Market Scuttlebutt

27 November 2014

Capex conundrum for the RBA?

US durable goods orders rose-more-than-expected in October with an increase of 0.6% reported. The reading was stronger than the upwardly-revised 0.9% decline of September and expectations for a further contraction of 0.6%. While the headline figure was strong the rest of the report was unequivocally-weak with core orders, that which excludes lumpy transportation items, falling 0.9% following a 0.2% gain in September. The reading was well below expectations for an increase of 0.5% and was the sharpest month-on-month contraction since December 2013. Adding to the disappointment capital goods shipments ex-military and aircraft, something that is watched closely given its implications for GDP, slipped 0.4% following a similar gain in September.

US personal incomes and consumption growth missed to the downside in October with gains of 0.2% apiece. Incomes had been expected to grow 0.4% while consumption, having been revised to flat in September from an initial estimate of -0.2%, also missed forecasts for a gain of 0.3%. Adding to the dour October report core PCE inflation, something that is watched closely by the FOMC, rose by 0.1% with the annual rate remaining unchanged at +1.4%.

US pending home sales fell unexpectedly in October with a decline of 1.1% reported. The reading was below the upwardly-revised 0.6% gain of September and expectations for an increase of 0.5% and was the largest monthly decline recorded since June. While sales of existing homes slid, those for new homes rose with an increase of 0.7% reported. The gain took total sales on an annualised basis to 458k, the highest level see since March.

The Day Ahead (AEDT)

US markets will be closed this evening for the Thanksgiving Holiday – Enjoy!

The ASX 200 looks set to open flat this morning with SPI futures pointing to no change on the open. While you could be forgiven for thinking the market will give back some ground today – it did outperform yesterday despite falling commodity prices and a lacklustre lead from Wall Street, with options expiry upon us and liquidity likely to be thin, it's a lottery as to what direction the index will take today. From a macro perspective, like yesterday, should the Q3 capex disappoint it will only help to drive the yield trade given implications for domestic monetary policy settings ahead.

Having fallen as low as .8481 in early European trade, largely as a result of stop-chasing and selling in AUDJPY, the AUDUSD has made a spectacular recovery overnight with weak US economic data and thin trading conditions helping to push the pair as high as .8555 late in New York trade. Today all attention will be on the Q3 capex report with the fourth estimate of 2014/15 spend, along with the plant, equipment and machinery figure, likely to set the tone. Should both print weak expect the Aussie to come under renewed selling pressure. Conversely, should both come in above expectations expect a far greater upside move given positioning and sentiment at present. As is often the case should they come in mixed go with the 2014/15 capex estimate, it's generally the indicator that Aussie will take. Support at .8540, .8510, .8500 and .8481, resistance at .8565 and .8600.

Australian Q3 capital expenditures figures will be released at 11.30am this morning. After bouncing 1.1% in Q2 economists are looking for a decline of 1.5% in Q3. Given it directly feeds into GDP calculations expect the plant, equipment and machinery figure, along with the 4th estimate of 2014/15 capex spend, to be the most influential figures on the market. The former is expected to decline 1.0% following a 0.9% drop in Q2 while the 3rd estimate of 2014/15 spend was \$145.2b. **Any significant undershoot on these figures, particularly together, will have ramifications for the outlook of domestic interest rates.** Before the capex report arrives markets will also have to digest the latest new home sales report form the HIA at 11am along with New Zealand trade figures for October at 8.45am.

Data releases this evening include CPI from Germany and Spain, consumer sentiment from the Eurozone and Germany, Eurozone monetary growth, German unemployment, Italian business confidence along with Spanish Q3 GDP. Elsewhere OPEC nations meet in Vienna. Will they cut output in light of recent price declines or will the status quo remain? Either way their decision will create volatility one-way-or-another.

Currencies	Level	+/-	%
AUDUSD	0.8549	0.0023	0.27%
AUDEUR	0.6835	0.0001	0.01%
AUDGBP	0.5412	-0.0015	-0.28%
AUDJPY	100.6500	0.1000	0.10%
AUDNZD	1.0849	-0.0066	-0.60%
EURUSD	1.2507	0.0033	0.26%
GBPUSD	1.5791	0.0085	0.54%
NZDUSD	0.7874	0.0068	0.87%
USDJPY	117.7300	-0.2	-0.17%
USDCHF	0.9611	-0.0029	-0.30%
USDCNY	6.1386	0.0031	0.05%
USD INDEX	87.6510	-0.2440	-0.28%
Equities			
DJIA	17827.75	12.81	0.07%
S&P500	2072.83	5.8	0.28%
Nasdaq	4317.99	29.759	0.69%
STOXX 50	3070.83	3.55	0.12%
FTSE	6729.17	-1.97	-0.03%
DAX	9915.56	54.35	0.55%
CAC	4373.42	-8.89	-0.20%
ASX200	5396.21	61.424	1.15%
Nikkei	17383.58	-24.04	-0.14%
Shanghai	2604.89	37.2896	1.45%
Hang Seng	24111.98	268.07	1.12%
Kospi	1980.84	0.63	0.03%
Sensex	28386.19	48.14	0.17%
Commodities			
Gold	\$1,198.05	-2.96	-0.25%
Silver	\$16.51	-0.15	-0.90%
Crude Oil	\$73.62	-0.24	-0.32%
Brent Crude	\$77.66	-0.49	-0.63%
Copper	\$2.97	0	0.00%
Iron Ore Futs	\$467.00	1	0.21%
AU Debt Futures			
3m BBSW	2.740%	0.01%	
3 Year	2.440%	-0.02%	
10 Year	3.145%	-0.02%	
Govt 10-Yr Bond Yields			
Australia	3.135%	-0.02%	
NZ	3.980%	-0.01%	
Japan	0.436%	-0.02%	
Germany	0.736%	-0.01%	
UK	1.982%	-0.03%	
US	2.245%	-0.02%	

Source: Thomson Reuters

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