

Japan downgraded, sparks USD rout

Sighting heightened uncertainty over the achievability of fiscal deficit reduction goals, the timing and effectiveness of growth enhancing policy measures and increased risk of rising JGB yields and reduced debt affordability over the medium term, ratings agency **Moody's** downgraded Japan's sovereign rating from Aa3 to A1 overnight. While the group slapped a stable ratings outlook on the nation following the move, something that suggests little chance of a further downgrade in the short-term, at A1 it now sits only 6 rungs above the level that separates investment grade from junk bond status. **Despite being a negative for Japan, hence the Japanese Yen, the latter actually rallied following the decision sending the USD sharply lower. Given the oversold nature of many commodities at present and the fact they're USD-denominated, almost perversely, the downgrade essentially acted as a bullish circuit-breaker for commodities during the course of overnight trade.**

Growth in US manufacturing slowed fractionally in November with the ISM manufacturing PMI [gauge](#) slipping to 58.7. The reading was below the 59.0 level of October but higher than the 57.8 figure expected with a sharp plunge in prices paid, along with a small decline in the survey's employment component, largely offset by an increase in new orders which rose to 66.0 from 65.8. Reflecting the move in the ISM gauge, the separate [Markit survey](#) also fell, dropping to 54.8 from 55.9 in October. The reading, above the flash estimate of 54.7 released late last month, was still the lowest level seen since January this year.

Growth in Eurozone manufacturing activity effectively stalled in November with the final manufacturing PMI gauge from [Markit](#) slipping to 50.1. The reading, the lowest level since June last year, was below the 50.6 level of October and flash estimate of 50.4 released in late November. Adding to the bearish headline print new orders slid to 48.7, the fastest contraction seen in 19-months, while Germany, the largest economy within the Eurozone, saw their gauge fall to 49.5, a level last seen in June 2013. To view the regional report from [Markit](#) click [here](#).

The Day Ahead (AEDT)

The ASX 200 looks set to recoup some ground this morning following the sharp selloff seen in the previous two sessions with SPI futures pointing to a gain of 15pts on the open. While sentiment will likely remain skittish, having just recorded the largest 2-day percentage fall in three years and with commodity prices squeezing higher, there's a reasonable chance that the index will outperform what futures markets currently suggest.

The AUDUSD has squeezed higher overnight on the back of short covering, broad-based USD weakness and a lift in commodity prices with the pair currently fetching .8501. While we'll receive domestic building approvals today, an important release given the need for economic rebalancing, it's likely that the RBA policy statement, rather than this highly-volatile release, will have the greatest influence on the direction of the Aussie today. While the RBA could shock the market, house price growth, the only factor that is realistically preventing them from easing is definitely slowing, it's likely that they we'll receive another 'cut-and-paste' job in the December policy statement. If this does eventuate, more talk of the currency being overvalued despite falling commodity prices, don't be surprised to see the market lift the pair higher given short-term positioning and the belief that the RBA are reluctant to back up their statement with action. Support starts at .8500, .8480 and again below .8420 with resistance kicking in at .8540, .8560 and above .8600.

The Reserve Bank of Australia announce their December policy decision at 2.30pm today. While many in the markets believe further easing will have to come, myself included, no change to rates or the tone of the monetary policy statement is expected.

Australian data releases today include building approvals for October, a bounce of 5% is expected following an 11% drop in September, along with Q3 current account, net export contribution to GDP and government expenditure figures.

Data releases this evening include construction spending and the ISM New York index from the States, Eurozone PPI along with UK construction PMI. On the policy front the Reserve Bank of India announce their December rates decision while FOMC members Fischer and Dudley will also speak in the early hours of tomorrow morning.

| Currencies | Level | +/- | % |
|------------------------|------------|----------|--------|
| AUDUSD | 0.8501 | -0.0001 | -0.01% |
| AUDEUR | 0.6815 | -0.0009 | -0.13% |
| AUDGBP | 0.5401 | -0.0031 | -0.57% |
| AUDJPY | 100.5800 | -0.2600 | -0.26% |
| AUDNZD | 1.0791 | -0.0048 | -0.44% |
| EURUSD | 1.2473 | 0.0019 | 0.15% |
| GBPUSD | 1.5737 | 0.0091 | 0.58% |
| NZDUSD | 0.7872 | 0.0033 | 0.42% |
| USDJPY | 118.3200 | -0.29 | -0.24% |
| USDCHE | 0.9643 | -0.0012 | -0.12% |
| USDCNY | 6.1515 | 0.0086 | 0.14% |
| USD INDEX | 87.9800 | -0.2390 | -0.27% |
| Equities | | | |
| DJIA | 17776.80 | -51.44 | -0.29% |
| S&P500 | 2053.45 | -14.11 | -0.68% |
| Nasdaq | 4287.81 | -49.972 | -1.15% |
| STOXX 50 | 3056.80 | -18.7 | -0.61% |
| FTSE | 6656.37 | -66.25 | -0.99% |
| DAX | 9963.51 | -17.34 | -0.17% |
| CAC | 4377.33 | -12.85 | -0.29% |
| ASX200 | 5207.72 | -105.279 | -1.98% |
| Nikkei | 17590.10 | 130.25 | 0.75% |
| Shanghai | 2680.74 | -2.1788 | -0.08% |
| Hong Seng | 23367.45 | -620 | -2.58% |
| Kospi | 1965.22 | -15.56 | -0.79% |
| Sensex | 28559.62 | -134.37 | -0.47% |
| Commodities | | | |
| Gold | \$1,210.96 | 43.92 | 3.76% |
| Silver | \$16.43 | 1.02 | 6.62% |
| Crude Oil | \$69.37 | 3.38 | 5.12% |
| Brent Crude | \$72.93 | 2.91 | 4.16% |
| Copper | \$2.91 | 0.055 | 1.92% |
| Iron Ore Futs | \$480.00 | -5 | -1.03% |
| AU Debt Futures | | | |
| 3m BBSW | 2.740% | 0.00% | |
| 3 Year | 2.410% | 0.01% | |
| 10 Year | 3.085% | 0.03% | |
| Govt 10-Yr Bond Yields | | | |
| Australia | 3.083% | 0.04% | |
| NZ | 3.900% | -0.02% | |
| Japan | 0.425% | 0.01% | |
| Germany | 0.744% | 0.04% | |
| UK | 1.913% | -0.01% | |
| US | 2.232% | 0.06% | |

Source: Thomson Reuters

David Scutt

Market Strategist

Twitter: twitter.com/David_Scutt

Web: www.scuttpartners.com.au

