US	Empire Manufacturing	Mar		15		18.7	13:30	23:30
US	CPI MoM/YoY	Feb		0/2.7		0.6/2.5	13:30	23:30
US	CPI Ex Food and Energy MoM/YoY	Feb		0.2/2.2		0.3/2.3	13:30	23:30
US	Retail Sales Advance MoM	Feb		0.1		0.4	13:30	23:30
US	Retail Sales Ex Auto and Gas/Control Group	Feb		0.2/0.2		0.7/0.4	13:30	23:30
CA	Existing Home Sales MoM	Feb				-1.3	14:00	0:00
US	NAHB Housing Market Index	Mar		65		65.0	15:00	1:00
US	Business Inventories	Jan		0.3		0.4	15:00	1:00
US	FOMC Rate Decision (Lower/Upper Bound)	Mar 15	0.75/1.00	0.75/1		0.5/0.75	19:00	5:00
US	Total Net TIC Flows	Jan				-42.8	21:00	7:00
Thursday, 16 March 2017								
NZ	GDP SA QoQ/YoY	4Q	0.4/2.8	0.7/3.2		1.1/3.5	22:45	8:45
AU	Consumer Inflation Expectation	Mar				4.1	1:00	11:00
AU	Employment Change/Unemployment Rate	Feb	25/5.6	16/5.7		13.5/5.7	1:30	11:30
AU	Participation Rate	Feb	64.6	64.6		64.6	1:30	11:30
AU	RBA FX Transactions Market	Feb				557.0	1:30	11:30
AU	RBA Bulletin						1:30	11:30
JN	BOJ Policy Balance Rate	Mar 16		-0.1		-0.1	4:00	14:00
JN	Machine Tool Orders YoY	Feb F				9.1	7:00	17:00
EC	CPI MoM/YoY	Feb		0.4/2		-0.8/1.1	11:00	21:00
EC	CPI Core YoY	Feb F		0.9		0.9	11:00	21:00
UK	Bank of England Bank Rate	Mar 16		0.25		0.3	13:00	23:00
CA	Int'l Securities Transactions	Jan				10.2	13:30	23:30
US	Housing Starts/MoM	Feb		1260/1.1		1246.0/-2.6	13:30	23:30
US	Building Permits/MoM	Feb		1260/-2.6		1285.0/4.6	13:30	23:30
US	Philadelphia Fed Business Outlook	Mar		28		43.3	13:30	23:30
US	Initial Jobless Claims	Mar 11		240		243	13:30	23:30
US	JOLTS Job Openings	Jan		5562		5501.0	15:00	1:00
Friday, 17 March 2017								
G20	G20 Finance Ministers and Central Bank Governors meet for two days							
NZ	BusinessNZ Manufacturing PMI	Feb				51.6	22:30	8:30
NZ	ANZ Consumer Confidence Index/MoM	Mar		/		127.4/-1.0	1:00	11:00
CH	Property Prices	Feb					2:30	12:30
EC	Trade Balance SA	Jan		22		24.5	11:00	21:00
CA	Manufacturing Sales MoM	Jan		-0.4		2.3	13:30	23:30
US	Industrial Production MoM	Feb		0.2		-0.3	14:15	0:15
US	U. of Mich. Sentiment/5-10 Yr Inflation	Mar P		97		96.3	15:00	1:00
US	Leading Index	Feb		0.4		0.6	15:00	1:00
Monday, 20 March 2017								
NZ	Performance Services Index	Feb				59.5	22:30	8:30
UK	Rightmove House Prices MoM	Mar				2.0	1:10	11:10
UK	Rightmove House Prices YoY	Mar				2.3	1:10	11:10
AU	RBA's Ellis Speech in Canberra						2:30	12:30
GE	PPI MoM	Feb				0.7	8:00	18:00
GE	PPI YoY	Feb				2.4	8:00	18:00
EC	Labour Costs YoY	4Q				1.5	11:00	21:00
CA	Wholesale Trade Sales MoM	Jan				0.7	13:30	23:30
US	Chicago Fed Nat Activity Index	Feb				-0.1	13:30	23:30
NZ	Westpac Consumer Confidence	1Q				113.1		
CA	Bloomberg Nanos Confidence	Mar 10				57.4	15:00	1:00
US	Fed's Evans Speaks on Economy and Policy in New York						18:10	4:10
Upcoming Central Bank Interest Rate Announcements								
US	Federal Reserve	16-Mar	0.75-1.00%	0.75-1.00%		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%		
Australia	RBA	4-Apr	1.50%	1.50%		1.50%		
Canada	BoC	12-Apr	0.5%	0.5%		0.5%		
Europe	ECB	17-Apr	-0.4%	-0.4%		-0.4%		

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

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