



Markets Today

A daily outlook for Australia, key global economies and markets

23 November 2015

“Do What We Must”

Friday’s session was hallmarked by comments from ECB President Draghi, which kept markets on the scent for a range of easing measures at next week’s hotly-anticipated meeting. As a result, EUR underperformed among currencies, and European equities reversed early losses. AUD bucked the G10 trend to break higher against the USD.

Draghi said that policymakers would “do what we must to raise inflation as quickly as possible,” in a keynote speech delivered to a banking conference. We’d be surprised if the overtones of ‘do whatever it takes’ (à la Draghi, 2012) was a complete coincidence.

While that sound-bite got the most press attention on Friday night, it was coyly prefaced with “If we decide that the current trajectory of our policy is not sufficient to achieve our objective...” The ECB’s attempts to inject some modicum of ‘will they, won’t they’ largely falls on deaf ears, judging by EUR’s inability to catch a break since late October.

True to form, Bundesbank President Jens Weidmann told the same conference that the fall in crude oil prices was “more of an economic stimulus for the euro area than a harbinger of deflation”, and that he saw “no reason to talk down the economic outlook and paint a gloomy picture”.

Unsurprisingly, Draghi’s star power carried the day, with EUR/USD closed 0.8% lower at 1.0646, within striking distance of the seven-month low of 1.0617 hit earlier last week. European equities lifted after his comments to eke out a gain for the session, with the Euro Stoxx 50 up 0.1%. In the US, equities held onto to early gains to close moderately higher (+0.4% for the S&P 500), capping a strong week.

AUD/USD’s tear higher was the other notable feature of Friday’s markets, finishing 0.6% stronger despite another crunch lower in iron ore prices. The latter was down 1.2% to \$44.8, having shed 2% for the week to stand only a hair’s breadth above the July rout low (\$44.6). Metals fared poorly across the board, with gold off by 0.4% and the London Metals Exchange Index down by 0.8% to a fresh 7-year low.

AUD’s gains appear driven by technical as well as market positioning. Friday’s moves took AUD/USD above strong resistance levels, including the 100-day moving average, and the down-trend that has prevailed since September 2014. It suggests room for further outperformance in the face of deteriorating fundamentals, and augurs well for FX Strategy’s long AUD/JPY position from ¥85.95. We should note too that AUD/EUR sheared through the 200-day moving average.

The CFTC IMM positioning data for the week to Tuesday 17 November made for interesting reading, especially in the context of the stop-loss driven USD sell-off that began on Wednesday. Speculative investors once again added significantly to long USD positions, up from 300.1k to 372.9k, and within reach of March’s record high (399.8k in the week

ended 10 March). EUR once again contributed most to the weekly change, with net shorts extending from 142.9k to 164.2k. This still remains well shy of the 181.1k net short position built into 10 March (and which extended to a record 226.6k in the fortnight after). Today, JPY net shorts contribute proportionately more to the overall USD position, with that position extending from 66.9k to 78.6k. It stood at 59.4k in early March.

Net AUD shorts extended significantly, from 52.8k to 66.5k. This puts it in ‘extreme’ territory, with net shorts only ever being larger back in March, and through Q2 2013, as AUD/USD fell from 1.05 to 0.89. We’d expect to see this short position dialled back in the week to tomorrow, given the extent of AUD’s 2% rise in the back end of last week.

Coming Up

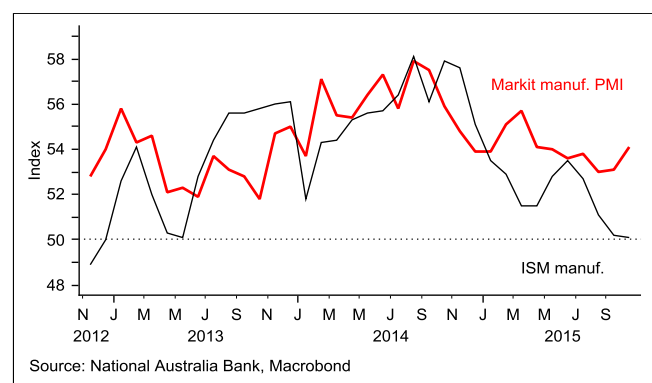
In Australia this week, RBA Governor Stevens’ speech to the Australia Business Economists’ conference on Tuesday will be a highlight, as will the closely-watched private capex report for Q3 on Thursday. Elsewhere, the US PCE inflation report (Wed) stands out in an otherwise relatively quiet week stateside, where investors will be tempted to make a four-day weekend of it, after Thursday’s Thanksgiving holiday.

Today, net migration in NZ will get but a cursory glance, and then we’re headed into the slew of preliminary Markit PMIs for November. Germany and the euro-zones are due first up, with the US edition later in the session. The latter remains well clear of the break-even 50 mark, unlike the more market-sensitive ISM (see Chart of the Day), which is due next week.

Overnight

- On global stock markets, the S&P 500 was +0.40%. Bond markets saw US 10-years +1.41bp to 2.26%. On commodity markets, Brent crude oil +1.09% to \$44.66, gold-0.1% to \$1,076, iron ore -1.2% to \$44.91. AUD is at 0.7232 and the range was 0.7228 to 0.725.

Chart of the Day: US ISM vs Markit Manufacturing PMI



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Calendar

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday, 23 November 2015								
NZ	Net Migration SA	Oct				5550	23.45	10.45
GE	Markit/BME Germany Manufacturing/Services PMI	Nov P		52/54.4		52.1/54.5	10.30	21.30
EC	Markit Eurozone Manufacturing/Services PMI	Nov P		52.3/54.1		52.3/54.1	11.00	22.00
UK	CBI Reported Sales	Nov		25		19	13.00	0.00
US	Chicago Fed Nat Activity Index	Oct		0.075		-0.37	15.30	2.30
US	Markit US Manufacturing PMI	Nov P		54		54.1	16.45	3.45
CA	Bloomberg Nanos Confidence	Nov-20				58.6	17.00	4.00
US	Existing Home Sales, Level/MoM	Oct		5.4/-2.7		5.55/4.7	17.00	4.00
Tuesday, 24 November 2015								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Nov-22				115.9	0.30	11.30
NZ	Regional trends	3Q				0.3	0.00	11.00
AU	Balance of Payments Goods and Services preliminary	3Q					0.30	11.30
JN	Nikkei Japan PMI Mfg	Nov P				52.4	3.35	14.35
GE	GDP SA QoQ	3Q F		0.3/1.7		0.3/1.7	9.00	20.00
EC	ECB's Costa speaks at Portuguese Exporters' Conference						8.30	19.30
GE	Ifo Business Climate/Current Assessment	Nov		108.2/112.4		108.2/112.6	11.00	22.00
AU	RBA's Stevens Speech to ABE Annual Dinner						9.05	20.05
EC	ECB's Nouy, Bank of Italy's Panetta speak in Milan						9.30	20.30
US	Advance Goods Trade Balance	Oct		-60.75		-58.633	15.30	2.30
US	GDP Annualized QoQ	3Q S		2.1		1.5	15.30	2.30
US	S&P/CS 20 City MoM/YoY	Sep		0.3/5.15		0.11/5.09	16.00	3.00
US	Conf Board Consumer Confidence Index	Nov		99.5		97.6	17.00	4.00
US	Richmond Fed Manufact. Index	Nov		1		-1	17.00	4.00
Wednesday, 25 November 2015								
CA	BoC's Patterson speaks						22.20	9.20
JN	Cabinet Office monthly economic report						23.00	10.00
JN	BoJ Minutes of Oct 30 meeting						23.50	10.50
JN	PPI Services YoY	Oct		0.6		0.6	1.50	12.50
NZ	New Residential Lending, YoY	Oct				52.40%	2.00	13.00
AU	Skilled Vacancies MoM	Oct				1.8	2.00	13.00
AU	Construction Work Done	3Q	-1	-2		1.6	2.30	13.30
AU	Tourist Accommodation	2Q					0.30	11.30
JN	BoJ's Shirai speaks						1.00	12.00
CH	Westpac-MNI Consumer Sentiment	Nov				109.7	3.45	14.45
JN	Small Business Confidence	Nov				48.7	7.00	18.00
JN	Leading Index CI	Sep F				101.4	7.00	18.00
AU	RBA's Debelle speaks at FX Week Europe Conference in London						10.20	21.20
US	MBA Mortgage Applications	Nov-20				6.2	14.00	1.00
US	Personal Income/Spending	Oct		0.4/0.3		0.1/0.1	15.30	2.30
US	PCE Deflator MoM/YoY	Oct		0.2/0.3		-0.1/0.2	15.30	2.30
US	Durable Goods Orders/core orders	Oct		1.6/0.3		-1.2/-0.3	15.30	2.30
US	Initial Jobless Claims	Nov-21		271		271	15.30	2.30
US	FHFA House Price Index MoM	Sep		0.4		0.3	16.00	3.00
US	Markit US Services PMI	Nov P		55.1		54.8	16.45	3.45
US	Bloomberg Consumer Comfort	Nov-22				41.2	16.45	3.45
US	New Home Sales, Level/MoM	Oct		500/6.8		468/-11.5	17.00	4.00
US	U. of Mich. Consumer Sentiment	Nov F		93		93.1	17.00	4.00
Thursday, 26 November 2015								
NZ	Trade Balance	Oct	-1025	-1000		-1222	23.45	10.45
AU	Private Capital Expenditure	3Q	-4	-2.9		-4	2.30	13.30
AU	Private Capex Expectations, 2015-16 4th estimate, \$Abn		124.2	120 (117-124.2)		114.8	0.30	11.30
EC	M3 Money Supply YoY	Oct		4.9		4.9	11.00	22.00
GE	GfK Consumer Confidence	Dec		9.2		9.4	14.00	1.00
Friday, 27 November 2015								
JN	Jobless Rate	Oct		3.4		3.4	1.30	12.30
JN	Job-To-Applicant Ratio	Oct		1.25		1.24	1.30	12.30
JN	Overall Household Spending YoY	Oct		0		-0.4	1.30	12.30
JN	Natl CPI YoY	Oct		0.3		0	1.30	12.30
CH	Industrial Profits YoY	Oct				-0.1	3.30	14.30
EC	ECB's Knot speaks in Amsterdam						8.00	19.00
UK	GDP QoQ/YoY	3Q P		0.5/2.3		0.5/2.3	11.30	22.30
UK	Index of Services MoM	Sep		0.3		0	11.30	22.30
EC	Business Climate Indicator	Nov		0.45		0.44	12.00	23.00
CA	CFIB Business Barometer	Nov				58.9	10.00	21.00
CA	Industrial Product Price MoM	Oct		-0.1		-0.3	15.30	2.30
CA	Raw Materials Price Index MoM	Oct		1		3	15.30	2.30
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		1-Dec	2.00%	2.00%		2.00%		
Europe ECB		3-Dec				0.05%		
Canada, BoC		3-Dec				0.50%		
New Zealand, RBNZ		10-Dec	2.50%	2.50%		2.75%		
UK BOE		10-Dec				0.50%		
US Federal Reserve		17-Dec				0-0.25%		
Japan, BoJ		18-Dec	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		

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

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