

MARKETS TODAY

The caution and the damage done



Good morning

After the AUD rollercoaster of the past two days, there's been some follow-on selling of the AUD overnight. After its move down after yesterday's GDP from above 0.76 to around 0.7580 after the data print, it's been tracking lower again to just over 0.7560 overnight.

Part of this stems from a steady to somewhat higher USD as tax legislation reconciliation continues and even as the debt ceiling approaches, coming with an in-line ADP employment result. A "cautious" Bank of Canada saw the loonie as the biggest loser overnight.

Sterling has also lost some ground amid report that the DUP (UK coalition partner) is digging its heels in with no deal over the Irish border question. All that optimism of getting a deal over the Irish border question ahead of the EU Summit next week seems is now under threat. Adding to government discord, denial by UK Brexit Secretary David Davis that the UK Government has done no impact assessments on the implications of Brexit for sectors of the British economy had pundits wondering what that referred to but not released 850 page-58 sector touted report was all about! He said no formal assessment was undertaken into the impact of Brexit before the Cabinet took the decision to withdraw.

It was the Bank of Canada that stole the market limelight overnight. Having hiked rates twice this year from a very emergency 0.5% to 1.00%, the central bank left rates steady, as all but three of the 26 surveyed by Bloomberg expected. The watchword from the central bank was "caution": "While higher rates will likely be required over time, the Governing Council will continue to be cautious. The current stance of monetary policy remains appropriate". Adding a little more to the uncertainty flavour were concerns raised over trade issues (NAFTA?) and geopolitics and that there was ongoing labour slack despite jobs growth.

Canadian bonds (and stocks) rallied, the loonie copping a pasting after the statement was released. The market backedpedalled on rate rise expectations: pricing for the 17 Jan meeting was wound back two ticks with the 7 March meeting wound back from 23 bps (near all priced) to 16 (just over 50%).

USD/CAD rallied hard by over a big figure from 1.2650 to currently trade just below 1.28. AUD/CAD is the one Aussie cross that's higher this morning, trading just below 0.97. Oil prices have also been progressively giving back some ground overnight, which may have added reasons to sell after the BoC.

Coming up

Australia's trade balance for October is being released today. Market consensus is for a \$A1.4bn surplus after the \$A1.745bn in September, still a good outcome judged against the average Q3 surplus of \$A1.11bn when net exports made no contribution to growth quarter.

David de Garis, Director, Economics

The chart below shows the range of market reactions over the past year. Trade is far from occupying prime billing in terms of A\$ market sensitivity as the monthly current account release did in the 80s/90s, but the AUD remains somewhat sensitive to the print.

Some latitude is granted owing to variations in shipments and monthly trade flows. Last February, when the surplus printed at a whopping \$3.5bn, the AUD rose 0.34% within an hour, around 25-30 pips. That's a stark contrast to October when despite a higher than expected surplus, the AUD fell, but that was overshadowed by disappointing Retail Sales that day.

In October port shipments data show Port Hedland shipments marginally higher, while coal shipments have been flat-to-lower. The LNG ramp up story should be supportive.

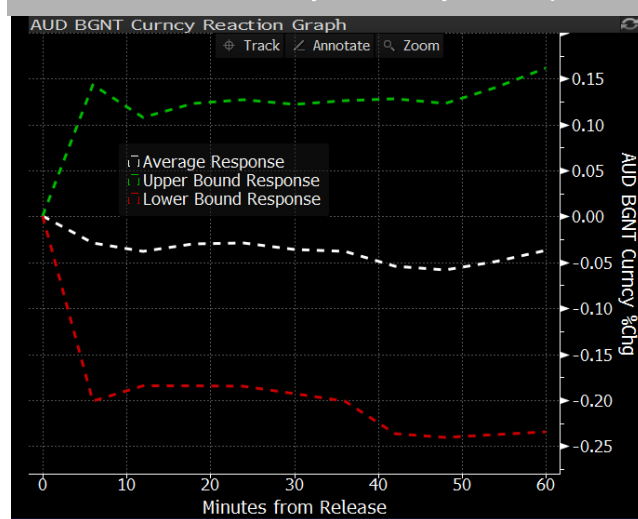
Commodity prices on a "prices received" basis were down 0.4% in October. This doesn't point to a strong risk on exports either way, but no doubt we'll be smarter after the event.

German Industrial production tonight follows last night's further (0.5%) factory orders growth last night. The next data print for the USD is tomorrow night's payrolls with focus on tax reform reconciliation.

Overnight

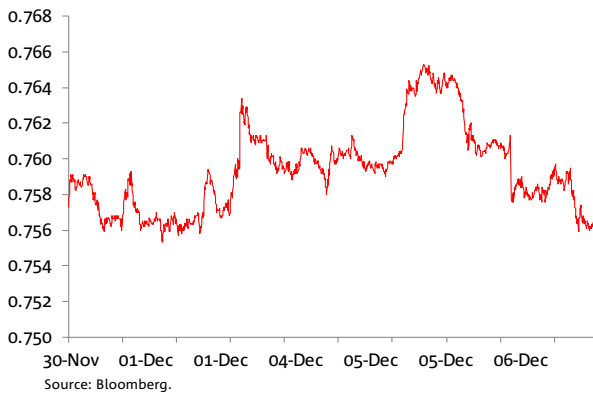
On global stock markets, the S&P 500 was +0.15%. Bond markets saw US 10-years -2.67bp to 2.32%. In commodities, Brent crude oil -2.53% to \$61.27, gold +0.1% to \$1,263, Dalian iron ore futures -2.62%, steam coal +0.6% to \$97.10, met. coal +1.8% to \$226.00. AUD is at 0.7564 and the range since yesterday 5pm Sydney time is 0.7559 to 0.7596.

Chart: Some AUD sensitivity to monthly trade report

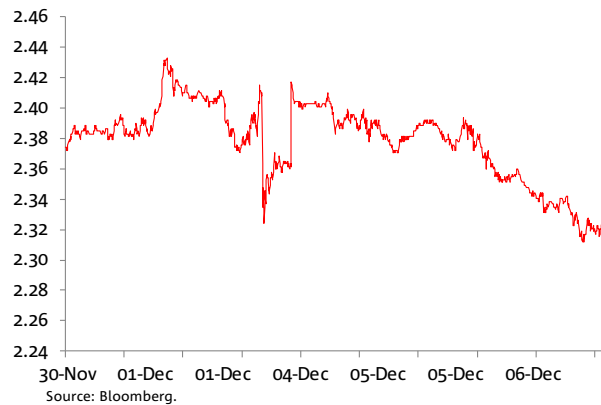


Markets

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 | -1.1 | 0.7559 | 0.7596 | HKD | 7.8144 0.0 |
| NZD | 0.6877 | -0.2 | 0.6871 | 0.6904 | CNY | 6.6149 -0.1 |
| EUR | 1.1792 | -0.6 | 1.1781 | 1.1829 | SGD | 1.3496 0.3 |
| GBP | 1.3377 | -0.3 | 1.3358 | 1.3393 | IDR | 13,546 0.2 |
| JPY | 112.26 | -0.2 | 112.04 | 112.38 | THB | requesting ##### |
| CAD | 1.2794 | 1.2 | 1.2653 | 1.2807 | KRW | 1,093 0.7 |
| AUD/EUR | 0.6415 | -0.5 | 0.6410 | 0.6429 | TWD | 30.02 0.0 |
| AUD/JPY | 84.92 | -1.2 | 84.83 | 85.19 | PHP | 50.73 0.2 |
| AUD/GBP | 0.5655 | -0.7 | 0.5650 | 0.5682 | CHF | 0.99 0.5 |
| AUD/NZD | 1.1000 | -0.8 | 1.0990 | 1.1026 | SEK | 8.44 0.4 |
| AUD/CNH | 5.0038 | -0.8 | 5.0029 | 5.0601 | | |

Interest Rates

| | Indicative Swap Rates | | | | Benchmark 10 Year Bonds | | |
|-----|-----------------------|-------|-------|------|-------------------------|------|-------------|
| | Cash | 3mth | 2Yr | 10Yr | Last | chge | Sprd |
| USD | 1.25 | 1.52 | 1.98 | 2.34 | USD 10 | 2.32 | -2.67 |
| AUD | 1.50 | 1.76 | 1.90 | 2.69 | AUD 10 | 2.51 | -9.10 0.18 |
| NZD | 1.75 | 1.90 | 2.16 | 3.07 | NZD 10 | 2.74 | -6.20 0.41 |
| EUR | 0.00 | -0.33 | -0.19 | 0.78 | CAD 10 | 1.85 | -4.40 -0.47 |
| GBP | 0.50 | 0.52 | 0.83 | 1.32 | EUR 10 | 0.30 | -2.50 -2.03 |
| JPY | -0.05 | -0.01 | 0.04 | 0.26 | GBP 10 | 1.23 | -2.90 -1.10 |
| CAD | 1.00 | 1.44 | 1.84 | 2.22 | JPY 10 | 0.06 | 0.90 -2.27 |

Equities

| Major Indices | | | |
|---------------|--------|-------|-------|
| | Last | % day | % y/y |
| Dow | 24,194 | 0.06 | 25.7 |
| S&P 500 | 2,634 | 0.15 | 19.0 |
| Nasdaq | 6,787 | 0.37 | 27.3 |
| VIX | 11.04 | -2.56 | -6.4 |
| FTSE | 7,348 | 0.3 | 8.4 |
| DAX | 12,999 | -0.4 | 20.6 |
| CAC 40 | 5,374 | 0.0 | 16.0 |
| Nikkei | 22,177 | -2.0 | 19.9 |
| Shanghai | 3,294 | -0.3 | 2.2 |
| Hang Seng | 28,225 | -2.1 | 23.8 |
| ASX 200 | 5,946 | -0.4 | 8.5 |

Overnight Futures

| | Last | Chge* |
|------------------|--------|-------|
| Australia | | |
| 3 mth bill | 98.22 | -3.00 |
| 3 Yr bond | 97.8 | 3.00 |
| 10 Yr bond | 97.48 | 3.00 |
| 3/10 sprd | 0.33 | 0.00 |
| SPI | 5972.0 | 8.0 |

*Change in bps

Commodities*

| | Last | % day |
|-------------|---------|-------|
| Oil (Brent) | 61.27 | -2.5 |
| Oil (WTI) | 56.02 | -2.8 |
| Oil (Tapis) | 64.52 | 0.4 |
| Gold | 1262.90 | 0.1 |
| CRB | 184.72 | -1.5 |
| GS Metals | 358.6 | 0.0 |
| Aluminium | 2002.5 | -1.6 |
| Copper | 6525.5 | 0.1 |
| Nickel | 10751.0 | -0.5 |
| Zinc | 3089.5 | -1.0 |
| Ch. steel | 3917.0 | -3.3 |
| Iron ore | 72.7 | ... |
| St. Coal | 97.1 | 0.6 |
| Met.coal | 226.0 | 1.8 |
| Wheat Chic. | 438.0 | -1.6 |
| Sugar | 14.5 | -3.0 |
| Cotton | 75.2 | 0.3 |
| Coffee | 126.1 | -1.0 |

Prob. of 25bps hike/cut at next meeting

| | bps | % |
|-----|------|-------|
| RBA | -0.2 | -1.0% |
| FED | 23 | 92.4% |

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 |
|--|---|--------|------------|------------|--------|--------------|-------------------|---------|
| 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 | | 106.1 | | 106.4 | 5.00 | 16.00 |
| AU | Foreign Reserves | Nov | | | | 78.1 | 5.30 | 16.30 |
| GE | Industrial Production SA MoM/YoY | Oct | | 0.9/4.3 | | -1.6/3.6 | 7.00 | 18.00 |
| UK | Halifax House Prices MoM/YoY | Nov | | 0.2/3.9 | | 0.3/4.5 | 8.30 | 19.30 |
| US | Challenger Job Cuts YoY | Nov | | | | -3.0 | 12.30 | 23.30 |
| CH | Foreign Reserves | Nov | | 3123.5 | | 3109.2 | | |
| UK | CBI Trends Total Orders/Selling prices | Dec | | / | | 17.0/17.0 | | |
| CA | Building Permits MoM | Oct | | 1 | | 3.8 | 13.30 | 0.30 |
| US | Initial Jobless Claims | Dec 2 | | 240 | | 238.0 | 13.30 | 0.30 |
| US | Bloomberg Consumer Comfort | Dec 3 | | | | 51.6 | 14.45 | 1.45 |
| CA | Ivey Purchasing Managers Index SA | Nov | | 62.5 | | 63.8 | 15.00 | 2.00 |
| US | Household Change in Net Worth | 3Q | | | | 1698.0 | 17.00 | 4.00 |
| US | Consumer Credit | Oct | | 17 | | 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 | | 0.4 | | 0.3 | 23.50 | 10.50 |
| JN | Labor Cash/Real Earnings YoY | Oct | | 0.8/0.2 | | 0.9/-0.1 | 0.00 | 11.00 |
| AU | Home Loans MoM/Investment Lending \$ MoM | Oct | -2.5/ .. | -2/ | | -2.3/-6.2 | 0.30 | 11.30 |
| GE | Current Account Balance | Oct | | 20 | | 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 | | 0/3.5 | | 0.7/2.5 | 9.30 | 20.30 |
| UK | Manufacturing Production MoM/YoY | Oct | | 0/3.8 | | 0.7/2.7 | 9.30 | 20.30 |
| UK | Construction Output SA MoM/YoY | Oct | | 0.1/1.8 | | -1.6/1.1 | 9.30 | 20.30 |
| UK | Trade Balance | Oct | | -3000 | | -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 | | 233 | | 254.5 | 3.00 | 14.00 |
| CH | Exports/Imports YoY CNY | Nov | | 2/13.1 | | 6.1/15.9 | 3.00 | 14.00 |
| CH | Trade Balance | Nov | | 35 | | 38.2 | 3.15 | 14.15 |
| CH | Exports/Imports YoY | Nov | | 5.3/12.5 | | 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 | | 0.4 | | 0.5 | 13.00 | 0.00 |
| CA | Housing Starts | Nov | | 213 | | 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 | | 195/4.1 | | 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 | | -0.4/0.3 | | -0.4/1.3 | 15.00 | 2.00 |
| US | U. of Mich. Sentiment/5-10Yr Inflation | Dec P | | 99/ | | 98.5/2.4 | 15.00 | 2.00 |
| US | Baker Hughes U.S. Rig Count/Oil Rigs only | Dec 8 | | / | | 929.0/749.0 | 18.00 | 5.00 |
| CH | New Yuan Loans/Aggregate financing CNY | Nov | | 800/1250 | | 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 | | 1.8/5.9 | | 1.9/6.9 | 1.30 | 12.30 |
| Sunday, 10 December 2017 | | | | | | | | |
| Monday, 11 December 2017 | | | | | | | | |
| UK | CBI Trends Total Orders/Selling prices | Dec | | / | | 17.0/17.0 | 7-13 Dec release | |
| CH | Foreign Direct Investment YoY CNY | Nov | | | | 5.0 | 8-18 Dec release | |
| NZ | REINZ House Sales YoY | Nov | | | | -15.8 | 10-14 Dec r | #VALUE! |
| NZ | Card Spending Total MoM | Nov | | | | 0.4 | 21.45 | 8.45 |
| JN | BSI Large All Industry/Manufacturing QoQ | 4Q | | / | | 5.1/9.4 | 23.50 | 10.50 |
| JN | Machine Tool Orders YoY | Nov P | | | | 49.8 | 6.00 | 17.00 |
| CA | Bloomberg Nanos Confidence | Dec 8 | | | | 58.7 | 15.00 | 2.00 |
| US | JOLTS Job Openings | Oct | | | | 6093.0 | 15.00 | 2.00 |
| Tuesday, 12 December 2017 | | | | | | | | |
| NZ | ANZ Truckometer Heavy MoM | Nov | | | | 2.9 | 21.00 | 8.00 |
| AU | ANZ Roy Morgan Weekly Consumer Confidence Index | Dec 10 | | | | 115.8 | 22.30 | 9.30 |
| AU | NAB Business Conditions/Confidence | Nov | | / | | 21.0/8.0 | 0.30 | 11.30 |
| AU | House Price Index QoQ/YoY | 3Q | | | | 1.9 | 0.30 | 11.30 |
| JN | Tertiary Industry Index MoM | Oct | | | | -0.2 | 4.30 | 15.30 |
| UK | CPI MoM/YoY | Nov | | / | | 0.1/3.0 | 9.30 | 20.30 |
| UK | CPI Core YoY | Nov | | / | | 2.7 | 9.30 | 20.30 |
| UK | PPI Input NSA MoM/YoY | Nov | | / | | 1.0/4.6 | 9.30 | 20.30 |
| UK | PPI Output NSA MoM/YoY | Nov | | / | | 0.2/2.8 | 9.30 | 20.30 |
| UK | PPI Output Core NSA MoM/YoY | Nov | | / | | 0.1/2.1 | 9.30 | 20.30 |
| UK | House Price Index YoY | Oct | | | | 5.4 | 9.30 | 20.30 |
| GE | ZEW Survey Current Situation/Expectations | Dec | | / | | 88.8/18.7 | 10.00 | 21.00 |
| EC | ZEW Survey Expectations | Dec | | | | 30.9 | 10.00 | 21.00 |
| US | NFIB Small Business Optimism | Nov | | | | 103.8 | 11.00 | 22.00 |
| UK | CBI Total Dist./Retail Reported Sales | Dec | | / | | 30.0/26.0 | 11.00 | 22.00 |
| US | PPI Final Demand MoM/YoY | Nov | | 0.4/3 | | 0.4/2.8 | 13.30 | 0.30 |
| US | PPI Ex Food and Energy MoM/YoY | Nov | | 0.2 | | 0.4 | 13.30 | 0.30 |
| US | PPI Ex Food, Energy, Trade MoM/YoY | Nov | | 0.2/ | | 0.2/2.3 | 13.30 | 0.30 |
| US | Monthly Budget Statement | Nov | | -135 | | -63.2 | 19.00 | 6.00 |
| Upcoming Central Bank Interest Rate Announcements | | | | | | | | |
| 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% | | |
| Australia, RBA | | 6-Feb | 1.50% | 1.50% | | 1.50% | | |
| New Zealand, RBNZ | | 8-Feb | | | | 1.75% | | |

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

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