

Fed confidence grows, RBNZ goes neutral

The US FOMC released their October monetary policy decision earlier this morning with the committee tying off their asset purchase program, affectionately known as QE3 within markets, whilst keeping their 'considerable time' line when it came to the expected timing of the first increase in the fed funds rate. While widely expected before the decision, the rest of the [statement](#) was more-hawkish than what the markets had been expecting with the committee tweaking their language on the labour market and inflation. On the labour market members noted that 'conditions improved somewhat further, with solid job gains and a lower unemployment rate' with 'a range of labour market indicators suggests that underutilisation of labour resources is gradually diminishing.' This was different to what had been conveyed in September when the Fed stated that labour market conditions improved somewhat further; however, the unemployment rate is little changed and a range of labour market indicators suggests that there remains significant underutilization of labour resources'. On inflation, the committee acknowledged while 'inflation in the near term will likely be held down by lower energy prices and other factors, the likelihood of inflation running persistently below 2 percent has diminished somewhat since early this year. While the last part of the sentence was unchanged from September, it is clear that members see recent weakness as temporary 'pass-through' factors. While slightly unexpected, perhaps the biggest surprise was left to the final paragraph with the committee yet again splitting on voting for the policy action, albeit in a totally different direction. As opposed to September when hawks Fisher and Plosser opposed the wording of the statement, in October the only dissenter was a dove, Kocherlakota, who stated that in light of continued sluggishness in the inflation outlook and the recent slide in market-based measures of longer-term inflation expectations, the Committee should commit to keeping the current target range for the federal funds rate at least until the one-to-two-year ahead inflation outlook has returned to 2 percent and should continue the asset purchase program at its current level.' While this could be seen as a dovish turn, given Fisher has been vocal in stating his belief that the committee were coming round to his perception, the fact he didn't dissent, coupled with the changes in language earlier in the statement, is telling, for me at least.

As expected, the Reserve Bank of New Zealand kept their cash rate unchanged at 3.50% at the October policy meeting. In the accompanying policy [statement](#) the Board once again called the level of the New Zealand Dollar 'unjustified and unsustainable'. While that has been heard numerous times before, the most telling part of the document arrived in the final paragraph with the committee dropping their tightening bias by removing the line 'Nevertheless, we expect some further policy tightening will be necessary to keep future average inflation near the 2 percent target mid-point and ensure that the economic expansion can be sustained' that was seen in their prior statement. They're now neutral with period of assessment 'appropriate before considering further policy adjustment.'

The Day Ahead (AEDT)

The ASX 200 looks set to open flat with SPI futures pointing to a gain of 1pt on the open. While concern about the Fed statement may progress throughout the day, the moves in other asset classes equities aside suggest the change in language is significant, with the index heavily weighted towards financials, the NAB profit report will likely determine whether the index finishes higher or lower today.

The AUDUSD has fallen heavily following the release of the FOMC statement with the pair shedding more than a cent in the last few hours of trade. While there may be a temptation to buy the dip given such substantial falls, it's clear that the pair is now a sell on rallies prospect, at least until we hear from Janet Yellen late tomorrow evening. Support is found at .8775 and again below .8750 with resistance kicking in at .8800, .8825 and at .8850.

Domestic data releases today include HIA new home sales for September (1100) along with Q3 trade prices (1130). On the regional front we'll also receive industrial production and business confidence figures from South Korea.

Data releases this evening include Q3 GDP and initial jobless claims from the US, CPI and unemployment figures from Germany, Eurozone consumer confidence along with the latest Nationwide house price survey from the UK.

| Currencies | Level | +/- | % |
|------------------------|------------|---------|--------|
| AUDUSD | 0.8794 | -0.0063 | -0.71% |
| AUDEUR | 0.6959 | 0.0004 | 0.06% |
| AUDGBP | 0.5493 | 0.0004 | 0.07% |
| AUDJPY | 95.77 | -0.0210 | -0.02% |
| AUDNZD | 1.1275 | 0.0096 | 0.86% |
| EURUSD | 1.2637 | -0.0097 | -0.76% |
| GBPUSD | 1.6010 | -0.0124 | -0.77% |
| NZDUSD | 0.7798 | -0.0124 | -1.57% |
| USDJPY | 108.90 | 0.74 | 0.68% |
| USDCHE | 0.9544 | 0.0072 | 0.76% |
| USDCNY | 6.1114 | -0.0029 | -0.05% |
| USD INDEX | 86.01 | 0.5920 | 0.69% |
| Equities | | | |
| DJIA | 16974.31 | -31.44 | -0.18% |
| S&P500 | 1982.3 | -2.75 | -0.14% |
| Nasdaq | 4549.227 | -15.066 | -0.33% |
| STOXX 50 | 3022.42 | -13.73 | -0.45% |
| FTSE | 6453.87 | 51.7 | 0.81% |
| DAX | 9082.81 | 14.62 | 0.16% |
| CAC | 4110.64 | -2.03 | -0.05% |
| ASX200 | 5447.679 | -4.919 | -0.09% |
| Nikkei | 15553.91 | 224 | 1.46% |
| Shanghai | 2373.03 | 35.159 | 1.50% |
| Hang Seng | 23819.87 | 299.51 | 1.27% |
| Kospi | 1961.17 | 35.49 | 1.84% |
| Sensex | 27098.17 | 217.35 | 0.81% |
| Commodities | | | |
| Gold | \$1,212.11 | -16.50 | -1.34% |
| Silver | \$17.09 | -0.12 | -0.70% |
| Crude Oil | \$82.04 | 0.61 | 0.75% |
| Iron Ore | \$79.09 | -0.13 | -0.16% |
| Copper | \$307.95 | -1.05 | -0.34% |
| Met. Coal | \$109.25 | 0.15 | 0.14% |
| AU Debt Futures | | | |
| 3m BBSW | 2.700% | 0.01% | |
| 3 Year | 2.650% | 0.06% | |
| 10 Year | 3.370% | 0.04% | |
| Govt 10-Yr Bond Yields | | | |
| Australia | 3.295% | 0.06% | |
| NZ | 4.002% | 0.00% | |
| Japan | 0.461% | 0.01% | |
| Germany | 0.897% | 0.02% | |
| UK | 2.254% | 0.02% | |
| US | 2.321% | 0.06% | |

Source: Bloomberg

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