

Euro and AUD Almost Unchanged Against the USD

Jignesh Davda, FX Empire - December 4, 2019

PMI data out of Europe this week served as a reminder of slowing economic growth and set low expectations for the quarter.

Manufacturing data that was released yesterday continued to show a contraction in most European countries. Services data, which were released today, provided little encouragement.

Services have typically outperformed manufacturing so it was not a big surprise that all the countries reporting today held in expansionary territory. Although Italy is quite close to showing a contraction with a print of 50.4 in November, falling short of the estimate of 51.2

IHS Markit reported that today's data signals 0.1% GDP growth in the last quarter of the year, with manufacturing creating a notable drag. While today's figures steadied a bit from the last reading, the numbers are at the lower end of what's been reported over the last five years.

This should keep pressure on inflation which will make the ECB's task of price stability harder, despite all of its efforts. The euro is trading a bit higher this week, closing at 1.11 USD/EUR, up from 1.10 USD/EUR last Friday. This small move was mainly due to the pessimism around the ongoing U.S.-China trade talks and the recently Trump imposed import tariffs of USD 2.3 billion worth of French goods in retaliation for the tax imposed by Paris on the sales of digital services providers.

Meanwhile, in Australia, the Reserve Bank of Australia (RBA), at its December monetary policy meeting held this Tuesday, maintained its official cash rate (OCR) at a record low of 0.75%, as widely expected. Similar move is expected from the U.S. Fed, keeping interest rate at 1.75%.

According to the latest Reuters poll, the median of the 39 economists polled saw the RBA only hiking rates in Q1 2020 now.

The decision was on expected lines and, therefore, failed to move the Australian Dollar immediately, keeping the aussie at 0.6845 USD/AUD.