

## Euphoria from PBoC move unlikely to last

In a surprise move China's PBoC cut interest rates for the first time since June 2012 late on Friday evening with the bank lopping benchmark lending rates 40bps to 5.60%. In a further sign that the bank continues to push ahead with financial market reform, their benchmark deposit rate was cut by 25bps to 2.75%, some 15bps less than the lending rate, with the spread between the two narrowing to 285bps, the lowest level seen since May 1999. In addition to this the bank also increased the maximum amount banks can pay above the benchmark one-year deposit rate from 1.1 to 1.2 times and scrapped all limits for deposits of 5-years in duration. While definitely a surprise move, given many believe the move won't be enough to spur sagging lending growth, expect to hear plenty of calls for a RRR cut before the end of 2014.

Mario Draghi gave his biggest hint yet that the ECB are preparing to expand the scale and scope of asset purchases Friday evening with the ECB President [stating](#) that 'we will do what we must to raise inflation and inflation expectations as fast as possible'. He went on to say that should current measures fail to achieve this, or if further risks to the inflation outlook materialise, the ECB 'will step up the pressure and broaden even more channels by altering the size, pace and composition of asset purchases'. Sovereign bond purchases here we come?

Canadian inflationary pressures increased sharply in October with an annual increase of 2.4% [reported](#). The reading was higher than the 2.0% rate of September and expectations for an increase to 2.1% and marked the fastest pace of growth seen since June this year. Excluding volatile items that can skew the headline figure, core inflation rose 2.3% from a year earlier, the highest level seen since February 2012.

Italian wage [inflation](#) rose 0.1% in October. Despite the increase, higher than the flat read of September, the annual rate slowed to 1.0%, the lowest level seen in the history of the survey.

### The Day Ahead (AEDT)

Having fallen 2.75% last week the ASX 200 looks set to go on an early, short-covering rally this morning with SPI futures pointing to a gain of 52pts on the open. While the surprise decision by the PBoC to cut interest rates on Friday will initially buoy the index, with many doubting that the move alone will be enough to address sagging lending growth, it will be interesting to see whether the index can sustain its gains through to the closing bell. As is always the case on days such as these the movements in Chinese equities, particularly in the absence of Japanese markets, along with commodity futures, will be highly influential on the performance of the ASX 200, particularly the materials sector.

Having surged to as high as .8722 following the PBoC rate cut decision Friday evening, the AUDUSD has continued to ease lower this morning with the pair currently buying .8663. With Japanese markets closed and no major tier-one data scheduled across the region, the movements in USDJPY, something of a proxy for overall USD moves in Asia, should be the greatest influence on Aussie today. Support is located between .8650-55 and at .8603 with resistance kicking in at .8680, .8700 and again at .8722.

Japanese market will be closed today for Labour Thanksgiving Day.

Data releases this evening include services PMI, the Chicago Fed's national activity index and Dallas Fed manufacturing index in the States, Germany's IFO business survey along with Italian international trade.

Currencies	Level	+/-	%
AUDUSD	0.8663	0.0039	0.45%
AUDEUR	0.7005	0.0132	1.92%
AUDGBP	0.5540	0.0047	0.86%
AUDJPY	102.1500	0.1900	0.19%
AUDNZD	1.0988	0.0031	0.28%
EURUSD	1.2366	-0.0179	-1.43%
GBPUSD	1.5636	-0.0060	-0.38%
NZDUSD	0.7876	0.0010	0.13%
USDJPY	117.9100	-0.32	-0.27%
USDCHE	0.9721	0.0142	1.48%
USDCNY	6.1244	0.0014	0.02%
USD INDEX	88.3100	0.6340	0.72%
Equities			
DJIA	17810.06	91.06	0.51%
S&P500	2063.50	10.75	0.52%
Nasdaq	4251.32	9.234	0.22%
STOXX 50	3069.22	64.55	2.15%
FTSE	6750.76	71.86	1.08%
DAX	9732.55	248.58	2.62%
CAC	4347.23	113.02	2.67%
ASX200	5304.31	-11.939	-0.22%
Nikkei	17357.51	56.65	0.33%
Shanghai	2487.11	34.4943	1.41%
Hang Seng	23437.12	87.48	0.37%
Kospi	1964.84	6.8	0.35%
Sensex	28334.63	267.07	0.95%
Commodities			
Gold	\$1,201.34	7.27	0.61%
Silver	\$16.40	0.18	1.11%
Crude Oil	\$76.72	0.35	0.46%
Brent Crude	\$80.36	0.53	0.66%
Copper	\$3.04	0.0205	0.68%
Iron Ore Futs	\$476.00	0	0.00%
AU Debt Futures			
3m BBSW	2.740%	-0.01%	
3 Year	2.550%	-0.02%	
10 Year	3.290%	-0.01%	
Govt 10-Yr Bond Yields			
Australia	3.282%	-0.02%	
NZ	4.090%	0.01%	
Japan	0.463%	-0.01%	
Germany	0.771%	-0.03%	
UK	2.048%	-0.06%	
US	2.312%	-0.03%	

Source: Thomson Reuters

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