

# MARKETS TODAY

## Risky Business



### Good morning

Tangerine Dream, the German electronic music group, provided the soundtrack for Risky Business, the 1983 Romantic Comedy starring Tom Cruise and Rebecca de Mornay. The group have produced over 100 albums since forming in 1967.

There's German efficiency for you, and which is a big part of the story vis-à-vis the largely Euro-led weakness in the US dollar in the last week or so and which gathered momentum on Friday. It came alongside a resurgence in risk sentiment, exemplified by the VIX trading back below 10 (it closed at 9.36 on Friday having been as high as 14.5 at mid-month. Ignore the intra-day print of 8.56 – a record low – that looks to be dirty data).

On Friday, the German IFO business survey surged to a new record high of 117.5 from 116.8 (well above the 116.7 expected) hot on the heels of Thursday's Manufacturing PMI which also printed a record high of 62.5 up sharply from 60.6 in October. Thanks to the largesse of the ECB's one-size-must-fit all monetary policy, its country's 10 year bond yield is trading at 0.36% and its 5-year bond at -0.33%. That's a story we think will have to change next year, but not this.

The strong German data, alongside evidence that Angela Merkel's CDU and the SPD were inclined towards forming another grand-coalition government, meant that the EUR led the 0.47% drop in the DXY dollar index on Friday, albeit most of the gain came well after this news flow had hit the screens. As well as strength in the Euro and EUR-linked currencies (SEK, CHF), the British pound also fared well with optimism towards progress on Brexit negotiations ahead of the December EU Summit remaining evident. The EU has set a 4<sup>th</sup> Dec. deadline for progress on the divorce bill and the even thornier subject of the post-Brexit status of the Irish border.

AUD and NZD remained the laggards Friday, both down intra-day, while the JPY ended Friday as the weakest G10 currency thanks to higher US yields across the maturity spectrum. Emerging market FX indices took a small hit late Friday from the fall in the Rand on S&P downgrading South Africa's credit standing to junk. Weak GDP growth and related deterioration in public finances was the pretext. Moody's has held its (lowest) investment grade rating but shifted the outlook to negative. USD/ZAR jumped from 13.9 to 14.2.

This is relevant to Australia insofar as the AUD has been tracking closely with the likes of JPM's global EM FX index in recent weeks (down from mid-September through mid-November, but up since) while ignoring the strong showing by Asian EM currencies. The index took a small hit on Friday post the SA news, but still ended 0.3% higher on the week. Weakness in EM FX will need to broaden out again to come back and bite the Aussie. While the USD is back on the skids, this isn't likely to happen.

Ray Attrill, Head of FX strategy

US Treasury yields by and large held the gains witnessed during the APAC time zone, averaging 2bps and so the curve not doing much. On the week though, the curve flattening theme remained very much in evidence, 10s lower and 2s higher, the latter notwithstanding the impact of the Yellen comments and FOMC minutes, both revealing concerns that the factors that have suppressed inflation this year may be more than transitory. The spread between 10 year Aussie and equivalent US government bond yields compressed by a further 7bps last week.

In commodities everything was up bar gold (-\$5) with oil benefiting further on optimistic noises regarding chances of OPEC and non-OPEC producers (dubbed *OPEC 2.0*) agreeing to preserve current production cuts through 2018. They meet on Thursday.

Iron ore can do no wrong at the moment, up another 30 cents to \$67.94 and +8.5% on the week, but with limited impact on the AUD compared to other drivers (remember almost none of the incremental revenue from higher iron ore prices will flow back to Australia). That said, commodity prices are now back offering a tailwind for the AUD alongside the recovery in developed markets and global EM risk sentiment as well as the softer big dollar trend.

### Coming Up

Ahead of Q3 GDP next week and the RBA meeting the week after, most local interest this week will centre on Thursday's Capex for signs of business investment improvement and enhanced expectations.

Internationally, markets will be looking for Fed rate clues from Chair-elect Powell and Yellen, Yellen delivering her final semi-annual testimony and Powell speaking at his Senate confirmation hearing (Tuesday and Wednesday respectively). There'll be understandable focus on Wednesday's US PCE deflator and Friday's ISM manufacturing report. The OPEC meeting starting Thursday will be important while on Thursday and Friday we'll get both the official and Caixin China PMI prints for November.

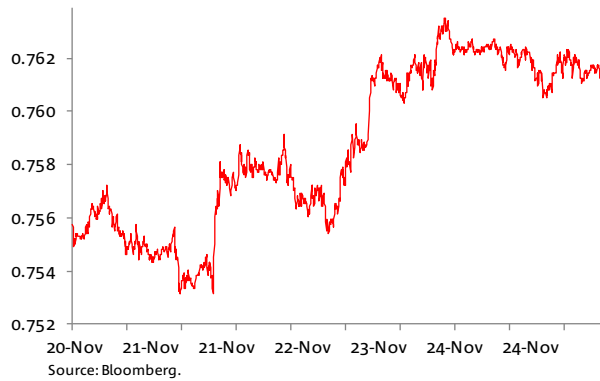
At least until we get into the meat of the week's event risks, AUD/USD can probably build on last week's 0.7% gain; the 50 week moving average near 0.7650 is one technical draw-card.

### Overnight

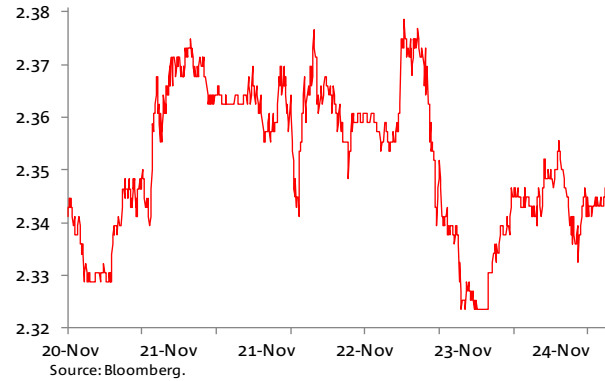
On global stock markets, the S&P 500 was +0.21%. Bond markets saw US 10-years +2.31bp to 2.34%. In commodities, Brent crude oil +0.49% to \$63.86, gold-0.4% to \$1,287, iron ore +0.4% to \$67.94, steam coal +1.0% to \$96.55, met. coal +0.1% to \$190.50. AUD is at 0.7623 and the range since Friday 5pm Sydney time is 0.7607 to 0.7632.

# Markets

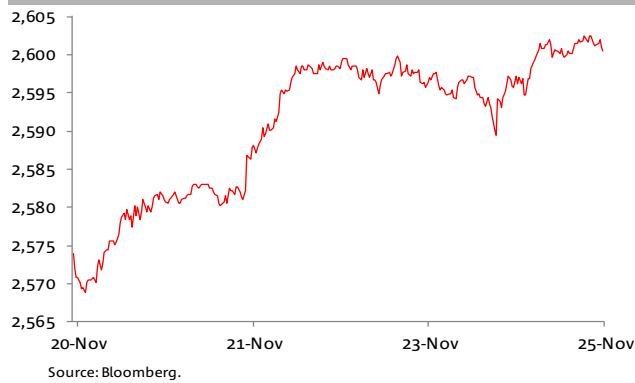
AUD/USD - past week



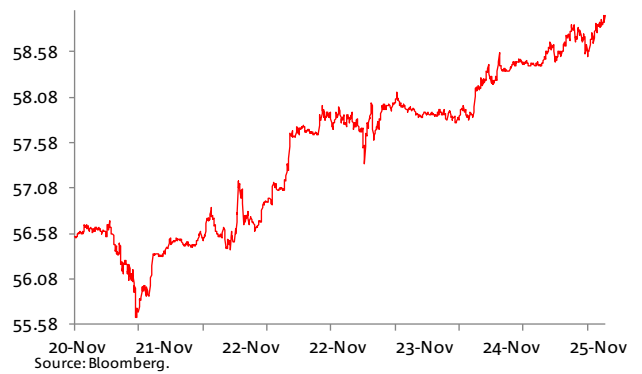
US 10yr - past week



S&P Future - past week



WTI - past week



## Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High		Last	% chge
AUD	0.7623	0.0	0.7607	0.7632	HKD	7.8077	0.0
NZD	0.6886	-0.1	0.6866	0.6894	CNY	6.6018	0.3
EUR	1.1935	0.7	1.1837	1.1944	SGD	1.3456	0.0
GBP	1.3342	0.2	1.3279	1.3360	IDR	13,504	-0.1
JPY	111.43	0.2	111.20	111.62	THB	32.66	0.0
CAD	1.2715	0.0	1.2694	1.2748	KRW	1,085	0.0
AUD/EUR	0.6387	-0.7	0.6379	0.6441	TWD	29.97	0.0
AUD/JPY	84.94	0.2	84.74	85.05	PHP	50.68	0.1
AUD/GBP	0.5713	-0.3	0.5704	0.5738	CHF	0.98	-0.3
AUD/NZD	1.1070	0.0	1.1056	1.1090	SEK	8.28	-0.2
AUD/CNH	5.0297	0.2	5.0093	5.0295			

## Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	1.25	1.47	1.92	2.34	USD 10	2.34	2.31	
AUD	1.50	1.73	1.88	2.72	AUD 10	2.50	-0.40	0.16
NZD	1.75	1.91	2.16	3.11	NZD 10	2.78	-0.30	0.43
EUR	0.00	-0.33	-0.17	0.82	CAD 10	1.89	-0.60	-0.45
GBP	0.50	0.52	0.83	1.32	EUR 10	0.36	1.30	-1.98
JPY	-0.05	-0.02	0.04	0.25	GBP 10	1.25	0.10	-1.09
CAD	1.00	1.40	1.77	2.20	JPY 10	0.03	0.40	-2.31

## Equities

Major Indices			
	Last	% day	% y/y
Dow	23,558	0.14	23.0
S&P 500	2,602	0.21	17.6
Nasdaq	6,889	0.32	27.6
VIX	9.67	-2.13	-21.6
FTSE	7,410	-0.1	8.3
DAX	13,060	0.4	22.1
CAC 40	5,390	0.2	18.5
Nikkei	22,551	0.1	22.7
Shanghai	3,354	0.1	2.8
Hang Seng	29,866	0.5	31.4
ASX 200	5,983	-0.1	8.6

## Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.26	-1.00
3 Yr bond	97.8	0.00
10 Yr bond	97.47	-2.00
3/10 sprd	0.33	2.00
SPI	5993.0	-1.0

\*Change in bps

## Commodities\*

	Last	% day
Oil (Brent)	63.86	0.5
Oil (WTI)	58.95	1.6
Oil (Tapis)	65.29	0.7
Gold	1287.30	-0.4
CRB	192.22	0.3
GS Metals	377.9	0.9
Aluminium	2120.8	0.9
Copper	6986.0	0.6
Nickel	11988.0	0.9
Zinc	3253.8	-0.2
Ch. steel	3809.0	-0.5
Iron ore	67.9	0.4
St. Coal	96.6	1.0
Met. coal	190.5	0.1
Wheat Chic.	434.8	-1.4
Sugar	15.5	1.1
Cotton	72.2	2.1
Coffee	127.6	0.4

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-0.2	-1.0%
FED	23	90.8%

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, 27 November 2017</b>								
CH	Industrial Profits YoY	Oct				27.7	1.30	12.30
US	New Home Sales #/MoM	Oct		623.5		667.0	15.00	2.00
US	Dallas Fed Manf. Activity	Nov		24		27.6	15.30	2.30
UK	BOE's Dave Ramsden Speaks in London						18.30	5.30
<b>Tuesday, 28 November 2017</b>								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Nov 26				116.4	22.30	9.30
US	Fed's Dudley Speaks on U.S. Economy: 10 Years After Crisis						0.00	11.00
EC	OECD Economic Outlook						10.00	21.00
GE	GfK Consumer Confidence	Dec				10.7	12.00	23.00
UK	Nationwide House PX MoM/YoY	Nov				0.2/2.5	29 Nov-4	Dec release
US	Advance Goods Trade Balance	Oct		-65.25		64.1	13.30	0.30
US	Wholesale/Retail Inventories MoM	Oct P		0.4		0.3	13.30	0.30
CA	Industrial Product/Raw Materials Price MoM	Oct				-0.3	13.30	0.30
US	FHFA House Price Index MoM	Sep		0.5		0.7	14.00	1.00
US	House Price Purchase Index QoQ	3Q				1.6	14.00	1.00
US	S&P CoreLogic CS 20-City MoM SA/YoY	Sep		0.3		0.5	14.00	1.00
US	Conf. Board Consumer Confidence	Nov		123.5		125.9	15.00	2.00
US	Senate Banking Cmte Holds Hearing on Fed Chair Nominee Powell						15.00	2.00
US	Richmond Fed Manufact. Index	Nov		14		12.0	15.00	2.00
US	Fed's Harker Speaks on Financial Safety for Aging Population						15.15	2.15
CA	Bank of Canada Releases Financial System Review						15.30	2.30
CA	Bank of Canada Gov. Poloz, Sr. Dep. Gov Wilkins Press Conf.						16.15	3.15
<b>Wednesday, 29 November 2017</b>								
NZ	RBNZ Financial Stability Report						20.00	7.00
NZ	RBNZ Acting Governor at Parliament Select Committee						0.00	11.00
UK	BRC Shop Price Index YoY	Nov				-0.1	0.10	11.10
JN	BOJ Nakaso makes a speech in Tokyo						7.00	18.00
GE	Bundesbank presents 2017 Financial Stability Report						8.00	19.00
UK	Mortgage Approvals	Oct				66.2	9.30	20.30
EC	Business Climate Indicator	Nov				1.4	10.00	21.00
US	MBA Mortgage Applications	Nov 24				0.1	12.00	23.00
GE	CPI EU Harmonized MoM/YoY	Nov P				-0.1	13.00	0.00
US	GDP Annualized QoQ	3Q 5		3.2		3.0	13.30	0.30
US	Fed's Dudley speaks About U.S. Economy						13.30	0.30
US	Yellen Appears before Joint Economic Committee of Congress						15.00	2.00
US	Pending Home Sales MoM/YoY	Oct		1.1		0.0	15.00	2.00
GE	Bundesbank President Jens Weidmann Speaks in Essen						17.00	4.00
US	Fed's Williams Speaks at Economic Forecast Luncheon in Phoenix						17.45	4.45
US	U.S. Federal Reserve Releases Beige Book						19.00	6.00
<b>Thursday, 30 November 2017</b>								
NZ	Building Permits MoM	Oct				-2.3	21.45	8.45
JN	Industrial Production MoM	Oct P		1.8/7.2		-1.0/2.6	23.50	10.50
NZ	ANZ Activity Outlook/Business Confidence	Nov		/		22.2/-10.1	0.00	11.00
AU	HIA New Home Sales MoM	Oct				-6.1	0.00	11.00
JN	BOJ Iwata makes a speech in Tokyo						0.00	11.00
UK	GfK Consumer Confidence/Lloyds Business Barometer	Nov		/		-10.0/26.0	0.10	11.10
AU	Private Sector Credit MoM/YoY	Oct	0.4/5.3	0.4/5.3		0.3/5.4	0.30	11.30
AU	Private Capital Expenditure	3Q	1.0	1		0.8	0.30	11.30
AU	Capex expectations, 2017-18, fourth estimate		105			101.8		
AU	Building Approvals MoM/YoY	Oct	1.0/16.4	-1/14.1		1.5/0.2	0.30	11.30
CH	Manufacturing/Non-Manufacturing PMI	Nov		51.5/		51.6/54.3	1.00	12.00
JN	BOJ Harada makes a speech in Fukushima						1.30	12.30
NZ	Credit Aggregates, Household YoY	Oct				6.5	2.00	13.00
EC	OPEC meets in Vienna to discuss extending production cuts							
GE	Unemployment Change (000's)/Claims Rate	Nov		/		-11.0/5.6	8.55	19.55
EC	Unemployment Rate	Oct				8.9	10.00	21.00
EC	CPI Estimate/Core YoY	Nov		/		1.4/0.9	10.00	21.00
US	Initial Jobless Claims	Nov 25				239.0	13.30	0.30
US	Personal Income/Spending	Oct		0.3/0.2		0.4/1.0	13.30	0.30
US	PCE Deflator MoM/YoY	Oct		0.1/1.6		0.4/1.6	13.30	0.30
US	PCE Core MoM/YoY	Oct		0.2/1.4		0.1/1.3	13.30	0.30
US	Chicago Purchasing Manager	Nov		62		66.2	14.45	1.45
NZ	QV House Prices YoY	Nov				3.9	16.00	3.00
US	Fed's Quarles Speaks on Payments Systems in Cleveland						17.30	4.30
US	Fed's Kaplan Speaks in Dallas						18.00	5.00
<b>Friday, 1 December 2017</b>								
NZ	Terms of Trade Index QoQ	3Q	1.3	1.3		1.5	21.45	8.45
AU	CBA Australia PMI Mfg	Nov				55.5	22.00	9.00
AU	AiG Perf of Mfg Index	Nov				51.1	22.30	9.30
AU	CoreLogic House Px MoM	Nov				0.0	23.00	10.00
JN	Jobless Rate/Job-to-applicant ratio	Oct		2.8/1.52		2.8/1.5	23.30	10.30
JN	Overall Household Spending YoY	Oct		-0.3		-0.3	23.30	10.30
JN	Natl CPI/Ex fresh food YoY	Oct		0.2/0.8		0.7/0.7	23.30	10.30
JN	Nikkei Japan PMI Mfg	Nov P				52.8	0.30	11.30
CH	Caixin China PMI Mfg	Nov		51		51.0	1.45	12.45
AU	Commodity Index AUD/SDR YoY	Nov		/		120.9/9.1	5.30	16.30
GE	Markit/BME Germany Manufacturing PMI	Nov F				62.5	8.55	19.55
EC	Markit Eurozone Manufacturing PMI	Nov F				60.0	9.00	20.00
UK	Markit UK PMI Manufacturing SA	Nov				56.3	9.30	20.30
CA	MLI Leading Indicator MoM	Oct				0.1	12.00	23.00
CA	CFIB Business Barometer	Nov				57.2		
CA	Quarterly GDP Annualized	3Q		1.6		4.5	13.30	0.30
CA	Net Change in Employment/Unemployment rate	Nov		/		35.3/6.3	13.30	0.30
US	Fed's Bullard Speaks in Little Rock, Arkansas						14.05	1.05
US	Fed's Kaplan Speaks in McAllen, Texas						14.30	1.30
CA	Markit Canada Manufacturing PMI	Nov				54.3	14.30	1.30
US	Markit US Manufacturing PMI	Nov P		55		54.6	14.45	1.45
US	ISM Manufacturing	Nov		58.3		58.7	15.00	2.00
US	Construction Spending MoM	Oct		0.5		0.3	15.00	2.00
US	Fed's Harker Speaks on Inclusive Economic Growth						15.15	2.15
US	Baker Hughes U.S. Rig Count/Oil rigs only	Dec 1		/		923.0/747.0	18.00	5.00
US	Wards Total Vehicle Sales	Nov		17.5		18.0		
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Australia, RBA		5-Dec	1.50%	1.50%		1.50%		
Canada, BoC		7-Dec				1.00%		
US Federal Reserve		14 Dec	1.25-1.50%	1.25-1.50%		1.00-1.25%		
UK BOE		14-Dec	0.5%			0.50%		
Europe ECB		14-Dec	-0.4%	-0.4%		-0.4%		
Japan, BoJ		21-Dec	-0.1%	-0.1%		-0.1%		
New Zealand, RBNZ		8-Feb				1.75%		

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

## CONTACT DETAILS

### Authors

David de Garis  
Director, Economics  
+61 3 8641 3045  
david.degaris@nab.com.au

Ray Attrill  
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.