

Stevens slashes rate cut hopes

RBA Governor Glenn [Stevens](#) spoke to the AFR overnight on the outlook for the AUD and interest rates. On the Aussie Dollar he stated 75c would be better level than 85c to help assist economic rebalancing while on rates he said that the best way to support confidence is to provide a 'message of stability and predictability'. On whether there was a need to cut rates further he noted that 'if at some point we can be more helpful for confidence by doing something different, then obviously that will be on the table, and we will take a fresh look at all these things in the new year'. **While the language towards the currency is an escalation of jawboning seen earlier in the year, by stripping out the prospect of rate cuts early next year, something his interview has done, it will actually act as positive for the Aussie until the rhetoric from himself and the RBA Board changes. As for the best way to foster confidence I disagree with the Governor that it's to provide a message of 'stability and predictability'. From my experience this year it is job security that is holding confidence back, something that is partially due to non-mining sectors of the economy being hollowed out by the high AUD and overly-tight monetary policy settings over the past few years. I may well be wrong, certainly it sounds like it given his words overnight, but I'm still happy to call interest rates lower it the first half of 2015.**

US retail [sales](#) jumped by 0.7% in November. The increase, the largest month-on-month gain since March this year, was stronger than both the upwardly-revised 0.5% increase of October and expectations for a rise of 0.4%. Adding to the result, excluding auto sales, a lumpy item that can augment the headline figure, core retail sales increased 0.5%, a result that was stronger than the 0.4% gain of October and forecasts for a lift of 0.1%.

Eurozone banks took up €129.8b in the second auction of the ECB's TLTRO program. While significantly higher than the €82.6b auction of October, the amount was less than half the €317b maximum allocation available. A further six auctions for the 4-year loan facility will occur over the next two years.

[German](#) CPI grew 0.5% in the year to November, unchanged from the preliminary figure released late last month, with the rate the lowest seen since February 2010. While it was unchanged [French](#) CPI was revised down from 0.5% to 0.4% with the rate only 0.04% above the 5-year low of 0.36% struck in September of this year. Making matters worse, core inflation fell 0.2% on year, the lowest level in the history of the survey.

The Day Ahead (AEDT)

The ASX 200 looks set to extend its falls this morning, at least according to futures markets, with SPI pointing to a fall of 12pts on the open. While the energy sector may continue to underperform given continued falls in the crude price, given the modest gain on Wall Street overnight and the fact the index has been sold down aggressively over the past few days, it wouldn't surprise to see losses turn to gains, particularly should financials find a bid. On a side note, for those who are looking for the fabled 'Santa Rally', the low point for the index in December 2013 occurred on December 12.

The AUDUSD has endured another wild session overnight with the pair falling from .8340 to .8213 before recovering into the close. While the US data continues to impress, given movement in cash rate expectations, short positioning and overall levels of pessimism, it wouldn't surprise to see the pair rally today despite the continued strength in the US data. Support is found below .8220 with resistance kicking in above .8280 and again at .8320.

Chinese industrial output, retail sales and fixed-asset investment figures for November will be released at 4.30pm this afternoon. Industrial output is tipped to grow 7.5% from a year earlier, down on the 7.7% pace of October. Elsewhere retail sales are forecast to grow 11.5%, unchanged from the previous month, with fixed asset investment expected to slow by a further 0.1% to 15.8%. Elsewhere in the region we'll also receive manufacturing PMI from New Zealand along with revised Japanese industrial output figures for October.

Data releases this evening include CPI from Italy, Spain and India, PPI and the final read of the December Uni of Michigan-Thomson Reuters consumer survey from the US, Eurozone Q3 employment change, UK construction output, German wholesale price inflation along with Indian industrial output. On Sunday the Japanese general election will also be held.

Currencies	Level	+/-	%
AUDUSD	0.8269	-0.0044	-0.53%
AUDEUR	0.6668	-0.0013	-0.19%
AUDGBP	0.5259	-0.0032	-0.60%
AUDJPY	98.2600	0.1600	0.16%
AUDNZD	1.0582	-0.0063	-0.59%
EURUSD	1.2399	-0.0042	-0.34%
GBPUSD	1.5722	0.0014	0.09%
NZDUSD	0.7811	0.0011	0.14%
USDJPY	118.8300	0.82	0.69%
USDCHE	0.9685	0.0015	0.16%
USDCNY	6.1881	0.0118	0.19%
USD INDEX	88.5800	0.3350	0.38%
Equities			
DJIA	17596.34	63.19	0.36%
S&P500	2035.33	8.73	0.43%
Nasdaq	4246.48	21.605	0.51%
STOXX 50	2991.96	4.34	0.15%
FTSE	6461.70	-38.34	-0.59%
DAX	9862.53	62.8	0.64%
CAC	4225.86	-2.05	-0.05%
ASX200	5230.97	-28.032	-0.53%
Nikkei	17257.40	-155.18	-0.89%
Shanghai	2926.66	-14.2145	-0.48%
Hang Seng	23312.54	-211.98	-0.90%
Kospi	1916.59	-28.97	-1.49%
Sensex	27602.01	-229.09	-0.82%
Commodities			
Gold	\$1,225.36	-0.74	-0.06%
Silver	\$17.05	0.00	0.00%
Crude Oil	\$59.37	-1.94	-3.16%
Brent Crude	\$63.37	-1.28	-1.98%
Copper	\$2.93	0.0235	0.81%
Iron Ore	\$69.37	0.23	0.33%
AU Debt Futures			
3m BBSW	2.560%	-0.18%	
3 Year	2.300%	0.09%	
10 Year	2.943%	0.07%	
Govt 10-Yr Bond Yields			
Australia	2.923%	0.061%	
NZ	3.840%	0.035%	
Japan	0.409%	-0.004%	
Germany	0.679%	0.000%	
UK	1.914%	0.002%	
US	2.169%	0.002%	

Source: Thomson Reuters

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