

MARKETS TODAY

She's leaving home



Good morning

Markets overnight initially took the lead from a lower than expected print on US core CPI for November, missing the 0.2%/1.8% consensus by a tenth, at 0.1%/1.7%. Stocks rallied, the dollar faded as did Treasury yields. The AUD pushed back above 0.76 and was trading just above the figure when the Fed announced its expected hike in Fed funds by ¼% to 1.25-1.50%. It's higher still. The other big news overnight was the likely reconciliation between the US Senate and the House on tax reform. "Sources" suggest they've agreed on a 21% corporate tax rate, a start in 2018, and a cut in the top US personal income tax rate to 35% from 39.5%. With Republicans now to have one less Senator and the new Democrats senator to take his seat apparently from late December, there's now an urgency to get the tax legislation passed.

The FOMC hiked rates as expected, lifting the target range of Fed funds by 0.25% to 1.25-1.50%. There were two dissenters – Kashkari and Evans. The Fed's statement was re-crafted to reflect the latest economic developments, in part from a little more colour around the Hurricane effects, though still a positive reflection on the economy and low inflation.

There was no downgrading of the Fed's median of the individual FOMC member's Fed funds projections that continue to project three more rate rises next year and another two in 2019. Growth forecasts were actually revised up and the unemployment forecasts revised down. Yellen outlined in her press conference that the tax cuts were a factor supporting the FOMC's growth forecasts (with all the timing and magnitude uncertainties). She also said she expected tax reform to lift aggregate demand (potentially inflationary) but could also lift aggregate supply, the capex expensing provisions lowering the cost of capital and lifting investment.

She was quizzed – as she has for some time – on the low inflation story. The Fed continues to expect that the factors holding down inflation this year will not be repeated next year, though they are "monitoring inflation developments closely" and have a symmetric view on policy. She said that the continuing low earnings story may well be evidence that there is still some slack in the labour market. This was Chair Yellen's last press conference, she'll be leaving her professional home for the past two decades.

Notwithstanding no deviation in the Fed's own rate projections, the dollar and Treasury yields have continued to decay in the aftermath of the Statement and her presser. Two year Treasury yields have eased a further 4bps and the BBDXY is down another 0.4%. The data will continue to drive markets.

In late news on Brexit, UK MPs have voted against a Government bill now to give Parliament the guarantee of

a vote on the final Brexit deal struck. This means that any deal struck across the table won't likely be the final deal. Little Pound reaction so far on this further uncertainty.

Coming up

The two big data points are the AU Labour Force at 11.30 and the China economic activity data at 13.00, both important for the Aussie and local rates markets.

NAB's models point to employment in the order of 15K (market consensus is +19K). Leading indicators of employment (e.g. SEEK, NAB Business Survey employment index) point to further trend growth. Sample rotation effects do not suggest a particular risk to employment but they do suggest mild upside risk to the unemployment rate, to the risk of a 5.5% outcome, from 5.4% in October. NAB's preferred point estimate of the unemployment rate is 5.4%.

While not important for markets, but very crucial to the growth story, the Statistician is also releasing its latest quarterly population estimates, this for the June quarter. Overseas arrivals and departures (including tourism traffic flows) for October is also out.

With the better-than-expected trade and lending data for November, the market would not be surprised if today's China growth numbers print somewhat higher than expected. Then official China Manufacturing PMI rose marginally in November (as did the Non-manufacturing PMI), a hint in that positive direction.

Then it's on to the ECB, BoE, and SNB meetings, the ECB under focus for their latest forecasts for growth and inflation and whether they've tweaked them higher, for growth at least. Draghi has a press conference too.

Remember too that the three day EC Summit is due to get underway tonight, offering the potential for pound-sensitive Brexit-related news stories. Now having had the benefit of UK inflation and average earnings data over the past two days, there'll be more opportunity for reflection on the state of High Street with the UK Retail Sales report for November, a step up in growth from 0.1% to 0.4% expected.

There's more event risk on the other side of the Atlantic with the US Retail Sales report for November, the core ex autos and gas series expected to increase to 0.3% growth, up from 0.2%. Further north, Bank of Canada Governor Stephen Poloz is speaking too.

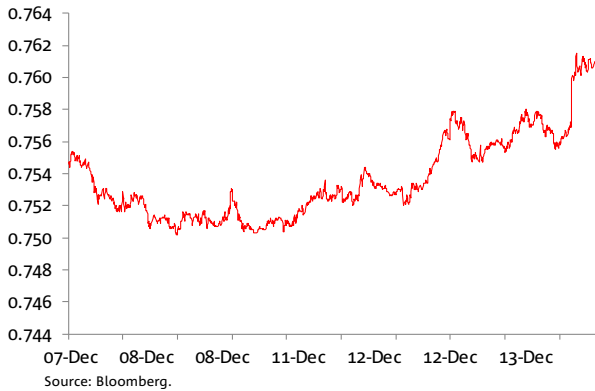
Overnight

On global stock markets, the S&P 500 was +0.13%. Bond markets saw US 10-years -4.64bp to 2.35%. In commodities, Brent crude oil -1.39% to \$62.46, gold+1.1% to \$1,253, iron ore +0.5% to \$69.34, steam coal +1.0% to \$99.65, met. coal +0.0% to \$231.50. AUD is at 0.7632 and the range since yesterday 5pm Sydney time is 0.7558 to 0.764.

David de Garis, Director, Economics

Markets

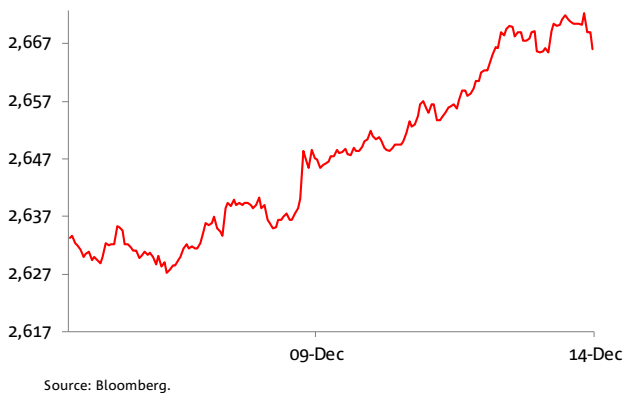
AUD/USD - past week



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	0.7632	0.8	0.7558	0.7640	HKD	7.8050 0.0
NZD	0.7022	1.1	0.6937	0.7028	CNY	6.6195 0.0
EUR	1.1820	0.4	1.1730	1.1825	SGD	1.3475 -0.3
GBP	1.3412	0.5	1.3324	1.3427	IDR	13,590 0.1
JPY	112.52	-0.8	112.46	113.39	THB	32.52 -0.3
CAD	1.2817	-0.1	1.2792	1.2878	KRW	1,091 -0.1
AUD/EUR	0.6456	0.4	0.6434	0.6476	TWD	30.04 0.0
AUD/JPY	85.87	-0.1	85.68	86.13	PHP	50.45 0.0
AUD/GBP	0.5690	0.2	0.5658	0.5711	CHF	0.99 -0.5
AUD/NZD	1.0869	-0.3	1.0866	1.0900	SEK	8.41 0.0
AUD/CNH	5.0346	0.7	5.0062	5.0224		

Interest Rates

	Indicative Swap Rates				Benchmark 10 Year Bonds		
	Cash	3mth	2Yr	10Yr	Last	chge	Sprd
USD	1.50	1.57	1.99	2.36	USD 10	2.35	-4.64
AUD	1.50	1.76	1.91	2.68	AUD 10	2.52	0.40 0.17
NZD	1.75	1.87	2.18	3.09	NZD 10	2.79	-5.50 0.43
EUR	0.00	-0.33	-0.21	0.80	CAD 10	1.85	-2.20 -0.51
GBP	0.50	0.52	0.81	1.30	EUR 10	0.31	0.00 -2.04
JPY	-0.04	-0.02	0.04	0.25	GBP 10	1.22	-0.70 -1.14
CAD	1.00	1.44	1.85	2.22	JPY 10	0.05	0.30 -2.30

Equities

Major Indices			
	Last	% day	% y/y
Dow	24,609	0.43	23.6
S&P 500	2,668	0.13	17.4
Nasdaq	6,887	0.36	26.1
VIX	9.91	-0.10	-22.1
FTSE	7,497	-0.1	7.6
DAX	13,126	-0.4	16.3
CAC 40	5,399	-0.5	12.4
Nikkei	22,758	-0.5	18.2
Shanghai	3,303	0.7	5.2
Hang Seng	29,222	1.5	30.1
ASX 200	6,022	0.1	7.8

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.24	1.00
3 Yr bond	97.8	3.00
10 Yr bond	97.48	5.80
3/10 sprd	0.32	-2.80
SPI	6060.0	-42.0

*Change in bps

Commodities*

	Last	% day
Oil (Brent)	62.46	-1.4
Oil (WTI)	56.64	-0.9
Oil (Tapis)	67.01	-1.1
Gold	1252.60	1.1
CRB	183.36	0.0
GS Metals	361.0	0.0
Aluminium	1990.8	-0.3
Copper	6696.3	1.0
Nickel	11037.0	0.2
Zinc	3151.0	0.0
Ch. steel	3844.0	-2.1
Iron ore	69.3	0.5
St. Coal	99.7	1.0
Met.coal	231.5	0.0
Wheat Chic.	429.3	1.2
Sugar	13.9	0.6
Cotton	74.1	1.7
Coffee	120.1	1.4

Prob. of 25bps hike/cut at next meeting

	bps	%
RBA	-1.0	-4.0%
FED	-1	-4.8%

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
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, HYEYFU, 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 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		56.2/57.2		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
ECB President Draghi holds news conference in Frankfurt								
CA	New Housing Price Index MoM	Oct		0.2		0.2	13.30	0.30
US	Initial Jobless Claims	Dec 9		236		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		53.9		53.9	14.45	1.45
US	Markit US Services/Composite PMI	Dec P		54.7/		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					13.30	0.30
US	Empire Manufacturing	Dec		18.8		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
Monday, 18 December 2017								
CH	Foreign Direct Investment YoY CNY	Nov				5.0		
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	Jan		/		-2.6/1.2	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 15				59.0	15.00	2.00
US	NAHB Housing Market Index	Dec		70		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 17				115.1	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 F				46.9	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		1250/-3.1		1290.0/13.7	13.30	0.30
US	Building Permits/MoM	Nov		1273/-3.3		1297.0/5.9	13.30	0.30
US	Current Account Balance	3Q				-123.1	13.30	0.30
Wednesday, 20 December 2017								
NZ	Trade Balance NZD/12m YTD	Nov		/		-871.0/-2986.0	21.45	8.45
NZ	BoP Current Account Balance NZD/% of GDP	3Q		/		-0.6/-2.8	21.45	8.45
AU	Westpac Leading Index MoM	Nov				0.1	23.30	10.30
AU	Skilled Vacancies MoM	Nov				0.5	0.00	11.00
NZ	Credit Card Spending MoM/YoY	Nov		/		0.8/2.9	2.00	13.00
JN	All Industry Activity Index MoM	Oct				-0.5	4.30	15.30
JN	Convenience Store Sales YoY	Nov				-1.8	7.00	18.00
GE	PPI MoM/YoY	Nov		/		0.3/2.7	7.00	18.00
EC	ECB Current Account SA	Oct				37.8	9.00	20.00
UK	CBI Total Dist. Reported Sales/Retailing	Dec		/		30.0/26.0	11.00	22.00
CA	Wholesale Trade Sales MoM	Oct				-1.2	13.30	0.30
US	Existing Home Sales/MoM	Nov		5.52/0.73		5.5/2.0	15.00	2.00
Upcoming Central Bank Interest Rate Announcements								
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%		
US Federal Reserve		1-Feb	1.25-1.50%	1.25-1.50%		1.25-1.50%		
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

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