

Glug, glug, glug: AUD, iron ore underwater

RBA Deputy Governor Philip Lowe delivered a speech in Sydney overnight titled 'Building on strong foundations' which discussed the future composition of Australia's economy, the benefit of our geographic location in Asia along with the need to value-add and invest in human capital. While I can recommend the read, the link is found [here](#), most of the headlines will focus on his language towards the Australian Dollar with Lowe stating that 'a lower value would be helpful from a macroeconomic perspective' and that concerns over high domestic wage levels were in essence 'concerns about the exchange rate' when expressed in foreign currency terms. While little should be read into it despite markets pricing in an increasing likelihood that it will occur, he also stated that Australia was in the fortunate position that if further easing was required the RBA could still cut rates further.

US economic growth exceeded expectations in Q3 with an annual rate of 3.9% [reported](#). The reading was higher than the 3.5% advanced estimate and forecasts for a decline to 3.3% and marked the first time since 2007 that two-consecutive annualised rates above 3.5% have been recorded. Overall upward revisions to consumption, non-residential fixed investment and inventories were more than enough to offset a small downward revision from exports.

US consumer confidence fell sharply in November with the Conference Board [index](#) sliding to 88.7. The reading was well below the 94.1 figure of October and expectations for an increase to 96.0 and was the lowest level seen since June. Measures on current conditions and expectations fell by 3.1 and 6.8pts respectively, an outcome that lead to the headline gauge suffering its worst month-on-month points decline since October 2013.

The Day Ahead (AEDT)

The ASX 200 looks set to recoup some of yesterday's losses in early trade with SPI futures pointing to a rise of 8pts on the open. Today I'll be watching the movements on the Dalian commodity exchange, particularly iron ore futures, given large amounts of pessimism that are currently engulfing the materials sector. Yes, there should be given our chief export item has nearly halved in value year-to-date, but with positioning and sentiment stretched so far in one direction it's clear that any small uptick in futures will have a leveraged upside impact for the sector, particularly the iron ore 'pure plays'. Elsewhere the energy sector will be under pressure following further steep falls in the crude price overnight although, with OPEC due to meet tomorrow, there is a chance we'll see some short covering. Last but not least and perhaps a little perverse, should Q3 domestic construction data come in under expectations it may actually benefit higher-yielding plays, particularly the banks, given implications for economic rebalancing and hence the outlook for domestic interest rates.

Weighed down by falling commodity prices, subtle jawboning from the RBA and a better-than-expected US GDP print, the AUDUSD has slipped overnight with the pair falling as low as .8515, a level last seen in Mid-2010. In the absence of some unexpected bullish news, a rally in commodity futures or an upside surprise in the local data today, the Aussie is likely to remain under pressure for the duration of the Asian session. Support starts at the overnight low of .8515 and again at .8500 with nothing else really emerging until the low .8300 region. On the topside resistance kicks in at .8540, .8564 and at .8600.

Australian Q3 construction work completed will be released at 11.30am this morning. All eyes will be on the breakdown between residential and engineering work to gauge how the fabled 'economic rebalancing' is currently playing out. Elsewhere in the region we'll also receive South Korean consumer sentiment.

A plethora of economic data releases arrives this evening, particularly in the States due to the Thanksgiving Day holiday on Thursday. In order of importance, in my mind least, we'll receive durable goods orders, personal consumption and expenditures including the all-important core PCE inflation figure, pending home sales, new homes sales, initial jobless claims, Chicago PMI, the University of Michigan-Thomson Reuters consumer confidence survey, MBA mortgage market index and Midwest manufacturing survey. Before we get our heads around that markets will also have to digest Q3 GDP and retail turnover from the UK, consumer confidence readings from France and Italy along with German import prices.

Currencies	Level	+/-	%
AUDUSD	0.8526	-0.0085	-0.99%
AUDEUR	0.6834	-0.0087	-1.26%
AUDGBP	0.5427	-0.0056	-1.02%
AUDJPY	100.5500	-1.2800	-1.26%
AUDNZD	1.0915	-0.0036	-0.33%
EURUSD	1.2474	0.0034	0.27%
GBPUSD	1.5706	0.0004	0.03%
NZDUSD	0.7806	-0.0054	-0.69%
USDJPY	117.9300	-0.32	-0.27%
USDCHE	0.9640	-0.0025	-0.26%
USDCNY	6.1355	-0.0057	-0.09%
USD INDEX	87.8950	-0.2200	-0.25%
Equities			
DJIA	17814.94	-2.96	-0.02%
S&P500	2067.05	-2.36	-0.11%
Nasdaq	4288.23	3.911	0.09%
STOXX 50	3067.28	-2.01	-0.07%
FTSE	6731.14	1.35	0.02%
DAX	9861.21	75.67	0.77%
CAC	4382.31	13.87	0.32%
ASX200	5334.79	-27.019	-0.50%
Nikkei	17407.62	50.11	0.29%
Shanghai	2567.60	33.7099	1.33%
Hang Seng	23843.91	-49.23	-0.21%
Kospi	1980.21	1.67	0.08%
Sensex	28338.05	-161.49	-0.57%
Commodities			
Gold	\$1,201.01	3.76	0.31%
Silver	\$16.66	0.22	1.34%
Crude Oil	\$73.86	-1.85	-2.44%
Brent Crude	\$78.15	-1.41	-1.77%
Copper	\$2.97	-0.0345	-1.15%
Iron Ore Futs	\$466.00	-10	-2.10%
AU Debt Futures			
3m BBSW	2.730%	0.00%	
3 Year	2.460%	-0.06%	
10 Year	3.160%	-0.08%	
Govt 10-Yr Bond Yields			
Australia	3.158%	-0.08%	
NZ	3.990%	-0.07%	
Japan	0.451%	-0.01%	
Germany	0.750%	-0.03%	
UK	2.014%	-0.03%	
US	2.261%	-0.04%	

Source: Thomson Reuters

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