

Markets Today

A daily outlook for Australia, key global economies and markets

25 November 2015

Oil boosted by rising Middle East tension

Markets were rattled in the early part of the overnight session following news that Turkey had shot down a Russian fighter jet near the Syrian border, after allegedly repeated warnings of Turkish airspace violation.

Reaction to the news saw European stocks and US equity futures moved sharply lower. Oil prices were boosted amid the increase in tensions in the Middle East while a safe haven bid dragged core global yields lower.

In currencies, the safe haven bid helped the JPY, CHF and EUR move higher against the USD. Interestingly, however, commodity linked currencies such as the AUD, NZD and CAD were the outperformers buoyed by the 2.4% gains in WTI oil. In this regard, it interesting to note that AUD outperformance has come despite further weakness in the iron ore price. Last night, the bulk metal lost another 1.9%, closing at \$43.89, a new 9 year low. GBP was the notable underperformer, following disappointing CBI retail volume sales data for November.

While European stocks closed in negative territory, US stocks and US Treasury yields have rebounded in the afternoon session amid signs that Russia's response to Turkey won't involve military actions.

In the data front, German's IFO survey headline business climate indicator was better than expected climbing to 109 from 108.2 in November. The improvement in the survey was consistent with earlier increases in ZEW and PMI surveys and supports the notion that recent concerns over Germany's economic robustness have been overstated.

In the US, the Q3 GDP number was revised up to 2.1% from 1.5%, in line with consensus. The improvement in the number was largely driven by an upward revision to inventories which were hugely underestimated in the first reading. The Case-Shiller home prices jumped 0.6% in September (0.3% expected) and the October advance trade in goods was also better than expected, printing a deficit of \$58.41bn (prev \$-59.1 and \$- 60.9bn exp). Bucking the trend, the Conference Board confidence index fell to 90.4 in November from 99.1 in October. This was a disappointing outcome, the survey was run prior to the Paris attacks and further weakness would be concerning.

Last night RBA Governor Steven gave a speech entitled "The long Run" at the annual Australian Business Economists (ABE) dinner in Sydney. In terms of monetary policy, and consistent with previous speeches, the Governor noted that while there was no barrier to further easing if needed, lower rates were not as stimulatory as they used to be and questioned whether further easing would be the most effective way to aid the recovery. In line with our own observations from our own NAB business survey, he also noted that activity in non-mining is picking up. In Q&A

Stevens told the audience to "chill-out" (with respect to prospect of a December rate move). The initial reaction to the speech, pulled the AUD lower, but given the lack of new news the currency recovered shortly after.

Coming Up

This morning in Australia we get the Q3 reading for construction work done. Following the net growth of 1.6% in June, our economists expect a bit of a payback in Q3 looking for a decline of 1%, slightly more positive than market expectation of -2%. Today's reading is likely to set the tone on expectations for next week's Q3 GDP number where NAB currently anticipates a reading of 0.8%, up from 0.2% in Q2.

Tonight RBA's Guy Debelle speaks at the FX Weekly Conference in London. There is no tittle to his speech on the RBA website, but given that last week he spoke on benchmarks for both FX and rates, our guess would be that we will get more of the same tonight. Still, given the conference is on FX we will be on guard for any pearls in the Q&A session.

Looking at international markets, this morning the BoJ releases minutes from its 30 October meeting, however they are unlikely to trouble the scores given that any conclusion would have been superseded by last week's meeting where the Bank decided to remain on hold.

It's a quiet day for data releases in Europe, but a busy one in the US. Given Thursday's thanksgiving holiday, a few US data releases have been brought forward. The key data releases to look out for are: personal income/spending, PCE deflator, durable goods orders, FHFA house prices and new home sales.

Of these we would highlight the PCE data. Consumer spending is a key driver of economic growth in the US and needs to be robust enough to withstand the expected Fed funds rate normalization process. The rebound in US payrolls suggests we could see a pickup in income and spending. However a counter argument can also be made from the softer than expected retail sales released earlier in the month. Consensus expects a rise in spending of 0.3% in October, up from the 0.1% increase previously.

The October Core PCE deflator is expected to rise by 0.1% keeping the year on year rate at 1.3%. That said, the 0.2% increase in core CPI reported last week does pose a slight upside risk to this forecast.

Overnight

- On global stock markets, the S&P 500 was +0.10%. Bond markets saw US 10-years -0.35bp to 2.24%. On commodity markets, Brent crude oil +3.12% to \$46.23, gold+0.7% to \$1,075, iron ore -1.9% to \$43.89. AUD is at 0.7245 and the range was 0.7185 to 0.7246.

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Calendar

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
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	23.50	10.50
NZ	New Residential Lending, YoY	Oct				52.40%	2.00	13.00
AU	Skilled Vacancies MoM	Oct				1.8	0.00	11.00
AU	Construction Work Done	3Q	-1	-2		1.6	0.30	11.30
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	1.45	12.45
JN	Small Business Confidence	Nov				48.7	5.00	16.00
JN	Leading Index CI	Sep F				101.4	5.00	16.00
EC	ECB Financial Stability Review						10.00	21.00
AU	RBA's Debelle speaks at FX Week Europe Conference in London						10.20	21.20
US	MBA Mortgage Applications	Nov-20				6.2	12.00	23.00
US	Personal Income/Spending	Oct		0.4/0.3		0.1/0.1	13.30	0.30
US	PCE Deflator MoM/YoY	Oct		0.2/0.3		-0.1/0.2	13.30	0.30
US	Durable Goods Orders/core orders	Oct		1.6/0.2		-1.2/-0.3	13.30	0.30
US	Initial Jobless Claims	Nov-21		270		271	13.30	0.30
US	FHFA House Price Index MoM	Sep		0.4		0.3	14.00	1.00
US	Markit US Services PMI	Nov P		55.1		54.8	14.45	1.45
US	Bloomberg Consumer Comfort	Nov-22				41.2	14.45	1.45
US	New Home Sales, Level/MoM	Oct		500/6.8		468/-11.5	15.00	2.00
US	U. of Mich. Consumer Sentiment	Nov F		93.1			15.00	2.00
Thursday, 26 November 2015								
NZ	Trade Balance	Oct	-1025	-1000		-1222	21.45	8.45
AU	Private Capital Expenditure	3Q	-4	-2.9		-4	0.30	11.30
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	9.00	20.00
GE	GfK Consumer Confidence	Dec		9.2		9.4	12.00	23.00
Friday, 27 November 2015								
JN	Jobless Rate	Oct		3.4		3.4	23.30	10.30
JN	Job-To-Applicant Ratio	Oct		1.25		1.24	23.30	10.30
JN	Overall Household Spending YoY	Oct		0		-0.4	23.30	10.30
JN	Natl CPI YoY	Oct		0.2		0	23.30	10.30
CH	Industrial Profits YoY	Oct				-0.1	1.30	12.30
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	9.30	20.30
UK	Index of Services MoM	Sep		0.3		0	9.30	20.30
EC	Business Climate Indicator	Nov		0.45		0.44	10.00	21.00
CA	CFIB Business Barometer	Nov				58.9	8.00	19.00
CA	Industrial Product Price MoM	Oct		-0.1		-0.3	13.30	0.30
CA	Raw Materials Price Index MoM	Oct		0.3		3	13.30	0.30
Monday, 30 November 2015								
NZ	Building Permits MoM	Oct				-5.7	21.45	8.45
AU	TD Securities Inflation MoM	Nov				0	23.30	10.30
JN	Industrial Production MoM	Oct P				1.1	23.50	10.50
JN	Retail Sales MoM	Oct				0.7	23.50	10.50
AU	HIA New Home Sales MoM	Oct				-1.8	0.00	11.00
NZ	ANZ Activity Outlook	Nov				23.7	0.00	11.00
NZ	ANZ Business Confidence	Nov				10.5	0.00	11.00
UK	GfK Consumer Confidence	Nov		2		2	0.50	11.50
AU	Company Operating Profit QoQ	3Q				-1.9	0.30	11.30
AU	Inventories SA QoQ	3Q				0	0.30	11.30
AU	Private Sector Credit MoM	Oct				0.8	0.30	11.30
AU	Private Sector Credit YoY	Oct				6.7	0.30	11.30
NZ	Money Supply M3 YoY	Oct				8.5	2.00	13.00
JN	Vehicle Production YoY	Oct				-2.6	4.00	15.00
JN	Housing Starts YoY	Oct				2,622	5.00	16.00
JN	Construction Orders YoY	Oct				6.7	5.00	16.00
UK	Mortgage Approvals	Oct				68.9	9.30	20.30
UK	Money Supply M4 MoM	Oct				-1	9.30	20.30
UK	M4 Money Supply YoY	Oct				-0.6	9.30	20.30
UK	M4 Ex IOFCs 3M Annualised	Oct				4	9.30	20.30
GE	CPI North Rhine Westphalia MoM	Nov				0	9.30	20.30
GE	CPI North Rhine Westphalia YoY	Nov				0.2	9.30	20.30
UK	Lloyds Business Barometer	Nov				50	9.30	20.30
GE	CPI MoM	Nov P				0	13.00	0.00
GE	CPI EU Harmonized MoM	Nov P				0	13.00	0.00
GE	CPI EU Harmonized YoY	Nov P				0.2	13.00	0.00
CA	Current Account Balance	3Q				-17.4	13.30	0.30
US	ISM Milwaukee	Nov				46.66	14.00	1.00
US	Chicago Purchasing Manager	Nov		54		56.2	14.45	1.45
CA	Bloomberg Nanos Confidence	Nov-27				57.7	15.00	2.00
US	Pending Home Sales MoM	Oct		1.25		-2.3	15.00	2.00
US	Pending Home Sales NSA YoY	Oct				2.5	15.00	2.00
US	Dallas Fed Manf. Activity	Nov		-10		-12.7	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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