

MARKETS TODAY

Russian Roulette



Good morning

My colleague and Markets Today co-conspirator Tapas Strickland has to date had a monopoly on Rhianna songs, but since he's just arrived at NAB in London to spend time gaining international experience, I figure the Barbadian songstress catalogue is now fair game for use by the rest of us (not that there are many of her songs left to choose from).

Russian Roulette is a pretty dark song, and latest developments in 'Russia-gate' centred on what former national security advisor Michael Flynn was prepared to tell about Trump administration dealings with Russia, after earlier admitting he'd lied to the FBI, cast a dark pall over markets on Friday.

This was before news later in the day from Senate majority leader Mitch McConnell that the Republicans had the numbers to pass a tax bill (which they duly did, by 51-49 votes, in the early hours of Saturday morning). Deficit hawk Bob Corker was the only hold-out.

Much of the reaction to the Flynn-related headlines came initially from the initial headlines that he admitted lying to the FBI and was prepared to testify against Trump, and then an ABC news headline saying Trump had directed Flynn to contact Russian officials while Trump was still an election candidate. This second story was retracted by ABC over the weekend and the investigative journalist who broke the news suspended. ABC's 'clarification' was that Trump's alleged directive came only after he was elected president, which on some legal interpretations was perfectly legal, though opinions differ here. In any event, bear in mind that a key reason for the Russian related 'Trump discount' in the US dollar earlier this year was the view it was breeding policy inertia. With tax reform proceeding apace, this is not now the case.

This latter news has been reflected in a quite sizeable reversal of US dollar loses at the Wellington market re-open this morning with USD/JPY up over 0.5% and AUD, NZD and EUR all down about 0.25% as we write.

On Friday, the Flynn reports resulted in an across-the-board USD sell-off from around 4pm London time (-0.6% in DXY terms), a 10bps plunge in 10-year Treasuries from 2.42% to 2.32% and a 1% drop in US stocks, before roughly half of the moves in FX and rates, and almost all of the earlier stock market losses, were retraced in afternoon NY trade on the McConnell tax bill news.

USD weakness Friday was led by a 1.6% drop in USD/CAD, aided by an uber-strong Canada employment report that saw a 79.5k jump in employment drive the unemployment rate down by 0.3% to 5.9%, even with an unchanged participation rate.

EUR and GBP were the only currencies not to benefit from USD weakness Friday. EUR closed the day little changed – yields spreads moved against EUR/USD last week – while GBP gave back earlier gain from a better

than expected manufacturing PMI report (58.2 up from 56.6) after Donald Tusk was quoted saying the EU would reject opening talks with the UK on a Brexit transition arrangement if an offer on the Irish border issue was not acceptable to Ireland. NZD and AUD both benefited from USD weakness, up 0.9% and 0.6% respectively, AUD/USD closing the day back above 0.76 (0.7613) but is currently back below the figure.

On the week the DXY and BBDXY indices were both 0.1% higher and GBP the best performing G10 currency on Brexit transition deal hopes despite Friday's weakness.

The longer end of the US Treasury curve benefited more than the front end from the Flynn news to leave the 2-10s curve 3.8bps flatter on the day but less than 1bp on the week: 10s recovered from 2.32% to 2.36% in afternoon NY trade and yields are set to move higher when the Tokyo market opens in a couple of hours' time.

US stocks ended down 0.2% for the S&P500, -0.17% for the Dow and -0.38% for the NASDAQ. IT led the declines, extending the mid-week theme of sector rotation though it was a mixed performance from the sectors seen to benefit most from successful passage of corporate tax reduction (telecoms did well, but not utilities) while energy stocks benefited from the \$1.0 rise in WTI crude but the broader materials sector was lower despite across the board strength in commodity prices. The VIX closed at 11.43 from 11.28.

In commodities oil, gold, precious and base metals and coal prices were all higher, including a \$2 rise in oil ore to \$70.11, the first time back above \$70 since 18th September. On the week though, iron ore is up over 3% and metallurgical coal more than 7%.

The strong Canadian employment report side, other data of note was the US manufacturing ISM which slightly disappointed at 58.2 versus 58.3 expected and 58.7 last time (though new orders were up, to 64.0 from 63.4).

Coming Up

Locally it's retail sales and the RBA on Tuesday, GDP on Wednesday (NAB +0.7%) and GDP partials today and tomorrow. Internationally, efforts to reconcile the House and Senate tax bills starts today (and where the Senate version has the upper hand) with non-farm payrolls coming at the end of the week and non-manufacturing ISM tomorrow. China has trade data on Friday.

Overnight

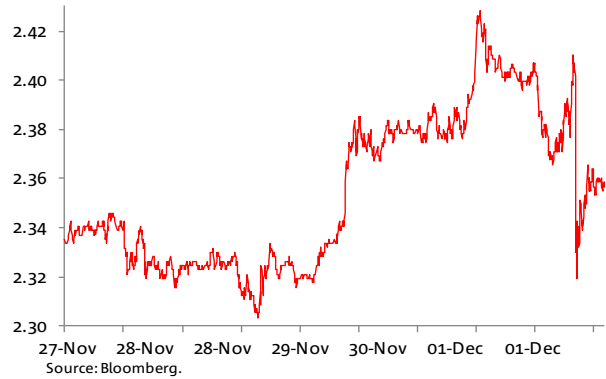
On global stock markets, the S&P 500 was -0.20%. Bond markets saw US 10-years -4.82bp to 2.36%. In commodities, Brent crude oil +1.76% to \$63.73, gold+0.4% to \$1,279, iron ore +2.9% to \$70.11, steam coal +0.2% to \$96.95, met. coal +0.2% to \$220.50. AUD is at 0.7595 and the range since Friday 5pm Sydney time is 0.7552 to 0.7639.

Markets

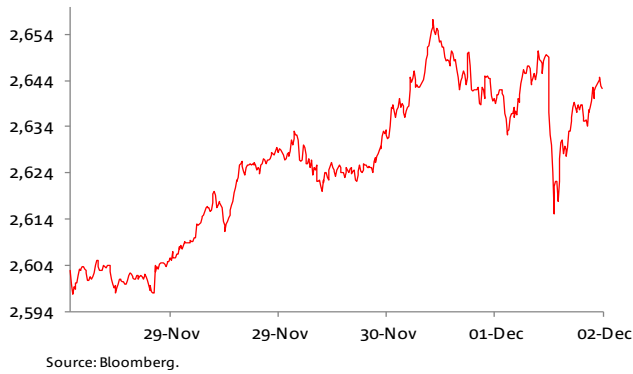
AUD/USD - past week



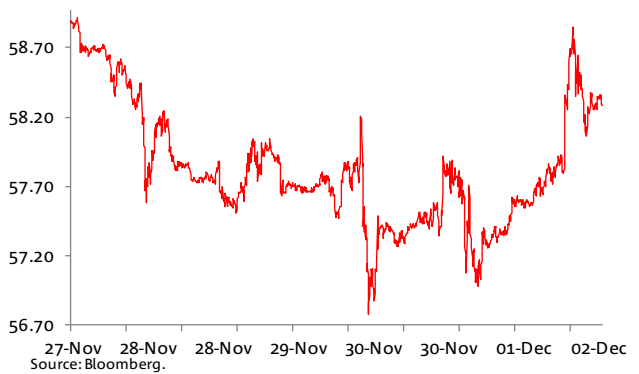
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High		Last	% chge
AUD	0.7602	0.5	0.7552	0.7639	HKD	7.8118	0.0
NZD	0.6873	0.6	0.6817	0.6912	CNY	6.6163	0.1
EUR	1.1867	-0.3	1.1851	1.1940	SGD	1.3478	0.0
GBP	1.3443	-0.6	1.3435	1.3550	IDR	13,523	0.0
JPY	112.80	0.2	111.41	112.89	THB	32.60	-0.1
CAD	1.2697	-1.6	1.2684	1.2902	KRW	1,086	-0.1
AUD/EUR	0.6398	0.7	0.6341	0.6436	TWD	30.01	0.0
AUD/JPY	85.74	0.7	84.98	85.80	PHP	50.28	-0.2
AUD/GBP	0.5655	1.1	0.5584	0.5660	CHF	0.98	-0.4
AUD/NZD	1.1059	-0.1	1.1038	1.1093	SEK	8.38	0.0
AUD/CNH	5.0244	0.2	4.9958	5.0448			

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	1.25	1.49	1.96	2.36	USD 10	2.36	-4.82	
AUD	1.50	1.75	1.89	2.70	AUD 10	2.53	3.50	0.17
NZD	1.75	1.91	2.14	3.08	NZD 10	2.72	0.40	0.36
EUR	0.00	-0.33	-0.19	0.79	CAD 10	1.91	2.00	-0.45
GBP	0.50	0.52	0.84	1.32	EUR 10	0.31	-6.20	-2.06
JPY	-0.05	-0.03	0.04	0.26	GBP 10	1.23	-9.70	-1.13
CAD	1.00	1.42	1.87	2.26	JPY 10	0.04	-0.40	-2.33

Equities

Major Indices			
	Last	% day	% y/y
Dow	24,232	-0.17	26.4
S&P 500	2,642	-0.20	20.5
Nasdaq	6,848	-0.38	30.3
VIX	11.43	1.33	-19.1
FTSE	7,300	-0.4	8.5
DAX	12,861	-1.2	22.3
CAC 40	5,317	-1.0	17.4
Nikkei	22,819	0.4	23.8
Shanghai	3,318	0.0	2.3
Hang Seng	29,074	-0.4	28.8
ASX 200	5,990	0.3	10.0

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.24	-1.00
3 Yr bond	97.8	0.00
10 Yr bond	97.48	0.50
3/10 sprd	0.32	-0.50
SPI	5991.0	-5.0

Commodities*

	Last	% day
Oil (Brent)	63.73	1.8
Oil (WTI)	58.36	1.7
Oil (Tapis)	65.09	0.5
Gold	1278.80	0.4
CRB	190.69	0.8
GS Metals	370.0	1.6
Aluminium	2059.5	1.3
Copper	6811.8	1.1
Nickel	11235.5	1.6
Zinc	3256.0	2.8
Ch. steel	4005.0	0.2
Iron ore	70.1	2.9
St. Coal	97.0	0.2
Met.coal	220.5	0.2
Wheat Chic.	438.5	1.3
Sugar	15.0	-0.7
Cotton	75.4	0.5
Coffee	129.6	0.8

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
Monday, 4 December 2017								
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	-0.2	0		-0.4	0.30	11.30
AU	Company Operating Profit QoQ	3Q	0.2	0		-4.5	0.30	11.30
JN	Consumer Confidence Index	Nov		44.9		44.5	5.00	16.00
UK	Markit/CIPS UK Construction PMI	Nov				50.8	9.30	20.30
EC	Sentix Investor Confidence	Dec		33.6		34.0	9.30	20.30
EC	PPI MoM/YoY	Oct		0.3/2.6		0.6/2.9	10.00	21.00
CA	Bloomberg Nanos Confidence	Dec 1				58.7	15.00	2.00
US	Factory Orders/Ex Trans	Oct		-0.4/		1.4/0.7	15.00	2.00
Tuesday, 5 December 2017								
NZ	Volume of All Buildings SA QoQ	3Q		2		-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	Dec 3				115.0	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	0.3/9.6	0.3/-9		0.3/-10.0	0.30	11.30
AU	Government spending	3Q	0.3			2.2	0.30	11.30
AU	Retail Sales MoM	Oct	0.3	0.3		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		1.5	3.30	14.30
GE	Markit Germany Services/Composite PMI	Nov F		54.9/57.6		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		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		-0.7/1.4		0.7/3.7	10.00	21.00
EC	GDP SA QoQ/YoY	3Q F		0.6/2.5		0.6/2.5	10.00	21.00
CA	Int'l Merchandise Trade	Oct				-3.2	13.30	0.30
US	Trade Balance	Oct		-45.4		-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
Wednesday, 6 December 2017								
NZ	ANZ Job Advertisements MoM	Nov				0.9	21.00	8.00
AU	GDP SA QoQ/YoY	3Q	0.7/3.0	0.7/3		0.8/1.8	0.30	11.30
GE	Factory Orders MoM/YoY	Oct		-0.1/7		1.0/9.5	7.00	18.00
EC	ECB's Yves Mersch speaks in Frankfurt						7.30	18.30
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		190		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
Thursday, 7 December 2017								
AU	AiG Perf of Construction Index	Nov				53.2	22.30	9.30
AU	Trade Balance	Oct	1350	1400		1745.0	0.30	11.30
JN	Leading Index CI	Oct P		106.2		106.4	5.00	16.00
AU	Foreign Reserves	Nov				78.1	5.30	16.30
GE	Industrial Production SA MoM/YoY	Oct		1/4.3		-1.6/3.6	7.00	18.00
UK	Halifax House Prices MoM/YoY	Nov		/		0.3/4.5	8.30	19.30
US	Challenger Job Cuts YoY	Nov				-3.0	12.30	23.30
CH	Foreign Reserves	Nov		3120		3109.2		
UK	CBI Trends Total Orders/Selling prices	Dec		/		17.0/17.0		
CA	Building Permits MoM	Oct				3.8	13.30	0.30
US	Initial Jobless Claims	Nov 25		240		238.0	13.30	0.30
US	Bloomberg Consumer Comfort	Nov 26				51.7	14.45	1.45
CA	Ivey Purchasing Managers Index SA	Nov				63.8	15.00	2.00
US	Household Change in Net Worth	3Q				1698.0	17.00	4.00
US	Consumer Credit	Oct		16.75		20.8	20.00	7.00
Friday, 8 December 2017								
NZ	Mfg Activity Volume/Activity QoQ	3Q		/		1.0/3.9	21.45	8.45
JN	GDP SA QoQ	3Q F				0.3	23.50	10.50
JN	Labor Cash/Real Earnings YoY	Oct		0.8/		0.9/-0.1	0.00	11.00
AU	Home Loans MoM/Investment Lending \$ MoM	Oct	-2.5/ ..	-1.3/		-2.3/-6.2	0.30	11.30
GE	Current Account Balance	Oct				25.4	7.00	18.00
GE	Labor Costs SA QoQ/YoY	3Q		/		0.3/2.3	7.00	18.00
UK	Industrial Production MoM/YoY	Oct		/		0.7/2.5	9.30	20.30
UK	Manufacturing Production MoM/YoY	Oct		/		0.7/2.7	9.30	20.30
UK	Construction Output SA MoM/YoY	Oct		/		-1.6/1.1	9.30	20.30
UK	Trade Balance	Oct				-2754.0	9.30	20.30
UK	BoE/TNS Inflation Next 12 Mths	Nov				2.8	9.30	20.30
CH	Trade Balance CNY	Nov				254.5	3.00	14.00
CH	Exports/Imports YoY CNY	Nov		/		6.1/15.9	3.00	14.00
CH	Trade Balance	Nov		35		38.2	3.15	14.15
CH	Exports/Imports YoY	Nov		5/11.8		6.9/17.2	3.15	14.15
CH	Foreign Direct Investment YoY CNY	Nov				5.0	8-18 Dec release	
UK	NIESR GDP Estimate	Nov				0.5	13.00	0.00
CA	Housing Starts	Nov				222.8	13.15	0.15
CA	Capacity Utilization Rate	3Q				85.0	13.30	0.30
US	Change in Nonfarm Payrolls/Unemployment rate	Nov		210/4.1		261.0/4.1	13.30	0.30
US	Average Hourly Earnings MoM/YoY	Nov		0.3/2.7		0.0/2.4	13.30	0.30
US	Labor Force Participation Rate/Underemployment rate	Nov		/		62.7/7.9	13.30	0.30
US	Wholesale Inventories/Trade sales MoM	Oct F		/0.3		-0.4/1.3	15.00	2.00
US	U. of Mich. Sentiment/5-10Yr Inflation	Dec P		98.9/		98.5/2.4	15.00	2.00
US	Baker Hughes U.S. Rig Count/Oil Rigs only	Dec 1		/		923.0/747.0	18.00	5.00
CH	New Yuan Loans/Aggregate financing CNY	Nov		825/1340		663.2/1040.0	10-15 Dec release	
NZ	REINZ House Sales YoY	Nov				-15.8	10-14 Dec release	
Saturday, 9 December 2017								
CH	CPI/PPI YoY	Nov		1.8/5.8		1.9/6.9	1.30	12.30
Upcoming Central Bank Interest Rate Announcements								
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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