

MARKETS TODAY

The Letter



Good morning

Amid light trading US equities are a little bit higher (NASDAQ is flat) and European equities closed in positive territory. USD indices have edged a little bit higher too reflecting strength against EUR, GBP and CAD while SEK and AUD have outperformed. The former boosted by higher inflation while the latter has been supported by M&A activity. Higher inflation didn't help the pound, but hopefully Governor Carney is a fan of Al Green as he will need some inspiration for his letter to the Chancellor explaining why inflation is more than 1% away from the official 2% target.

M&A activity has been the big driver for the AUD with the currency quickly reversing losses incurred after a softish NAB survey yesterday. The survey headlines saw the currency trade to a low of 0.7520, but then take-over news lifted the pair to an overnight high of 0.7580. USD strength after a stronger PPI dominated later in the session and the AUD now trades at 0.7558. Unibail-Rodamco, a European owner of shopping malls, has agreed to buy Westfield for A\$32.7bn, of which around 35% will be paid in cash. While the deal won't likely be closed until mid-2018, the FX market has moved to anticipate the associated hedging of the cash proceeds back to AUD. In addition to the Westfield deal, Zurich Life yesterday announced that they would buy ANZ's Australian life insurance business for A\$2.85bn.

The USD strengthened a bit against the major currencies overnight and US yields edged up a few basis points ahead of the all-important CPI release and Fed meeting tomorrow morning (see more below). US PPIs – both headline and core – were a little higher than expected and although the historic relationship between PPI and CPI is not very strong, the PPI release appears to have been a factor for the higher USD and UST yields overnight. Another factor could be linked to press reports suggesting House and Senate Republicans are on track to agree a final wording of the tax reform bill this week with a vote now expected next week Tuesday. Both the USD and US yields remain within recent trading ranges, but of note 10y UST yields are back above 2.40% for the first time since the end of November.

As for SEK, its meteoric rise is entirely due to better than expected CPI figures. Headline CPI was 0.2% m/m and 1.9% y/y (0.1/1.7% expected). SEK (+0.72%) now trades at 8.43 and EUR/SEK is -1.15% at 9.8954. The Riksbank meets next week and the current quantitative easing program is set to expire at the end of the year. At the October meeting the Riksbank indicated they could extend that into 2018, but there were divisions on the board.

In contrast to SEK, the GBP could not sustain a rally following a better than expected headline CPI. Headline CPI was 0.3% m/m against expectations of a 0.2% result, while the y/y rate is now 3.1% against expectations of

3.0%. More importantly, core CPI was unchanged and in line with expectations at 2.7% and market pricing for the next BoE hike haven't shifted from the end of 2018. GBP initially rallied to 1.3380 before falling back and is currently trading at 1.3335 – around where it was prior to the release. Also possibly tempering expectations were newspaper reports that the EU has ruled out early Brexit trade talks stating this would not begin until March.

The other notable event was a natural gas plant explosion in Baumgarten, east of Vienna. 2 are dead and 18 are injured. The explosion sent shivers through a wintery Europe with front end UK Nat Gas futures jumping as much as 20% - the biggest rise since 2011.

Looking at other commodities, Iron ore (0.52%) and Copper (0.33%) managed to eke out small gains while oil prices reversed yesterday's gains amid an ease in concern over the North Sea oil pipeline crack.

Coming Up

We are now approaching the meaty section of this week's calendar with the US November CPI and Fed decision early tomorrow morning two of the big tickets for the week. This morning RBA Governor Lowe speaks on an eAUD and Deputy Governor Kent speaks on the "Availability of Business Finance", as always we will be monitoring what RBA speakers have to say, but given the topics we don't expect market moving remarks. Also this morning, Australia gets its monthly's Consumer Confidence reading and Japan releases machine order figures for October.

Moving on to this evening, GBP and to a lesser extent the Euro could be in focus as EC's Juncker and Tusk discuss the UK Brexit negotiations outcome with European MPs. BoJ Governor Kuroda is also on speaking duties tonight and makes a brief speech at Economists' Gathering. Labour market data for the UK and Europe are also due for release.

Gasoline prices is one factor that has been highlighted as a boost for the US CPI reading to print at 0.4% mom in November, up from 0.1% in October. Meanwhile the core reading is expected to print at 0.2%, in line with the previous month. The latter's yoy reading is also seen unchanged at 1.8%. If so, it would confirm a slow reacceleration in inflation after subdued readings early in the year.

As for the Fed decision, a hike tomorrow morning is already in the price. Focus of course will be on the dot plot and our sense is that the 2018 dots are likely to remain unchanged, but there is some risk that the longer run get revised lower. If so that might be a bit of a downward force on longer dated UST yields and the USD, but what Yellen says at the press conference probably carries the day. Although this will be her last conference,

as usual her comments will reflect the view from the FOMC.

US politics may also prove to be a source of volatility with the Alabama senate vote result coming out later today. A Democratic win could raise some question marks on the fate of tax reform.

Overnight

On global stock markets, the S&P 500 was +0.34%. Bond markets saw US 10-years +0.89bp to 2.40%. In

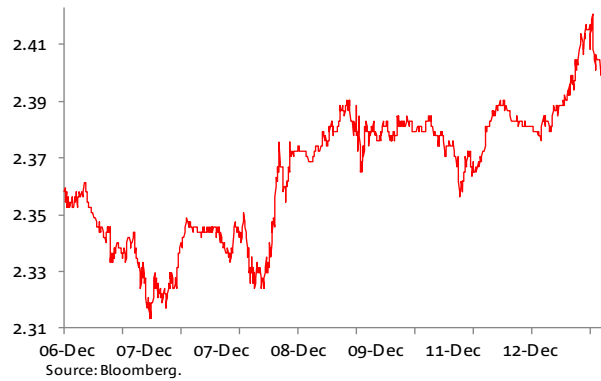
commodities, Brent crude oil -1.87% to \$63.48, gold-0.2% to \$1,241, iron ore +0.5% to \$68.97, steam coal +0.5% to \$98.65, met. coal +0.2% to \$231.50. AUD is at 0.756 and the range since yesterday 5pm Sydney time is 0.7519 to 0.7535..

Markets

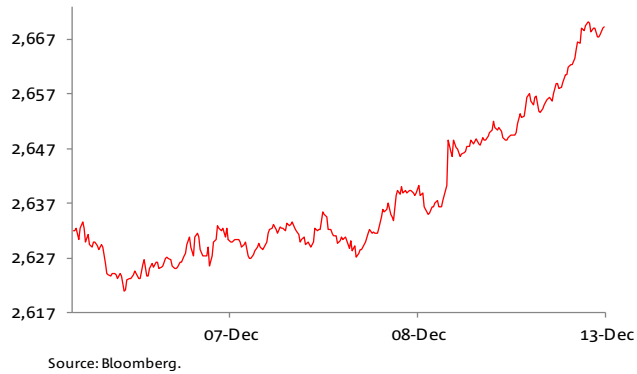
AUD/USD - past week



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	0.7560	0.5	0.7519	0.7535	HKD	7.8066	0.0
NZD	0.6938	0.4	0.6902	0.6937	CNY	6.6215	0.0
EUR	1.1739	-0.3	1.1765	1.1780	SGD	1.3525	0.1
GBP	1.3314	-0.2	1.3333	1.3350	IDR	13,574	0.2
JPY	113.55	0.0	113.44	113.58	THB	32.61	0.0
CAD	1.2874	0.1	1.2846	1.2861	KRW	1,092	0.0
AUD/EUR	0.644	0.7	0.6386	0.6404	TWD	30.02	0.0
AUD/JPY	85.84	0.4	85.32	85.53	PHP	50.46	0.2
AUD/GBP	0.5678	0.6	0.5635	0.5649	CHF	0.99	0.0
AUD/NZD	1.0897	0.1	1.0861	1.0904	SEK	8.43	-0.9
AUD/CNH	5.0005	0.3	4.9784	4.9938			

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.25	1.56	2.02	2.41	USD 10	2.40	0.89
AUD	1.50	1.76	1.94	2.72	AUD 10	2.52	-3.90
NZD	1.75	1.88	2.18	3.14	NZD 10	2.84	1.20
EUR	0.00	-0.33	-0.18	0.81	CAD 10	1.87	0.70
GBP	0.50	0.52	0.81	1.31	EUR 10	0.31	2.10
JPY	-0.04	-0.02	0.04	0.25	GBP 10	1.22	2.10
CAD	1.00	1.43	1.85	2.25	JPY 10	0.05	-0.30

Equities

Major Indices			
	Last	% day	% y/y
Dow	24,542	0.64	23.2
S&P 500	2,669	0.34	17.9
Nasdaq	6,874	-0.02	27.0
VIX	9.59	2.68	-26.1
FTSE	7,500	0.6	8.2
DAX	13,184	0.5	17.3
CAC 40	5,427	0.7	13.2
Nikkei	22,866	-0.3	19.6
Shanghai	3,281	-1.2	4.8
Hang Seng	28,794	-0.6	28.5
ASX 200	6,013	0.2	8.0

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.24	-1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.44	-1.00
3/10 sprd	0.36	4.00
SPI	6030.0	-26.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	63.48	-1.9
Oil (WTI)	57.16	-1.4
Oil (Tapis)	67.76	3.2
Gold	1241.40	-0.2
CRB	183.41	-1.1
GS Metals	360.9	0.0
Aluminium	1996.8	-0.3
Copper	6632.0	-0.1
Nickel	11013.0	-1.5
Zinc	3152.0	0.9
Ch. steel	3841.0	-1.9
Iron ore	69.0	0.5
St. Coal	98.7	0.5
Met.coal	231.5	0.2
Wheat Chic.	410.8	-0.7
Sugar	13.8	-1.3
Cotton	72.9	-0.1
Coffee	118.5	-1.3

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-1.0	-4.0%
FED	24	94.4%

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
Wednesday, 13 December 2017								
NZ	Food Prices MoM	Nov	-0.4			-1.1	21.45	8.45
AU	RBA Governor Lowe speaks at Australian Payment Summit in Sydney: "An eAUD?"						22.15	9.15
AU	Westpac Consumer Conf Index/MoM	Dec		/		99.7/-1.7	23.30	10.30
JN	Core Machine Orders MoM/YoY	Oct	2.9/-3.4			-8.1/-3.5	23.50	10.50
AU	RBA's Kent speaks in Sydney at Finance and Banking Conference: "The Availability of Business Finance"						1.15	12.15
AU	RBA's Richard Participates in Panel in Sydney						2.00	13.00
GE	CPI EU Harmonized MoM/YoY	Nov F		0.3/1.8		0.3/1.8	7.00	18.00
EC	EC's Juncker and Tusk discuss approaching Summit/Brexit with European MPs						8.00	19.00
JN	BOJ Kuroda makes a brief speech at Economists' Gathering						9.00	20.00
UK	Jobless Claims Change	Nov				1.1	9.30	20.30
UK	Average Weekly Earnings/ex bonus earnings 3M/YoY	Oct		2.5/2.2		2.2/2.2	9.30	20.30
UK	Employment Change/Unemployment rate 3M/3M	Oct		-40/4.2		-14.0/4.3	9.30	20.30
EC	Industrial Production SA MoM/YoY	Oct		0/3.2		-0.6/3.3	10.00	21.00
EC	Employment QoQ/YoY	3Q				0.4/1.6	10.00	21.00
US	CPI MoM/YoY	Nov		0.4/2.2		0.1/2.0	13.30	0.30
US	CPI Ex Food and Energy MoM/YoY	Nov		0.2/1.8		0.2/1.8	13.30	0.30
CA	Teranet/National Bank HPI MoM/YoY	Nov				-1.0/10.0	13.30	0.30
US	FOMC Rate Decision (Lower/Upper Bound)	Dec 13		1.25/1.5		1.0/1.3	19.00	6.00
US	Yellen Holds Press Conference Following FOMC Meeting						19.30	6.30
Thursday, 14 December 2017								
NZ	ANZ Consumer Confidence Index/MoM	Dec		/		123.7/-2.1	0.00	11.00
AU	Consumer Inflation Expectation	Dec				3.7	0.00	11.00
NZ	Budget Policy Statement, HYEFU, update on 100 day plan						0.00	11.00
UK	RICS House Price Balance	Nov		0		1.0	0.10	11.10
AU	Employment Change/Unemployment rate	Nov	15/5.4	19/5.4		3.7/5.4	0.30	11.30
AU	Participation Rate	Nov	65.1	65.1		65.1	0.30	11.30
AU	Underutilisation rate (surveyed once a quarter)	Nov	13.8			14.1	0.30	11.30
CH	Retail Sales YoY/YTD YoY	Nov		10.3/10.3		10.0/10.3	2.00	13.00
CH	Industrial Production YoY/YTD YoY	Nov		6.1/6.6		6.2/6.7	2.00	13.00
CH	Fixed Assets Ex Rural YTD YoY	Nov		7.2		7.3	2.00	13.00
JN	Industrial Production MoM/YoY	Oct F		/		0.5/5.9	4.30	15.30
EC	EC Summit in Brussels (Dec 14-16)							
GE	Markit/BME Germany Manufacturing PMI	Dec P		62		62.5	8.30	19.30
GE	Markit Germany Services/Composite PMI	Dec P		54.6/57.2		54.3/57.3	8.30	19.30
SW	Swiss National Bank meeting, Sight Deposit Interest Rate					-0.75	8.30	19.30
EC	Markit Eurozone Manufacturing PMI	Dec P		59.7		60.1	9.00	20.00
EC	Markit Eurozone Services/Composite PMI	Dec P		56/57.2		56.2/57.5	9.00	20.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Nov		0.4/0.2		0.1/-0.3	9.30	20.30
UK	Bank of England Bank Rate	Dec 14		0.5		0.5	12.00	23.00
EC	ECB Main Refinancing Rate/Marginal Lending Facility	Dec 14		0		0.0	12.45	23.45
EC	ECB Deposit Facility Rate	Dec 14		-0.4		-0.4	12.45	23.45
EC	ECB President Draghi holds news conference in Frankfurt						12.00	23.00
CA	New Housing Price Index MoM	Oct		0.2		0.2	13.30	0.30
US	Initial Jobless Claims	Dec 9		239		236.0	13.30	0.30
US	Retail Sales Advance/Ex autos and gas MoM	Nov		0.3/0.4		0.2/0.3	13.30	0.30
US	Markit US Manufacturing PMI	Dec P		53.6		53.9	14.45	1.45
US	Markit US Services/Composite PMI	Dec P		54.2/		54.5/54.5	14.45	1.45
US	Business Inventories	Oct		-0.1		0.0	15.00	2.00
CA	Bank of Canada's Poloz Speech to Canadian Club of Toronto						17.25	4.25
Friday, 15 December 2017								
NZ	BusinessNZ Manufacturing PMI	Nov				57.2	21.30	8.30
JN	Tankan Large Mfg Index	4Q		24		22.0	23.50	10.50
EC	ECB's Nowotny Presents Austrian GDP Outlook						9.00	20.00
CA	Manufacturing Sales MoM	Oct		0.9		0.5	13.30	0.30
US	Empire Manufacturing	Dec		18.3		19.4	13.30	0.30
CA	Existing Home Sales MoM	Nov				0.9	14.00	1.00
US	Industrial Production MoM	Nov		0.3		0.9	14.15	1.15
US	Baker Hughes U.S. Rig Count/Oil Rig Count	Dec 15		/		931.0/751.0	18.00	5.00
US	Total Net TIC/Net long term Flows	Oct		/		-51.3/80.9	21.00	8.00
US	Net Long-term TIC Flows	Oct				80.9	21.00	8.00
Monday, 18 December 2017								
CH	Foreign Direct Investment YoY CNY	Nov				5.0	#VALUE!	#VALUE!
NZ	Performance Services Index	Nov				55.6	21.30	8.30
JN	Trade Balance Adjusted	Nov				322.9	23.50	10.50
JN	Exports/Imports YoY	Nov		/		14.0/18.9	23.50	10.50
NZ	ANZ Consumer Confidence Index/MoM	Dec		/		123.7/-2.1	0.00	11.00
UK	Rightmove House Prices MoM/YoY	Dec		/		-0.8/1.8	0.10	11.10
AU	New Motor Vehicle Sales MoM/YoY	Nov		/		0.0/1.0	0.30	11.30
CH	China November Property Prices						1.30	12.30
NZ	Non Resident Bond Holdings	Nov				60.9	2.00	13.00
EC	CPI MoM/YoY	Nov		/		0.1/1.4	10.00	21.00
EC	CPI Core YoY	Nov F				0.9	10.00	21.00
UK	CBI Trends Total Orders/Selling Prices	Dec		/		17.0/17.0	11.00	22.00
CH	FX Net Settlement - Clients CNY	Nov				50.1		
CA	Int'l Securities Transactions	Oct				16.8	13.30	0.30
CA	Bloomberg Nanos Confidence	Dec 8				58.7	15.00	2.00
US	NAHB Housing Market Index	Dec				70.0	15.00	2.00
Tuesday, 19 December 2017								
NZ	Westpac Consumer Confidence	4Q				112.4	21.00	8.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Dec 10				115.8	22.30	9.30
NZ	ANZ Activity Outlook/Business Confidence	Dec		/		6.5/-39.3	0.00	11.00
AU	RBA Dec. Rate Meeting Minutes						0.30	11.30
JN	Machine Tool Orders YoY	Nov P				49.8	6.00	17.00
GE	Ifo Business Climate	Dec				117.5	9.00	20.00
GE	Ifo Current Assessment/Expectations	Dec		/		124.4/111.0	9.00	20.00
EC	Construction Output MoM/YoY	Oct		/		0.1/3.1	10.00	21.00
EC	Labour Costs YoY	3Q				1.8	10.00	21.00
US	Housing Starts/MoM	Nov		1230/-4.7		1290.0/13.7	13.30	0.30
US	Building Permits/MoM	Nov		1265/-3.9		1297.0/5.9	13.30	0.30
US	Current Account Balance	3Q				-123.1	13.30	0.30
Upcoming Central Bank Interest Rate Announcements								
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%		
Canada	BoC	18-Jan				1.00%		
Australia	RBA	6-Feb	1.50%	1.50%		1.50%		
New Zealand	RBNZ	8-Feb	1.75%	1.75%		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

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