EUR and JPY at key tech supports

The ECB has shocked the market suggesting a large further expansion of its stimulus plan including a deeper dive into negative interest rates is likely at its next meeting in December. This will put intense pressure on the BoJ to up its policy easing measures, intensifying the focus on its policy meeting next week, at which most have anticipated no action. EUR is sitting on three key supports and a break lower is likely after the market has spent six months, especially the last few, squaring up shorts. USD/JPY is also threatening to break up. China has been easing policy recently and increasing finance for infrastructure spending. The results are likely to help offset recent bearish trends in commodity assets.

EUR testing three key supports

EUR is testing several key supports – an uptrend from the lows in Mar/Apr that comes in around 1.1080, the lows in September around 1.1080/90, and the 50% retracement from the low to the high this year at 1.1085. A break below this region almost feels inevitable after the shock to the market from the ECB news that will have left many scrambling to get on short EUR positions after spending much of the last six months squaring them up.

EUR daily bars

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The ECB more-or-less said it plans more easing measures in December and said all measures were on the table including cutting its already negative interest rates further. There will be much written analysing what was said and what is possible, but in this fast moving market I will leave that to others for now.

The market will be thinking what does this mean for the BoJ. The pressure will indeed be intensified on the BoJ to not be left behind. USD/JPY is also close to a significant break up out of a narrowing stable range since the August market upheaval.

The news was generally positive for emerging market currencies that are mildly firmer than the USD in most cases since the ECB press conference.

Not that the market will have paid much attention, but the signs from the US data were also encouraging. There was weakness in the Chicago National Activity Index and leading indicators that are likely to have been dragged down by the uncertainty in global markets over recent months. However the arguably harder and more current jobless claims data set a new long term low in the four-week moving average, existing home sales were at a high three-month average since 2007 and the Kansas City manufacturing index suggested the region is bouncing back from the energy sector slump.

The Fed will be trying hard to stay in-doors and away from the press in the wake of the ECB surprise to avoid questions on whether they still expect to hike rates later this year.

In the news

- China is reported to be planning to make "policy banks" issue bonds to fund local government infrastructure spending. Bloomberg reports funds available to local governments would rise from CNY300bn to 600bn, citing unidentified people. This appears to be part of an announcement made in September that CNY1.2tn of funds would be raised in this way to fund infrastructure over the next 2 years. It is unclear if this is new funding, or a front-loading of this previous announcement. (China Said to Expand Funds for Infrastructure to Bolster Growth – Bloomberg.com)
- China is considering a pledge to liberalize the nation's capital account by 2020 as part of the Five-year plan to be debated next week in the Communist Party plenum.
- China is studying implementing a 'Tobin tax' on FX transactions to discourage short term cross-border flows said Wang Xiaoyi, Deputy Administrator of the State Administration of Foreign Exchange at a press conference in Beijing on Thursday. This idea was raised earlier this month by Yi Gang, Central Bank Deputy.
- A Chinese central bank research article suggesting the bank could allow the currency to trade more freely. Bloomberg reported that, "It noted current financial and forex market fluctuations offer chance for stress test of existing yuan internationalization measures". And, "China should support more yuan-denominated financial products onshore and offshore."

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- The CBA was the second major Australian bank to announce a rise it is standard variable mortgage rate. It raised it by 15bp, following the rise of 20bp announced by Westpac last week.NAB similarly announced a 17bp hike in its rate this morning. The hikes may weigh on the property market and increase the odds that the RBA cuts the policy rate in coming months.
- The UK has been laying out the reddest of red carpets to the Chinese President Xi, in contrast to the more cautious tones of the recent state visit to the USA. (President Xi Jinping state visit: business deals – FT.com
- Following an inconclusive election earlier in October, Portugal's main opposition Socialist party (PS), has struck a deal with the Communist Party and radical Left Bloc, in a bid to form a majority coalition in the 230-seat parliament. The new left coalition is reported to be aiming to reverse austerity measures, such as public sector pay cuts. SP leader Antonio Costa has promised not to jettison his party's moderate pro-Europe stance and will continue to comply with its post-bail-out conditions imposed by the EU if he becomes PM, but this seems incompatible with the agenda of his left coalition partners, increasing political uncertainty. If the Left coalition holds together, Costa would replace the Conservative government of Passos Coelho. (Portugal's socialists push for anti-austerity government – FT.com)

What They Said

- ECB Draghi: ECB plans to reconsider stimulus plan in December. Some members hinted they wanted more stimulus today. Can change the design of all tools if needed. The committee discussed a further lowering in the deposit rate. Sees a link between lower oil price and inflation expectations.
- New Zealand Finance Minister said in a speech in Sydney that he was "relatively positive" on the part of China's GDP that matters to New Zealand; the outlook for Chinese consumer is positive. He said he was reasonably focused on returning to a AAA rating. NZ growth was "a bit soft" at the moment. The exchange rate has adjusted quite considerably. (Bloomberg story link: NSN NWLLOX6JIJV2<Go>)
- UK Chancellor of the Exchequer George Osborne has said he wants China to be Britain's biggest trading partner after the US by 2025. String of UK deals to follow in Xi Jinping's wake – FT.com

Economic news

- USA Chicago National Activity Index was little changed at -0.37 in Sep, weaker than -0.20 expected. The data suggests growth is somewhat below trend based on a weighted average of 85 nationwide indicators.
- US weekly unemployment claims remained around long term historical lows at 259K, a bit stronger than 265K expected, marking a new 4-week moving average low, suggesting potential growth may be lower than the historical trend and the labour market is tightening further.
- USA weekly consumer comfort index dipped a bit from 45.2 to 43.5 last week, still around its highs since 2007.
- USA existing home sales rose 4.7%m/m in Sep, more than +1.5% expected, close to the high for the year in July, and a new 3mth moving average high since 2007.

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- USA leading index fell 0.2%m/m in Sep after flat results in July and August. Its weakest three-months since 2012. Weakness in this indicator may already be turning with the rebound in equities in the last month and strength in the housing market suggesting the drag from a weak permits data will reverse.
- Kansas City Fed manufacturing index rose from -8 to -1 in October, above -9 expected. This is the highest level since Feb and a sign that the region is shaking off the drag from the weaker energy sector. New orders rose from -8 to +7 and production rose from +1 to +4.
- Canada retail sales rose 0.5%m/m in Aug, stronger than 0.1% expected, but excluding autos they were flat, weaker than 0.2% expected.
- Eurozone consumer confidence eased from -7.1 to -7.7 in October, a bit lower than -7.4 expected, at a low since January, but a bit above average levels before the crisis era after 2008.
- UK retail sales ex autos rose 1.7%m/m in Sep, well above 0.4% expected in Sep. However, August sales were revised down from +0.1 m/m to -0.7%. They rose 5.9%y/y in Sep. Sales are reported to have been boosted by the Rugby World Cup

On the Radar

- China Property Prices
- Japan PMI flash
- Singapore CPI
- Malaysia CPI
- Taiwan Commercial Sales & Industrial Production
- Canada CPI
- Eurozone PMI flash for mfg and services

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 26/29 Oct – 5th Plenary Session of the 18th Central Committee of the Communist Party of China. The 13th Five year plan (2016-20) will be top of the economic agenda (some focus on if the growth target is revised down). (businessinsider.sg)
- 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

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- USA 28 Oct – FOMC
- USA 29 Oct – GDP Q3
- USA 3/19 Nov – Congressional Debt ceiling approach. (WSJ article)
- 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 fell on news that CBA would raise its variable mortgage rate from around .7230 to near .7180. It grinded back to around .7220 and then gyrated on the ECB surprise, ending in little changed at around .7200/.7220.
- NZD firmed ahead of the ECB surprise and has firmed further in response. AUD/NZD fell to a new low since May. CAD firmed in a similar fashion, but has recovered only around one-quarter of its losses the previous day on a more dovish BoC statement.
- Most Emerging market currencies strengthened moderately against the USD after the ECB surprise.
- JPY fell from around 119.80 to around 120.70 in response to the ECB, as it raised the odds of the BoJ expanding its policy easing measures. This takes USD/JPY above its recent highs in the low 120s over the last month, back to highs in early-Sep. It appears close to breaking out of a sideways consolidation since the August global markets upheaval.
- EUR is testing an up-trend line from the lows in Mar/April. This also coincides with the previous lows in Sep, and the 50% retracement from the low in March to the high in August. While a sharp reaction to the ECB surprise, EUR had been one of the strongest currencies in recent months, and might be expected to weaken significant further since investors have squared up short EUR positions over the course of the last six months or so.
- EUR/JPY had started to weaken a little ahead of the ECB surprise on news of political risk in Portugal. It has now moved below a rising trend of recent lows in Sep and August that also extends back to the low for the year in April.
- GBP rose ahead of the ECB surprise, perhaps on the Portugal news and safe haven moves out of EUR. It reversed and made new lows in over a week after the ECB news, dragged down by the weaker EUR.
- EUR/GBP fell to touch its low in September; the low since the August global market upheaval.EUR/CHF fell to around its recent lows over the last week, the lows since August.
- Chinese yuan was weaker in late-Asian trading and garnered little support from the ECB news. Reports from the PBoC suggesting they are studying faster opening up of the capital account may have encouraged selling in line with a trend this year for capital outflow. However countering this was talk of more fiscal expansion and a Tobin tax that would potentially hit short speculators.

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- KRW in contrast firmed in early Asia and further in the offshore session before and after the ECB news, reversing losses the previous day.

- German 2yr bond yields fell 6bp to -0.316%, a new record low. 10 year yields fell 7.3bp, a low since May. Italian and Spanish 10 year government yields fell over 15bp to lows in Apr/May. Portuguese yields rose initially on political risk news, but fell over 12bp on the day to lows in early-October, around the time of the election.
- 2yr Euro swap rates fell around 5bp to -0.008%, the first time below zero.
- US 2yr swap rates fell on the news by around 2bp, but recovered to be down around 1bp. 2yr USA government yields fell 2bp, 10 year yields were little changed.
- UK 2yr swap rate is down around 1.5bp, 2yr government yields are down around 3bp since the ECB news, but little changed on the day after rising earlier in the day.
- Australian 3yr rates are down around 3bp with odds of a cut improved by the CBA announcement and ECB news.

- US stocks rose 1.7%, Eurozone stocks rose 2.1%, both to new highs since August. Steel stocks rose 5.7%, reversing around three-quarters of the losses over the last week. Energy stocks rose 2.0% as part of broad-based market strength. However, Healthcare stocks fell 0.5% and home-builders fell 1.4%.

- Oil was little changed still around recent lows.
- Gold perhaps surprisingly fell on the ECB news, in line with a stronger USD against majors. But the prospect of more global policy easing may tend to support gold.
- Copper firmed on the day, mostly ahead of the ECB news, but Aluminum fell sharply to a new low since 2009, extending accelerated losses over the last week.

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