

# Equities quiet leading into ECB QE announcement

*Rivkin: Equities quiet leading into ECB QE announcement, Canadians cut rates unexpectedly, yen to take a back seat to euro, ASX futures up 39*

**Alleged leaked conversations from European policy makers have reports emerging of a 50 billion per month quantitative easing package emerging from the ECB, following tonight's policy decision.** The market was roughly expecting a 500 million euro QE commitment (likely with many bets positioned for a larger surprise), and a monthly quota could leave an open-ended program of bond buying that could swell to a much larger number than 500 billion euro, which the market should take well. Stating a monthly quota also gives the ECB flexibility to work around the imminent Greek political changes. But let's not count our chickens, **we have just 15 hours or so before details will officially emerge**, and from the look of our trading books most investors and traders are leaving risk on throughout this announcement.

There is no doubt that market makers in FX markets will remove risk from their books surrounding tonight's decision, so **FX traders should brace themselves for widening spreads and volatility, irrespective of whether the ECB announces something that the market is expecting or otherwise.** Naturally, currency pairs including the EUR will be most vulnerable to volatility; however, with a world focused on European quantitative easing, one should also consider how **the EUR might steal the spotlight from another currency that up until now has held the attention of traders due to its monetary policy: the Japanese yen.**

**Today's first chart shows the strength of the USDJPY pair, which represents a weakening yen (i.e., the more JPY one USD**

can buy, the weaker the JPY). While there is no doubt that the weakening yen has partly been a function of a strengthening US dollar, Japanese Prime Minister Shinzo Abe has thus far been able to attract a lot of the world's FX traders to his yen-weakening quantitative easing program, which will likely be eclipsed by that of the ECB tonight. When this happens, the euro may well become a hotter funding currency than the yen and thus zap some of the long positions in the USDJPY pair. **For a less direct view on a weakening euro as a result of tonight's policy decision (which at this stage is, naturally, a crowded trade), one might look to express a short view on the USDJPY pair at a point where it is looking vulnerable,** with a short USDJPY trade at the ~116 level being a conservative entry or *at market* order being an aggressive entry.

**If you're wondering why the Australian dollar just dropped almost a cent and a half, look no further than the Bank of Canada's unexpected cut in cash rates from 1% to 0.75% overnight.** Today's second chart shows the CADUSD (orange) and AUDUSD (black) falling in chorus, with the NZDUSD (blue, but not relevant to either axis) thrown in there to illustrate the grouping of these 'commodity currencies' that were affected by the Canadian move. Could this get traders talking more about an imminent Reserve Bank of Australia rate cut? Possibly; however, as a percentage of GDP we do not feel the impact of falling oil, gas and oil/gas infrastructure construction that the Canadians do, but we are certainly affected somewhat. This could well impact money market futures in Australia quite a bit and **I would suspect that today we'll see 30-day Australian interbank cash rate futures price in a 25 basis point cut at the February RBA board meeting more aggressively than they were yesterday** due to this.



**Upcoming economic announcements:** Japanese foreign asset purchases at 10:50am, AUD CPI expectations at 11am, Bank of Japan's monthly report at 4pm the ECB rate decision at 11:45pm followed by the all important ECB press conference at 12:30am, all Sydney time.

GLOBAL MARKETS

Security	Current Price	Daily Change	Daily % Change	Rolling 5 Day Change	Rolling Monthly % Change
<b>Equities</b>					
S&P/ASX 200	5393.38	85.71	1.61	0.74	-0.89
Dow Jones Industrials	17554.28	39.05	0.22	-0.34	-1.41
S&P500	2032.12	9.57	0.47	0.45	-1.86
Nasdaq Composite	4667.42	12.575	0.27	0.13	-2.06
DAX Index	10299.23	42.1	0.41	-4.91	5.23
VIX Index	18.85	-1.04	-5.23	-8.32	14.31
ASX SPI200 futures	5382	39	0.73	1.93	-0.50
Nikkei225 futures	17300	90	0.52	0.82	-1.70
<b>Currencies</b>					
US Dollar Index	92.78	-0.2620	-0.28	0.68	3.56
EURUSD	1.1608	0.0058	0.50	-1.54	-5.09
GBPUSD	1.5143	-0.0002	-0.01	-0.60	-2.87
JPYUSD	117.85	-0.9700	0.82	-0.44	1.87
AUDUSD	0.8086	-0.0086	-1.05	-0.79	-0.60
CADUSD	1.2341	0.0228	-1.85	-3.16	-5.78
NZDUSD	0.7555	-0.0083	-1.09	-2.12	-2.24
<b>Commodities</b>					
CRB Index	221.23	2.27	1.03	0.70	-7.93
WTI Crude Oil	47.59	1.12	2.41	2.32	-17.21
Brent Crude Oil	48.89	0.90	1.88	-1.95	-21.21
Spot Gold (XAUUSD)	1293.36	-2.05	-0.16	5.26	8.11
Spot Silver (XAGUSD)	18.13	0.13	0.73	7.55	15.63
Copper	260.70	1.30	0.50	-1.40	-9.62
Iron Ore	67.81	-0.35	-0.51	-1.17	-1.97
LME Base Metals Index	2752.50	24.90	0.91	2.93	-7.15

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