EUR funding currency attributes to return

Some better US data on the important employment and inflation fronts and some more supportive Fed comments have helped stabilize the USD. With mostly housing data out next week, the strong part of the US economy, it is worth looking to sell other potential funding currencies in a risk positive environment. EUR looks heavy after a failed break higher and USD/JPY may stabilize above 118. GBP looks perky and CAD faces an interesting week on the front foot.

ECB wheels out the dovish commentary

The ECB's Nowotny appears to have been moved by the strength of the EUR to wheel out the dovish commentary. EUR certainly appears to have lost steam slipping quickly and decisively back below the resistance levels it breached ahead of Nowotny's salvo.

We were a bit confused in the first place why it was rising so solidly; it should be the primary funding vehicle for risky trades and thus should have been at least lagging strength in most other currencies, if not outright declining in the recent rebound in global equities, EM and commodity currencies. It has always had the risk of more QE hanging over it. Perhaps focus will shift again to the downside. Recent economic news in the Eurozone has been unimpressive and the VW scandal has been ignored to date.

EUR look vulnerable vs. the GBP that has held up relatively well, probably gaining support after the decent UK labour data on Wednesday.

Fed keeps the rate dream alive

The Fed's Dudley vacillated, but meekly stuck to a forecast that rates rise this year, stressing it's a forecast not a commitment. Clearly the Fed is hedging its bets now, but it was important for USD and rates that Dudley paid lip-service at least to the current Fed leadership line.

The Fed's Cleveland President Loretta Mester's comments also lent support to rates and the USD. She said that jobs growth needed per month to keep the unemployment rate steady is probably 70 to 120K depending on what model you have. This places the bar for job gains lower than weaker recent data. And the low weekly unemployment claims data supported her view, suggesting that the job market is tightening further, despite recent moderation in activity.

The Fed is more focused on the state of the labor market that overall activity, although certainly the two will affect each other. But low unemployment claims suggests that the Fed can still move forward with tightening modestly even if the pace of economic growth appears to have moderated.

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In other US data, New York and Philadelphia manufacturing surveys were soft, but weekly consumer confidence was strong. The CPI was above expected with rents rising, suggesting the housing market is tight and may continue to perform well in the low interest rate environment. Much of the US data next week is housing related which may speak to the strong side of the US economy.

The solid data and more supportive Fed comments have helped steady the ship for the shaky USD. It rebounded from recent lows after the CPI and jobless claims reports overnight.

Overall the market is still seeing US rates as steady for a few months and emerging market currencies and equities generally continued to make gains, rising to their best level in months. This trend may continue in the near term, although the fast pace of recent gains should slow given ongoing uncertainty over the state of the US economy and the capacity to raise rates.

The CAD shrugged off the stronger US data, weaker Canadian existing home sales, and further modest falls in oil prices to make a new high against the USD. USD/CAD is now testing down to the old high in the first quarter of the year (the 18 March FOMC day).

It is an interesting week for Canada next week, kicked off by the Federal election. Followed by a BoC rate decision and quarterly policy report, retail sales and CPI. The technical pattern suggests CAD wants to strengthen, but it is difficult to buy ahead of these events. Nevertheless, we can see a positive reaction coming from the election (discussed below).

Canada Election

This has been the longest election campaign in Canada's history since the election was called on 2 August by the incumbent Conservative Party government, led by Stephen Harper. So long that the market appears to have forgotten about it, or gotten over the almost inevitable minority government outcome.

This election is a three-way race, and the front-runner going into the final straight on polling day – Monday, 19 October, has come from behind to over-take his more fancied and experienced rivals.

Leading the polls is the slightly left of centre Liberal party led by the fresh-faced Justin Trudeau. He has especially picked up momentum in the last two weeks, mainly at the expense of the ruling Conservative Party, but also drawing votes away from the Left Party (New Democratic Party led by Tom Mulcair).

A strong showing by Trudeau may be viewed in a positive light by the market that otherwise might have preferred a return of a conservative government but feared a worse outcome of an even split and more left leaning NDP in front, resulting in a divided parliament leaning towards higher taxes.

There will be 338 contested seats in the vote for the House of Commons, and these three parties are expected to take most of them with some drips and drabs going to a few other minor parties. A probable outcome at this stage appears to be a change in government to Liberal that won't have a majority, but should be able to govern effectively most likely with support from the left-NDP (since they both view the Conservatives as their main opposition).

The following article from the Guardian gives the best analysis of the parties and outcome. Canada's election campaign has become a poll on the country's basic values - theguardian.com

What they said

- ECB's Nowotny dovish comments. "One has to say we are clearly missing our target"…."but also core inflation are clearly below our target."
- Fed's Dudley "if the economy performs in line with my forecast, I would favour lifting later this year. But it's a forecast. It's not a commitment."
- Fed's Mester: jobs growth needed per month to keep unemployment rate steady is probably 70 to 120K depending on what model you have.

In the news

- PBoC expected to cut interest rates and banks Required Reserve Ratios in Q4 according to the Securities Daily (Bbg)
- RBA Watcher Alan Mitchell wrote "There is now a very good chance that the Reserve Bank will cut interest rates next month." (Link to story in AFR)

Economic news

- NZ CPI rose 0.4%y/y, above 0.3%y/y expected. But non-tradeable inflation of 1.5%y/y was lowest since Q4-2001.
- USA Jobless claims fell to 255K and made a new cyclical low in the four-week moving average, down to 265K. Bloomberg analysts caution that a flooding in the Carolinas may have contributed to lower outcome.
- USA Empire state manufacturing and Philly Fed business survey both tepid near recent lows and a bit weaker than expected.
- US CPI core rose to 1.9%, above 1.8% expected. Not the Fed's referred inflation measure, but now close to the 2% target. Higher rents boosting the core.
- USA weekly consumer confidence firms to a high since April, remaining around highs since 2007.
- Sweden unemployment rate higher than expected, SEK weaker.
- Canadian existing homes sales fell 2.1%m/m in Sep, and have lost momentum recently, averaging -0.7%m/m over three months, a low since March.
- Canadian Home prices rose 5.6%y/y in Sep, firming to the highest pace since 2012.

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- China total financing rose CNY1300bn in Sep, more than 1200bn expected. And bank loans rose 1050bn in Sep, more than 900bn expected. M2 Money supply rose 13.1%y/y in Sep as expected, down slightly from 13.3% in Aug
- Indonesia's exports fell 18.0%y/y in Sep, weaker than -15.0% expected. And imports fell 26.0%, weaker than -20.0% expected. Both are around the lowest annual growth rates since 2009. Non-oil exports fell 12.5%, down from -5.8%y/y in Aug. Non-oil imports fell 19.3%y/y, down from -9.7%y/y in Aug. The trade balance was a surplus of $1.0bn, stronger than $0.4bn expected with imports falling faster than exports.
- Singapore retail sales stronger; they rose 6.1%y/y in Aug, up from 5.2%y/y in July, well above 1.6% expected. Ex-autos sales rose 1.3%y/y, up from 0.7%y/y in July.
- Philippines Overseas Remittances weak; they fell 0.6%y/y in Aug weaker than +2.4%y/y expected, down from +0.5%y/y in July, the first annual decline since April 2003.
- South Korea policy rate left unchanged at 1.5%. The BoK trimmed its GDP and CPI growth forecasts for this year and next. However it expects growth to improve back toward potential next year. Nomura wrote that the BoK's GDP forecasts are optimistic and it expected rates to fall to 1.0% by March 2016, well below market pricing for stable rates.
- Australian labour market softer. Jobs fell 5.1k, weaker than +9.6K expected. The unemployment rate was steady at 6.2% as expected. Full time jobs fell 13.9K, part-time jobs rose 8.9K. Jobs growth the previous month in Aug were revised up slightly from 17.4 to 18.1K. Jobs growth has averaged 17.4K for the last three month, the ABS trend measure is +12.4K per month.
- The unemployment rate is up from around 6.0% in May/June, to be back around the highs around the end of last year and early this year. The trend may be deteriorating a bit, but is around stable for the last year, still regarded above neutral seen closer to 5.0%.
- Australian vehicle sales jumped 5.5%m/m in Sep to be up 7.7% y/y. the trend.
- New Zealand PMI firmed from 55.1 to 55.4 in Sep, recovering from recent lows of 52.0 in April and May.
- New Zealand consumer confidence firms from 110.8 to 114.9 in Oct, up for a second month from the low for the year in Aug, still well down on levels around 125 earlier in the year, still modestly below the long run average.

On the Radar

- Aust. - Financial Stability Report
- Japan - BoJ Gov Kuroda speaks in Tokyo, weekly cross-border inv.
- USA - IP/CU, JOLTS, UM Consumer Confidence
- Canada - Manufacturing sales & cross-border securities investment
- Eurozone - Trade balance and CPI final
- UK 16 Oct - BoE Kristin Forbes speaks at a Brighton Summit
- Singapore - Trade balance
- India - Trade balance
- Malaysia - CPI

Next week

- Australia 20 Oct – RBA minutes
- Australia 22 Oct – RBA Assistant Governor Edey speech
- China 19 Oct - Retail sales, IP, FAI, GDP Q3
- China 20/23 Oct – President Xi State visit to the UK
- China 23 Oct – Property Prices
- Japan 20 Oct – Department and convenience store sales
- Japan 21 Oct – Trade balance
- Japan 23 Oct – PMI flash
- New Zealand 19 Oct – PSI
- New Zealand 21 Oct – Net migration
- New Zealand 22 Oct – Job ads
- USA 19 Oct – NAHB Housing market index
- USA 20 Oct – Housing starts & Building Permits
- USA 20 Oct – Fed's Dudley and Powell speak at a market conference in NY
- USA 22 Oct – Chicago Fed National Activity Index, Existing Home Sales, Leading index, Kansas City Fed Mfg Index, Markit PMI flash
- Canada 19 Oct – Federal election
- Canada 21 Oct – BoC Rate Decision and quarterly Monetary Policy Report
- Canada 22 Oct – Retail sales
- Canada 23 Oct – CPI
- Eurozone 19 Oct - construction output
- Eurozone 20 Oct – Current Account balance
- Eurozone 22 Oct - ECB
- Eurozone 22 Oct – Consumer confidence
- Eurozone 23 Oct - PMI flash for mfg and services
- Taiwan 20 Oct – Export Orders
- Taiwan 23 Oct – Commercial Sales & Industrial Production
- Malaysia 22 Oct – Foreign Reserves
- South Korea 23 Oct – GDP Q3
- Singapore 23 Oct – CPI
- India 23/30 Oct – Eight infrastructure industries production

Further out

- Australia 28 Oct - CPI
- Australia 3 Nov - RBA rates policy
- Australia 5 Nov - RBA Governor Stevens speaks
- Australia 6 Nov - RBA Statement on Monetary Policy
- Japan 29 Oct – IP
- Japan 30 Oct – Employment, Household spending, CPI, BoJ policy and semiannual outlook report.
- Japan 4 Nov – Japan Post IPO
- China 27 Oct – Industrial profits

- China 28/31 Oct – Leading Index
- China 1 Nov – Manufacturing and Non-Manufacturing PMI
- China 2 Nov – Caixin Mfg PMI
- China 4 Nov – Caixin Services PMI
- USA 26 Oct – New Home Sales
- USA 27 Oct – Durable goods orders
- USA 28 Oct – FOMC
- USA 29 Oct – GDP Q3
- USA 5 Nov – Fed Vice Chair Fischer speaks at the National Economists Club
- USA 6 Nov – Payrolls
- New Zealand 27 Oct – Trade balance
- New Zealand 29 Oct – RBNZ Official Cash rate (OCR) review
- New Zealand 30 Oct – Building Permits, ANZ business survey, Credit growth
- New Zealand 2 Nov – Treasury monthly economic indicators report
- New Zealand 4 Nov – Labour report Q3
- Eurozone 30 Oct – Unemployment and CPI first estimate

Markets on the Move

- AUD and NZD rose ahead of the US data to session highs, dipped sharply on the data, recovered much of the losses, but stalling at their new higher ranges.
- CAD stronger: It fell on the US data, but has since recovered and made a new USD/CAD low in the afternoon US session since July. USD/CAD is now testing the high in the first quarter of the year (the 18 March FOMC day).
- ZAR rose strongly and steadily for a second day rising to a new high since Aguste. Other EM currencies generally firmer.
- AUD/NZD bottoming: It was starting to stabilize from its recent fall in the afternoon US session, dipped on the NZ CPI, but rebounded again and may have made an intra-day double bottom, time to square up shorts if you were prescient enough to have ridden the fall.
- NZD/JPY has recovered to pre-August melt-down range, now likely to face stiffer resistance. Action today in NZD after the CPI will be telling.
- USD/JPY was hitting lows ahead of the US data, making a second stab at 118.10ish before bouncing on the data, it tried lower again to 118.20s, and recovered again to be little changed on 24 hours. The low 118s set up as a decent support zone, feels like a 118/120 market now.
- Weak EUR session: It rose above some key peaks on Wednesday and extended to its high since Aug in the early European session just short of the psychological 1.15. It has retreated relatively sharply in two distinct moves; the first to what may have appeared the break up level around 1.1440, the second after the US data, now back to 1.1375. Not sure why EUR was reacting positively to a “risk-on” move in the first place, it should be the primary funding currency with the lowest rates and risk of more QE. Perhaps this is why it has failed to extend the break higher. EUR/JPY fell back to mid-

range, move all happened in that early European session. EUR/CHF fell to low since Sep.

- GBP/USD stable after its recent rebound, had only a hiccup around stronger US data. Looks more solid. EUR/GBP fell and sitting on low side of range for last two weeks, risk appears lower to test lows in Sep.
- EUR/SEK up on big jump in Sweden unemployment
- Strong KRW and TWD in offshore session, gains mostly in European session, USD/TWD to lows since 11 Aug CNY reval. USD/KRW to low since July.
- USD/INR more steady in last week
- South East Asian currencies generally consolidated and little changed after recent rebound.

- US rates 2yr rates bounce 4 to 5bp, after their fall of 7bp on Wednesday. Stronger US data helped stabilize rates and the USD.
- Australian rates dipped after the employment data, but recovered to be little changed in the Australian day, and firmed up around 3bp with US rates overnight.

- US Stocks rose 1.5%, more than reversed losses on Wednesday to make a new high since August. Strong gains in consumer and financial stocks.
- Mainland Chinese and Korean equities rose to high since August. Thailand stocks rise to high since Aug
- Canadian equities surprisingly down 0.3%.

- Copper fell in LME session, mostly after USD rebound on its stronger US data. It then recovered losses in rest of the US day. Trading around recent highs.
- Oil weakened modestly, drifting lower in recent sessions, but not decisively, may be finding support in middle of Sep range.
- Gold steady
- Coal slipping in China, more so for thermal, around long term lows
- Iron ore slipping for a third session, though still largely mid-range since mid-year.

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