

# MARKETS TODAY

*It's all good (very good)*



## Good morning

Nothing like starting the day with some good old Australian hip hop. Funkroar 2011 hit "it's all good (very good)" nicely captures the key upbeat message from Fed Chair Yellen appearance before Congress alongside the better than expected US and EU economic data. Higher German inflation looks to have been the trigger for an uplift in core global yields while the improvement in US Tax reform prospects, as the Senate prepares to vote on its Tax bill, has triggered a big rotation away from US IT shares into financial and telcos. Price action in currencies has been relatively muted although GBP is the outstanding outperformer and in commodities, oil prices are having a volatile session ahead of OPEC's meeting later today.

So it all started in Europe and for a change the big price action was in bond yields rather than currencies. Economic confidence amongst businesses and consumers in the euro-area rose as expected, taking it to a 17-year high, but the big surprise came from Germany's CPI figures with the preliminary reading for November printing at 1.8%yoy against expectations of a 0.2% rise to 1.7%. The data triggered a sell-off in bund yields with the 10y rate climbing from just under 0.36% to 0.39% and then settling at 0.385%. Half an hour later, the revised Q3 USD GDP data came in better than expected (3.3% vs 3.2% exp.) and later on pending home sales were much stronger than expected.

Although 10y UST yields were already rising ahead of the German CPI print, the move accelerated post the data and then consolidated after the US data releases. Fed Chair Yellen upbeat message (albeit not new) didn't do any harm to the move. Yellen delivered a positive assessment to the economic outlook, noting that wage gains and inflation remain tame, but she forecast strengthening ahead, she then signalled that further gradual rises in the Fed funds rate should be expected, albeit data dependent, of course.

The net effect from the above has seen the UST yield curve bear steepened with 2y rates up 2bps to 1.768%, 10Y rates up 4.8bps to 2.377% and the 30y rate up 6.1bps to 2.82%. Notably 10y UST yields traded to an overnight high of 2.3935%, so the 2.40% mark remains a big barrier for a move higher in yield.

Despite the rise in EU bond yields, the euro is only slightly stronger against the USD, currently at 1.1858, after trading in an overnight range of 1.1818-1.1883. Indeed, GBP is the big outperformer boosted by the prospect of an extension deal, amid positive signs of a compromise on the Irish border ahead of a key meeting next week. After trading in a steady upward trend overnight the pair currently trades 1.3422, up 0.63% over the past 24hrs.

So in index terms the USD has had a mixed night. DXY is -0.04% weighed by GBP and EUR strength, but BBDX is

+0.06% reflecting offsetting USD strength against other G10 pairs. AUD in particular continues to trade with a soft tone, the pair is down 0.22% over the past 24hrs, it currently trades at 0.7578, but it traded to an overnight low of 0.7552. AU-US rate differentials have continued to narrow, the 10y AU US spread is now at 14.5bps and with 10y UST knocking on the 2.40% mark, the rates differential story is likely to remain a downward force for the AUD. Similarly, this morning the 2y AU-US swap rate (semi semi) trades below 10bps and looking at the chart it appears to be the first time since early 2001 it has traded that low (currently at 8.9bps).

NZD is around where it closed the local session at 0.6890, after meeting some resistance around 0.6930 overnight. The RBNZ's Financial Stability Report had a fairly muted impact on the market, even though it surprised some by modestly easing LVR restrictions. It seemed like a sensible move to us, with house price inflation now moderate, softer credit growth and the banking system much better placed to handle a shock. We expect further relaxation of restrictions over the next year or two. Acting Governor Spencer indicated that macro prudential policy would be reviewed on a quarterly basis

Lastly and ahead of the OPEC meeting tonight, oil prices have had a volatile session, Brent briefly traded above the \$64 mark, then it collapsed to \$62.6 and now it appears to have settled just above the \$63 mark. A compromise on the extension period for production cuts remains a hot topic, see more below.

## Coming Up

It's another busy day of data releases with Australia's CAPEX report and building approvals along with China's official manufacturing and non-manufacturing PMIs the highlights during our session. New Zealand building permits and Japan's industrial production are also released this morning. Later in Europe, OPEC meets in Vienna to discuss extending production cuts, Germany releases its labour market figures and the EU CPI figures are also out. Then the US gets personal and income spending data along with PCE figures (all for October). Weekly jobless claims and the Chicago PMI are also due out. Fed Quarels and Kaplan are on speaking duties.

Our economists expect Australia's Capex report to reveal an increase of 1% in Q3 after a similar 0.8% growth in Q2. As for the 2017-18 expectations, NAB looks for an upgrade from \$101.8bn to \$105bn. We would not be surprised to see some modest upgrade even for the Mining industry reflecting the combination of better industry conditions and maintenance capex spending now "catching up" to sustain production and physical assets.

The recent softness in China's economic data appears to be a factor for the muted expectations on the November manufacturing PMI with the market looking for a small pullback to 51.4 from 51.6 in October. There are no

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expectation numbers for the non-manufacturing reading, but last month the index printed at 54.3, comfortably in expansionary mode.

The OPEC meeting in Vienna is expected to conclude with yet another extension to the current oil production cuts. However, what's next? is the big question with Russia seemingly seeking a clear phase-out plan before committing to further cuts. A production cut announcement seems to be already in the price, but as usual with OPEC, the devil will be in the detail.

After the hurricane distortions, the October US personal income (0.3% exp. vs 0.4% prev.) and spending (0.3% vs 1% prev.) data should provide a cleaner update on the

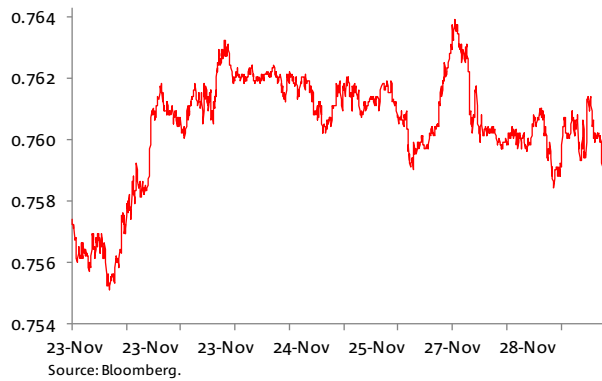
state of the US consumer and set the tone for expectations on Consumer activity in Q4. Meanwhile the PCE data will also be examined for signs of a bottoming trend. The 0.2% outcome expected by the market would help to reinforce this view.

## Overnight

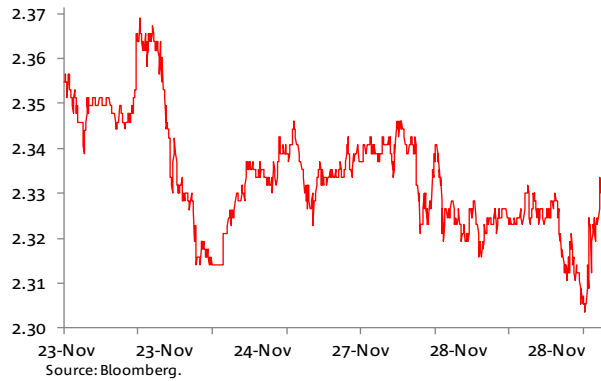
On global stock markets, the S&P 500 was +0.00%. Bond markets saw US 10-years +0.00bp to 2.38%. In commodities, Brent crude oil +0.00% to \$63.37, gold-0.8% to \$1,283, iron ore +0.2% to \$67.92, steam coal +0.4% to \$96.80, met. coal +0.0% to \$191.15. AUD is at 0.7597 and the range since yesterday 5pm Sydney time is 0.7552 to 0.7608.

# 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	0.7597	0.0	0.7552	0.7608	HKD	7.8093	0.0
NZD	0.6887	0.0	0.6877	0.6930	CNY	6.6167	0.0
EUR	1.1853	0.1	1.1818	1.1883	SGD	1.3468	0.1
GBP	1.3416	0.0	1.3339	1.3448	IDR	13,500	0.0
JPY	111.88	0.0	111.38	112.15	THB	32.58	0.0
CAD	1.2859	0.3	1.2805	1.2874	KRW	1,077	0.0
AUD/EUR	0.6391	-0.4	0.6378	0.6420	TWD	29.97	0.0
AUD/JPY	84.74	0.0	84.45	84.92	PHP	50.23	-0.2
AUD/GBP	0.5646	0.0	0.5631	0.5696	CHF	0.98	0.0
AUD/NZD	1.0999	0.0	1.0949	1.1035	SEK	8.37	0.2
AUD/CNH	5.0086	0.0	4.9964	5.0298			

## Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.48	1.94	2.37	USD 10	2.38	0.00
AUD	1.50	1.73	1.89	2.70	AUD 10	2.47	-2.40
NZD	1.75	1.92	2.15	3.09	NZD 10	2.75	2.40
EUR	0.00	-0.33	-0.18	0.85	CAD 10	1.88	0.00
GBP	0.50	0.52	0.86	1.40	EUR 10	0.39	4.60
JPY	-0.05	-0.02	0.04	0.26	GBP 10	1.34	0.00
CAD	1.00	1.41	1.78	2.22	JPY 10	0.03	-1.00

## Equities

Major Indices	Last	% day	% y/y
	Dow	23,929	0.45
S&P 500	2,624	0.00	19.0
Nasdaq	6,819	-1.29	26.7
VIX	10.54	4.98	-18.3
FTSE	7,394	-0.9	9.2
DAX	13,062	0.0	23.0
CAC 40	5,398	0.0	18.6
Nikkei	22,597	0.0	23.4
Shanghai	3,338	0.1	2.7
Hang Seng	29,624	-0.2	30.0
ASX 200	6,011	0.0	10.5

## Overnight Futures

	Last	Chge*
<b>Australia</b>		
3 mth bill	98.25	0.00
3 Yr bond	97.8	2.00
10 Yr bond	97.48	-1.00
3/10 sprd	0.33	3.00
SPI	6005.0	-16.0

\*Change in bps

## Commodities\*

	Last	% day
Oil (Brent)	63.37	0.0
Oil (WTI)	57.43	-0.8
Oil (Tapis)	64.97	0.0
Gold	1282.70	-0.8
CRB	190.90	-0.2
GS Metals	365.9	-2.4
Aluminium	2054.5	0.0
Copper	6737.5	0.0
Nickel	11468.0	0.0
Zinc	3169.3	0.0
Ch. steel	3989.0	3.4
Iron ore	67.9	0.2
St. Coal	96.8	0.4
Met.coal	191.2	0.0
Wheat Chic.	434.8	0.0
Sugar	15.1	0.2
Cotton	75.5	0.0
Coffee	132.2	1.8

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-0.2	-1.0%
FED	22	89.6%

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>Thursday, 30 November 2017</b>								
NZ	Building Permits MoM	Oct				-2.3	21.45	8.45
JN	Industrial Production MoM	Oct P		1.8/7.1		-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		-11/		-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		-10/5.6		-11.0/5.6	8.55	19.55
EC	Unemployment Rate	Oct		8.9		8.9	10.00	21.00
EC	CPI Estimate/Core YoY	Nov		1.6/1		1.4/0.9	10.00	21.00
US	Initial Jobless Claims	Nov 25		240		239.0	13.30	0.30
US	Personal Income/Spending	Oct		0.3/0.3		0.4/1.0	13.30	0.30
US	PCE Deflator MoM/YoY	Oct		0.1/1.5		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		63		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 F				53.8	0.30	11.30
CH	Caixin China PMI Mfg	Nov		50.9		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		62.5	8.55	19.55
EC	Markit Eurozone Manufacturing PMI	Nov F		60		60.0	9.00	20.00
UK	Markit UK PMI Manufacturing SA	Nov		56.5		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		10/6.2		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 F		54		53.8	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
<b>Monday, 4 December 2017</b>								
AU	Melbourne Institute Inflation MoM/YoY	Nov		/		0.3/2.6	0.00	11.00
AU	ANZ Job Advertisements MoM	Nov				1.4	0.30	11.30
AU	Inventories SA QoQ	3Q				-0.4	0.30	11.30
AU	Company Operating Profit QoQ	3Q				-4.5	0.30	11.30
JN	Consumer Confidence Index	Nov				44.5	5.00	16.00
UK	Markit/CIPS UK Construction PMI	Nov				50.8	9.30	20.30
EC	Sentix Investor Confidence	Dec				34.0	9.30	20.30
EC	PPI MoM/YoY	Oct		/		0.6/2.9	10.00	21.00
CA	Bloomberg Nanos Confidence	Nov 24				58.7	15.00	2.00
US	Factory Orders/Ex Trans	Oct		0.3/		1.4/0.7	15.00	2.00
<b>Tuesday, 5 December 2017</b>								
NZ	Volume of All Buildings SA QoQ	3Q				-0.5	21.45	8.45
AU	CBA Australia PMI Services/Composite	Nov		/		53.0/53.1	22.00	9.00
AU	AiG Perf of Services Index	Nov				51.4	22.30	9.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Nov 26				116.4	22.30	9.30
NZ	ANZ Commodity Price	Nov				-0.3	0.00	11.00
UK	BRC Sales Like-For-Like YoY	Nov				-1.0	0.10	11.10
JN	Nikkei Japan PMI Services/Composite	Nov		/		53.4/53.4	0.30	11.30
AU	Net Exports of GDP/Current account	3Q		/		0.3/-10.0	0.30	11.30
AU	Government spending	3Q					0.30	11.30
AU	Retail Sales MoM	Oct				0.0	0.30	11.30
CH	Caixin China PMI Services	Nov		/		51.2/51.0	1.45	12.45
AU	RBA Cash Rate Target	Dec 5		1.5		1.5	3.30	14.30
GE	Markit Germany Services/Composite PMI	Nov F		/		54.9/57.6	8.55	19.55
UK	New Car Registrations YoY	Nov				-12.2	9.00	20.00
EC	Markit Eurozone Services/Composite PMI	Nov F		/		56.2/57.5	9.00	20.00
UK	Markit/CIPS UK Services/Composite PMI	Nov		/		55.6/55.8	9.30	20.30
UK	Official Reserves Changes	Nov				30.0	9.30	20.30
EC	Retail Sales MoM/YoY	Oct		/		0.7/3.7	10.00	21.00
EC	GDP SA QoQ/YoY	3Q F		/		0.6/2.5	10.00	21.00
CA	Int'l Merchandise Trade	Oct				-3.2	13.30	0.30
US	Trade Balance	Oct		-44.8		-43.5	13.30	0.30
US	Markit US Services/Composite PMI	Nov F		55.3/		54.7/54.6	14.45	1.45
US	ISM Non-Manf. Composite	Nov		59		60.1	15.00	2.00
<b>Wednesday, 6 December 2017</b>								
NZ	ANZ Job Advertisements MoM	Nov				0.9	21.00	8.00
AU	GDP SA QoQ/YoY	3Q		/		0.8/1.8	0.30	11.30
GE	Factory Orders MoM/YoY	Oct		/		1.0/9.5	7.00	18.00
GE	Markit Germany Construction PMI	Nov				53.3	8.30	19.30
GE	Markit Germany Retail PMI	Nov				51.2	9.10	20.10
EC	Markit Eurozone Retail PMI	Nov				51.1	9.10	20.10
US	ADP Employment Change	Nov		175		235.0	13.15	0.15
CA	Labor Productivity QoQ	3Q				-0.1	13.30	0.30
US	Nonfarm Productivity/Unit Labour Costs	3Q F		3.2/0.3		3.0/0.5	13.30	0.30
CA	Bank of Canada Rate Decision	Dec 6		1		1.0	15.00	2.00
<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

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