

MARKETS TODAY

All I Want For Christmas



Good morning

Stocks, the US dollar and Treasury yields all rose in afternoon NY trade Friday, seemingly in anticipation of Congressional tax writers announcing a reconciled tax plan capable of being voted on by both Houses this week. The unified plan was duly announced at 5:30pm NY time, post market close, but it's fair to say it was pretty much priced in before then.

Notable was that the relatively highly taxed equity sectors (e.g. materials, energy, real estate) heavily underperformed those containing the big multinationals (IT, healthcare) that already pay the least tax. Stock investors have surmised – rightly it seems – that none of these latter firms are going to be paying a penny more tax beyond the one-off tax payments on accumulated offshore earnings. In fact many may be paying less given agreement to repeal the Alternative Minimum Tax so hated by large multinationals.

As for the economy, by agreeing to a 2018 not 2019 start date for the corporate tax cut (now to be set at 21%) this diminishes the prospects for a surge in business capex in 2018 to take advantage of full expensing against the prevailing 35% tax rate (in the earlier Senate version, recall, the corporation tax cut didn't kick in until 2019).

We'll wait to see that the big independent economic modellers such as Penn-Wharton come up with, but we'd doubt they'll be suggesting the plan will produce more than one or two tenths of a percent of extra US GDP growth in the next year or so – as a result of somewhat stronger capex and the (small) net tax cut that much of middle America will receive next year (assuming the GOP tax writers' claim stands up). Remember though the personal tax cuts are slated to expire (sunset) in 2025, unlike the cut to the corporation tax rate which is intended to be permanent.

The tax document released Friday runs to 503 pages. Significant, as far as prospects for passage through the Senate go, is that it has the support of Senators Rubio and Bob Corker (Corker refused to support the earlier Senate version, while Rubio won concessions he was demanding on child tax credits). Key feature are:

- The corporation tax rate is to be cut – permanently - to 21% from 35% effective January 1 2018.
- Full expensing of capex in the year it occurs for 5 years, with 100% expensing to be phased out over the subsequent three years
- One-off tax on profits held overseas to be 15.5% for profits held in cash and other liquid assets, 8% for illiquid assets. The direct FX impact is likely to be minimal given much of the tax to be paid is likely to be in US dollars already, and will in any event be spread out over several years.
- Repeal of the (20%) Alternative Minimum Tax (AMT).

- Seven income tax brackets with the top rate reduced to 37% from 39.5% and which kick in at a higher (\$500,000) income level). The GOP tax writers claim that someone on average income of \$73,000 will be just over \$2,000 a year better off under the plan.
- Deductibility for mortgage interest is to be limited to \$750,000 of mortgage debt, from \$1 million now.
- Repeal of the individual mandate from 2019 (a key feature of Obamacare, requiring all individuals to purchase health insurance or suffer a tax penalty). Estimates suggest some 13 million Americans currently insured are likely to go without after 2019.

In FX, the DXY gained almost 0.5% on the day, with gains against all G10 currencies bar the NZD, the latter +0.14% to 0.6993 (so still well back from the APAC session highs). AUD ended NY -0.26% at 0.7646. On the week the USD is about flat with NZD (+2.12%) and AUD (1.82%) the clear outperformers

GBP was the second biggest loser Friday, on reports the UK government could lose a Brexit-related vote that would have set a firm (March 2019) Brexit date (excluding any transitional arrangement). BBC sources on Friday night were reporting that the government was going to agree to an amendment that would get the bill passed (and mean that the final form of the Brexit deal would remain subject to parliamentary scrutiny and approval. Second referendum anyone?)

US Treasuries experienced more curve flattening Friday (2s +2.5bps and 10s +0.4bp) and on the week, the 2-10s curve is 6.4bps flatter. The S&P added 0.9% to a new record high, the Dow 0.58% and the NASDAQ +1.17%. On the week outperformance of US stocks versus Europe and Asia is stark. In commodities gold was flat, oil narrowly mixed, but exchange traded metals, iron ore and coal were all slightly higher; copper being the big winner on the week (5%+).

Coming Up

The House of Reps. is expected to vote on the unified tax bill on Tuesday and the Senate later in the week. If approved, President Trump should make it law by Xmas. Core PCE deflator Thursday is the US data highlight.

NZ has Q3 GDP on Thursday. Also on Thursday Catalonia holds elections. Locally, the MYEFO today is likely to show a smaller projected underlying cash balance close to \$25bn than the \$29.4bn original Budget estimate

Overnight

On global stock markets, the S&P 500 was +0.59%. Bond markets saw US 10-years +0.37bp to 2.35%. In commodities, Brent crude oil -0.13% to \$63.23, gold+0.9% to \$1,254, iron ore +0.7% to \$69.09, steam coal +0.3% to \$100.00, met. coal +0.0% to \$231.50. AUD is at 0.7660 and the range since Friday 5pm Sydney time is 0.7638 to 0.7695.

Markets

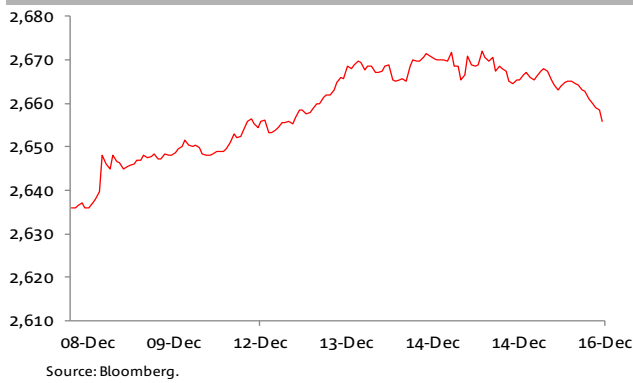
AUD/USD - past week



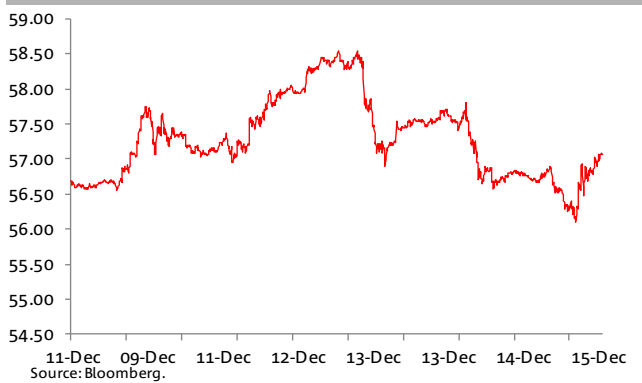
US 10yr - past week



S&P Future - past week



WTI - past week



Foreign Exchange

Indicative 24hr ranges (**)					Other FX		
	Last	% chge	Low	High		Last	% chge
AUD	0.7659	-0.1	0.7638	0.7695	HKD	7.8119	0.1
NZD	0.7000	1.3	0.6979	0.7034	CNY	6.6093	-0.1
EUR	1.1754	-0.1	1.1749	1.1812	SGD	1.3488	-0.2
GBP	1.3328	-0.1	1.3302	1.3448	IDR	13,570	0.1
JPY	112.64	-0.8	112.03	112.74	THB	32.52	-0.3
CAD	1.2871	0.1	1.2739	1.2895	KRW	1,089	0.0
AUD/EUR	0.6516	1.9	0.6489	0.6526	TWD	29.99	-0.1
AUD/JPY	86.27	0.1	85.97	86.35	PHP	50.45	0.2
AUD/GBP	0.5758	2.0	0.5703	0.5762	CHF	0.99	-0.2
AUD/NZD	1.0941	0.5	1.0910	1.0981	SEK	8.51	0.1
AUD/CNH	5.0651	0.1	5.0450	5.0848			

Interest Rates

Indicative Swap Rates					Benchmark 10 Year Bonds			
	Cash	3mth	2Yr	10Yr		Last	chge	Sprd
USD	1.50	1.61	2.03	2.34	USD 10	2.35	0.37	
AUD	1.50	1.77	1.97	2.72	AUD 10	2.52	-3.50	0.17
NZD	1.75	1.86	2.18	3.08	NZD 10	2.72	-11.30	0.37
EUR	0.00	-0.33	-0.18	0.78	CAD 10	1.84	-2.70	-0.52
GBP	0.50	0.52	0.79	1.24	EUR 10	0.30	0.80	-2.05
JPY	-0.03	-0.02	0.04	0.24	GBP 10	1.15	-5.20	-1.20
CAD	1.00	1.45	1.89	2.19	JPY 10	0.05	-0.40	-2.31

Equities

Major Indices			
	Last	% day	% y/y
Dow	24,652	0.58	24.2
S&P 500	2,676	0.59	18.5
Nasdaq	6,937	1.17	27.6
VIX	9.42	-10.20	-22.8
FTSE	7,491	0.5	6.8
DAX	13,104	-0.2	14.9
CAC 40	5,349	-0.1	10.7
Nikkei	22,553	-1.7	16.2
Shanghai	3,266	-1.7	4.6
Hang Seng	28,848	-1.1	31.0
ASX 200	5,997	0.0	8.4

Overnight Futures

	Last	Chge*
Australia		
3 mth bill	98.23	-2.00
3 Yr bond	97.8	0.00
10 Yr bond	97.44	-1.50
3/10 sprd	0.36	1.50
SPI	6037.0	-24.0

Commodities*

	Last	% day
Oil (Brent)	63.23	-0.1
Oil (WTI)	57.30	-1.2
Oil (Tapis)	66.00	0.5
Gold	1254.30	0.9
CRB	184.52	0.2
GS Metals	370.8	1.3
Aluminium	2050.5	2.4
Copper	6855.3	1.4
Nickel	11520.0	3.0
Zinc	3203.0	2.5
Ch. steel	3885.0	-0.8
Iron ore	69.1	0.7
St. Coal	100.0	0.3
Met. coal	231.5	0.0
Wheat Chic.	430.8	4.2
Sugar	13.7	-2.1
Cotton	75.9	4.0
Coffee	120.8	0.6

Prob. of 25bps hike/cut at next meeting		
	bps	%
RBA	-0.2	-1.0%
FED	-0	-0.8%

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, 18 December 2017								
AU	Budget MYEFO Underlying cash balance		-25.0	-25.7		-29.4	1.15	12.15
CH	China holds Central Economic Work Conference Dec. 18-20							
NZ	Performance Services Index	Nov				55.6	21.30	8.30
JN	Trade Balance Adjusted	Nov		264.95		322.9	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	ECB's Hansson speaks on outlook for Estonia, euro area						9.00	20.00
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
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		1275/-3.1		1297.0/5.9	13.30	0.30
US	Current Account Balance	3Q		-116.5		-123.1	13.30	0.30
NZ	Global Dairy Auction, early AM NZT		mixed			+0.4		
Wednesday, 20 December 2017								
NZ	Trade Balance NZD/12m YTD	Nov	-355	-550/-2700		-871.0/-2986.0	21.45	8.45
NZ	BoP Current Account Balance NZD/% of GDP	3Q	-4.5/-2.6	-4.2/-2.5		-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
AU	NAB Cashless Retail Sales Index	Nov					0.30	11.30
NZ	Credit Card Spending MoM/YoY	Nov		/		0.8/2.9	2.00	13.00
JN	All Industry Activity Index MoM	Oct		0.3		-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		5.53/0.91		5.5/2.0	15.00	2.00
Thursday, 21 December 2017								
NZ	GDP SA QoQ/YoY	3Q	0.7/2.5	0.6/2.4		0.8/2.5	21.45	8.45
NZ	Net Migration SA	Nov				5580.0	21.45	8.45
UK	GfK Consumer Confidence	Dec		-12		-12.0	0.10	11.10
AU	RBA FX Transactions Market	Nov				609.0	0.30	11.30
NZ	Credit Aggregates, Household YoY	Nov				6.4	2.00	13.00
NZ	New Residential Lending YoY	Nov				-14.1	2.00	13.00
JN	BOJ Kuroda speaks at press conference after MPM						6.30	17.30
UK	Public Finances (PSNCR)/Central Government NCR	Nov		/		-3.8/-7.0	9.30	20.30
UK	Public Sector Net Borrowing/PSNB ex Banking Groups	Nov		8.6/8.7		7.5/8.0	9.30	20.30
JN	BOJ Policy Balance Rate/10-Yr Yield Target	Dec 21		/		-0.1/0.0		
US	GDP Annualized QoQ	3Q T		3.3		3.3	13.30	0.30
US	Initial Jobless Claims	Dec 16				225.0	13.30	0.30
US	GDP Price Index	3Q T		2.1		2.1	13.30	0.30
US	Chicago Fed Nat Activity Index	Nov				0.7	13.30	0.30
US	Philadelphia Fed Business Outlook	Dec		21		22.7	13.30	0.30
CA	Retail Sales/Ex Auto MoM	Oct		/		0.1/0.3	13.30	0.30
CA	CPI NSA MoM/YoY	Nov		/		0.1/1.4	13.30	0.30
CA	CPI Core- Common/Trim YoY%	Nov		/		1.6/1.5	13.30	0.30
CA	CPI Core- Median YoY%	Nov				1.7	13.30	0.30
US	FHFA House Price Index MoM	Oct				0.3	14.00	1.00
EC	Consumer Confidence	Dec A				0.1	15.00	2.00
US	Leading Index	Nov		0.4		1.2	15.00	2.00
Friday, 22 December 2017								
UK	Lloyds Business Barometer	Dec				24.0	0.10	11.10
GE	GfK Consumer Confidence	Jan				10.7	7.00	18.00
UK	Current Account Balance	3Q		-21.25		-23.2	9.30	20.30
UK	GDP QoQ/YoY	3Q F		0.4/1.5		0.4/1.5	9.30	20.30
UK	Index of Services MoM/3m/3m	Oct		0.2/0.3		0.1/0.4	9.30	20.30
UK	Total Business Investment QoQ/YoY	3Q F		/		0.2/1.3	9.30	20.30
CA	GDP MoM/YoY	Oct		/		0.2/3.3	13.30	0.30
US	Personal Income/Spending	Nov		0.4/0.4		0.4/0.3	13.30	0.30
US	PCE Deflator MoM/YoY	Nov		0.3/1.8		0.1/1.6	13.30	0.30
US	PCE Core MoM/YoY	Nov		0.1/1.5		0.2/1.4	13.30	0.30
US	Durable Goods Orders/Core Orders	Nov P		1.8		-0.8	13.30	0.30
US	New Home Sales/MoM	Nov		651/-5		685.0/6.2	15.00	2.00
US	U. of Mich. Sentiment/5-10 Yr Inflation	Dec F		97.2		96.8	15.00	2.00
US	Kansas City Fed Manf. Activity	Dec				16.0	16.00	3.00
US	Baker Hughes U.S. Riq Count/Oil Riqs	Dec 15		/		931.0/751.0	18.00	5.00
Upcoming Central Bank Interest Rate Announcements								
Japan, BoJ		21-Dec	-0.1%	-0.1%		-0.1%		
Canada, BoC		18-Jan				1.00%		
Europe ECB		25-Jan	-0.4%	-0.4%		-0.4%		
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%		
UK BOE		8-Feb	0.5%			0.50%		

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

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