COLUMN—China’s creaking export model

That creaking sound you hear just might be the Chinese export-driven economy model about to break. While most of the world’s attention is focused on the interminable and badly sung opera in Washington, China just released a set of data that indicate a serious slowing in demand for its products, particularly from its emerging market trading partners.

James Shaft is a Reuters columnist. The opinions expressed are his own

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Oct 15 (Reuters) - That creaking sound you hear just might be the Chinese export-driven economy model about to break. While most of the world’s attention is focused on the interminable and badly sung opera in Washington, China just released a set of data that indicate a serious slowing in demand for its products, particularly from its emerging market trading partners.

Chinese exports in September fell 0.3 percent from a year ago, customs officials said. While demand for Chinese products flagged in the European Union, the main culprit seems to have been emerging markets, which have been hit hard by slowing capital flows. Exports to Southeast Asia fell to a 17-month low, while those to South Africa were also hit hard.

Emerging markets had a hard summer, as expectations, now reversed, that the Federal Reserve would slow its purchases of bonds made borrowing money internationally more difficult. And yet, despite the fall in exports, the rest of China’s economy, which is still predicated on demand from abroad, is carrying on as if nothing has changed. Imports were sharply higher in the month, especially of the sorts of raw materials needed for export industries and to invest in infrastructure to support more exports. Credit creation also rose, with doubtless much of it going to support imports and property investment.

Imports of crude oil and iron ore set a fresh record in September, while copper shipments jumped 18 percent to set an 18-month high.

For decades, China’s economic model has been relatively simple: use a lower wage base to drive exports and re-invest most of the profits into the infrastructure and factories needed to create yet more exports. Though this approach worked brilliantly for years, there were two big longer-term weaknesses with this plan. Both of them may be coming into play just about now, which would both explain decreasing demand for Chinese goods and make it more difficult for China to cope.

Wage growth in China has far outpaced inflation, making it less competitive. Wages in Chinese manufacturing have more than tripled in 8 years, while the supply of rural workers streaming to cities has slowed. Boston Consulting Group sees more so-called onshoring of jobs back to the United States, driven by wages, automation and energy and transportation costs.

The paired weakness is in China’s consumer economy, which has been small and has suffered as the economy remains focused on investment, often in houses, for which there is little natural demand.

It is unclear if slowing exports are being driven by cyclical trends, like weakness in emerging markets, or secular ones, like the migration of manufacturing. September’s figures may also look worse than they were due to a crackdown this year on phantom imports, which have been a popular way for companies wanting to bring money into the country to skirt Chinese capital controls.

If there is a sustained fall in demand for China’s products, its options may be somewhat limited. Given the centrality of investment and exports to China’s economy, the government has a track record of reacting forcefully to slow-downs. The tactics include easing monetary conditions, which stimulate loans and investment even in the absence of strong demand for the end product.

But such easing may be a bit difficult right now. China’s annual consumer inflation rate rose to a seven-month high of 3.1 percent in September, driven by food inflation, in particular vegetables. While this was driven by weather, and thus may subside, it will serve to limit the central bank’s ability to loosen conditions.

In some ways, the biggest issue isn’t limitations on government stimulus if China needs it. One of the advantages of a single-party state with strong control over banking is that the government can always foment credit growth. The problem instead is what happens if exports don’t come back, if change is long-term and mostly in one direction. That will put a lot of pressure on China, not least because a lot of the investment there since the great financial crisis has been of very low quality.

It is not simply empty cities filled with “investment” apartments. It is everything from the cost and wastefulness of infrastructure investment to low-yielding research and development.

An IMF study from 2012 estimated that China’s over-investment is equivalent to between 10-20 percent of annual output every year. Not only does that imply very, very low returns on investment, it almost certainly points to lower growth over time if, or rather when, China is forced to move away from its export model.

That story, when it happens, may make U.S. political dysfunction look like small potatoes in comparison.
U.S. senators hint at possible fiscal deal on Tuesday

By Richard Cowan and Thomas Ferraro

WASHINGTON, Oct 14 (Reuters) - A month of combat in the U.S. Congress over government spending showed signs on Monday of giving way to a Senate deal to reopen shuttered federal agencies and prevent an economically damaging default on federal debt.

Senate Majority Leader Harry Reid, a Democrat, and his Republican counterpart, Mitch McConnell, ended a day of constant talks with optimistic proclamations, as details leaked out of the pact they were negotiating.

"We've made tremendous progress," Reid said at the end of a Senate session during a federal holiday, underscoring the urgency of settling a fiscal crisis that was nearing a Thursday deadline. The U.S. Treasury Department estimates it will reach a $16.7 trillion borrowing limit on Oct. 17.

"We hope that with good fortune ... that perhaps tomorrow will be a bright day," Reid said, hinting at the possible Tuesday announcement of a bipartisan Senate deal.

McConnell, who has been a fierce critic of Reid all year instead had a smile on his face and upbeat words. "We've had a good day; had a good day yesterday," he said of his work with Reid.

The plan under discussion would promptly end a partial government shutdown about to enter its third week. It also would raise the debt ceiling by enough to cover the nation's borrowing needs at least through mid-February 2014, according to a source familiar with the negotiations.

Government operations would be funded through the middle of January, keeping in place the across-the-board "sequester" spending cuts that took effect in March, though government agencies would have more latitude to ease their impact. It would also set up a new round of budget talks that would try to strike a bargain by year's end.

With the Reid-McConnell talks continuing, these details were subject to change, according to Senate aides.

Democrats look to have fended off any major changes to President Barack Obama's signature health law, something that could fuel resistance, particularly by conservative Republicans in the House of Representatives who had insisted on delaying "Obamacare" as a condition of continued government funding.

House Majority Leader Eric Cantor told reporters that Republican lawmakers will hold a closed-door meeting on Tuesday "to discuss a way forward, so stayed tuned."

House Speaker John Boehner could face an insurrection that could threaten his position as Washington's top Republican if he tries to advance a bill over the objections of rank-and-file conservatives in that chamber.

Boehner has not publicly commented on the Senate negotiations. A spokesman said the House would review whatever the Senate passes.

MIXED REACTION

In an early sign of Republican opposition, Representative Joe Barton of Texas told reporters: "No deal is better than a bad deal," as he downplayed the impact of an historic credit default if the U.S. limit on borrowing is not quickly raised.

But Republican Representative Peter King of New York said it would be hard for the House not to put it to a vote if it gets strong support from Senate Republicans.

"For the (Senator) Cruz wing of the party who say we should get a better deal, I say we would have gotten a better deal if we had not shut the government down and gotten right to debt negotiations," said King, a moderate who has criticized the tactics of the conservative Tea Party faction.

Republicans have taken a hit in opinion polls since the standoff began and some in the party worry it could hurt their chances to win control of the Senate in next year's midterm elections.

A Washington Post/ABC News poll released on Monday found that 74 percent of Americans disapprove of the way congressional Republicans have handled the standoff, compared with a 53 percent disapproval rating for Obama.

DEADLINE LOOMS

Even if a deal is reached on Tuesday, it was unclear whether Congress can pass legislation to avert the Oct. 17 default deadline. Hard-liners such as Texas Republican Senator Ted Cruz might be able to exploit Senate rules to delay a vote for several days.

Confronted by a throng of reporters on Monday, Cruz responded to repeated questions about his intentions by only saying, "We'll have to wait to see what the details are" of any pact.

Because of the uncertainty over U.S. finances, banks and money market funds are already shunning some government securities that are often used as collateral for short-term loans and to facilitate many other transactions.

Though some Republicans have argued that the government could avoid serious consequences by prioritizing interest payments over other types of spending, that view is not widely held by the public.

A Reuters/IPSOS poll released on Tuesday found that only 25 percent believe the debt ceiling issue is "overblown."

U.S. stocks were buoyed by prospects of a deal. The S&P 500 Index closed on Monday up 0.41 percent while the Nasdaq Composite Index ended 0.62 percent higher.

The government shutdown is beginning to weigh on the economy. The hundreds of thousands of federal employees who have been temporarily thrown out of work are likely to get back pay when the standoff is resolved. But they aren't getting paid now, forcing many to dial back on personal spending and cancel holiday travel plans.
The crisis is only the latest in a series of budget battles in recent years that have spooked investors and consumers. The uncertainty has weighed on the economy and boosted the unemployment rate by 0.6 of a percentage point, or the equivalent of 900,000 jobs since late 2009, according to a new estimate by the Peter G. Peterson Foundation, a think tank.

Republicans in the Senate are pushing to include slight modifications to the Affordable Care Act. One would toughen income verification for those seeking health insurance subsidies under the law. Another could delay a reinsurance fee included in the law that otherwise would start in 2014, according to a labor-union source.

Throughout the shutdown, Obama has said Republicans must agree to reopen the government and extend the debt ceiling before the two sides can begin talks on spending or tweaks to his Affordable Care Act.

**Rio Tinto copper, iron ore, coal output rising after strong Q3**

SYDNEY, Oct 15 (Reuters) - Global miner Rio Tinto boosted its forecast copper output for 2013 after a better-than-expected recovery from the U.S. Kennecott mine following a landslide, and posted record iron ore and coal output in the third quarter.

Copper output was also buoyed by a ramp up in production at the Oyu Tolgoi mine in Mongolia, while Rio Tinto said it was on track to beat its target of cutting $750 million in exploration spending this year.

Shares in Rio extended gains after the report, up 2.5 percent to a near three-week high and outperforming the broader index.

"Copper's come in well ahead of most people's expectations, and there's a pretty chunky production guidance upgrade there," said Chris Drew, an analyst at RBC Capital Markets.

In Australia, productivity improvements led to record quarterly thermal coal and iron ore production and shipments in the third quarter, the company said. For a table on Rio Tinto Q3 production

Iron ore shipments, which rose 4 percent from a year ago and 11 percent from the previous quarter were helped by expansion work on ports and rail lines in Western Australia, Rio Tinto said in its third-quarter production report.

A planned expansion in annualised output to 290 million tonnes would come in by the end of the first half of 2014, ahead of time and under budget, it said.

Guidance for iron ore output in 2013 was unchanged at 265 million tonnes.

"We maintained good progress against our strategic priorities to improve the performance of our businesses, strengthen the balance sheet and deliver our approved growth projects," Chief Executive Sam Walsh said in the report.

At Kennecott, Rio Tinto says it expects the mine to yield 185,000 tonnes of copper in 2013, up from only 150,000 tonnes forecast in July, citing greater progress on building a new road to help in waste removal and remediation work.

An avalanche of dirt buried the northeast section of the open-pit mine on April 10. Rio Tinto initially said it expected production at Kennecott to drop by at least 50 percent in 2013.

**Mubadala, Trafigura win control of Batista port in $996 mln deal**

By Guillermo Parra-Bernal

SAO PAULO, Oct 15 (Reuters) - Brazilian businessman Eike Batista ceded control of an iron ore port to Dutch energy firm Trafigura Beheer BV and an Abu Dhabi sovereign wealth fund in a $996 million deal that takes debt off his hands and secures new investment for the port.

The former billionaire's latest effort to stave off the collapse of his once high-flying Grupo EBX conglomerate follows the sale of other key assets and comes amid talks with creditors of OGX Petróleo e Gas Participações SA. The oil producer missed a $44.5 million bond interest payment this month and, analysts say, risks going bankrupt within weeks.

Under the terms of the deal, Trafigura and investment fund Mubadala Development Co, Batista's largest single creditor, will get a 65 percent stake in MMX Porto Sudeste Ltda, a port under construction that is slated to start operating by mid-2014.

Mubadala, which also owns a stake in EBX, and Trafigura had entered exclusive talks for the asset with Batista and the group's mining unit MMX Mineração e Metálicos SA last month. MMX will keep the remaining 35 percent stake in Porto Sudeste.

Trafigura and Mubadala plan to pump $400 million into the company to finance the completion of the port and iron ore terminal and will assume 1.3 billion reais ($596 million) of debt taken on by MMX Sudeste Mineração SA, a MMX unit linked to the port project, a securities filing said.

Batista's EBX group was worth as much as $60 billion at the start of last year but the value of its companies collapsed after missed production and profit targets, mounting debt and a weaker outlook for Brazil and other commodities producers.

In July, Batista ceded control of power company MPX Energía to German utility E.ON has since been renamed Eneva SA. In August, he agreed to sell LLX Logística to U.S.-based investment firm EIG Global Energy Partners LLC for $559 million.

The port, which is located in the southeastern state of Rio de Janeiro, will initially have the capacity to ship up to 50 million metric tonnes of iron ore annually.

The completion of the Porto Sudeste deal is subject to regulatory approval and the conclusion of a debt refinancing plan. The filing did not provide details on the scope of such plan.
TRAFIGURA AND MUBADALA WILL ALSO PAY HOLDERS OF SPECIAL MMX UNIT SHARES A royalty for iron ore shipped after the port makes a profit. The unit shares, which do not convey ownership in the company, were given to holders of Batista’s LLX when it sold the port project to MMX in 2010.

Both companies will also provide MMX Sudeste Mineração with $100 million in a trade finance facility. "The availability of financial resources, in line with this financing program, is a precondition to the approval of the transaction as a whole," the filing added.

MMX said it will host a conference call with investors as soon as possible but declined to give an exact date for the event.

METALS PROCESSOR ALLEGHENY TO SHED LOSS-MAKING UNITS

Oct 14 (Reuters) - Metals processor Allegheny Technologies Inc plans to shed two businesses and will report a loss for the third quarter, stung by a decline in shipments of metal products and higher raw material costs.

Allegheny said it had closed its fabricated components business and planned to divest its iron castings unit, part of a wider cost-cutting initiative that includes the sale of its tungsten business.

Pittsburgh-based Allegheny, which supplies specialty metals to sectors including aerospace, defense and oil and gas, estimated a loss of about 27 cents to 30 cents per share from its continuing operations for the third quarter ended Sept. 30.

The loss will include a 4-cent benefit from taxes, the company said.

Revenue from continuing operations is expected to be $970 million, it said. Analysts on average were expecting revenue of about $1.15 billion from its operations, according to Thomson Reuters I/B/E/S.

"Challenging conditions continued during the third quarter," said Rich Harshman, the company's chairman and chief executive.

Shipments of high-performance metals were affected by jet engine destocking, he said, while global economic uncertainty led to a slowdown in demand for industrial titanium, as well as nickel-based and specialty alloy sheet and plate.

From the third quarter, the company will consider its fabricated components and iron castings businesses as discounted operations. They contributed a combined $10 million in revenue and made a loss in the first six months of the year.

The tungsten business, which Allegheny agreed last month to sell to Kennametal Inc for $605 million, will also be considered as discontinued for the third quarter.

Allegheny is scheduled to report third-quarter results on Oct. 23.

The company's shares were down 1 percent at $30.55 on the New York Stock Exchange on Monday morning.

MARKET NEWS

JAPAN END-SEPT ALUMINIUM STOCKS FALL 7.4 PCT ON MONTH

TOKYO, Oct 15 (Reuters) - Aluminium stocks held at three major Japanese ports was 242,300 tonnes at the end of September, down 7.4 percent from 261,600 tonnes a month earlier, trading house Marubeni Corp 8002.T said on Tuesday.

Marubeni collects data from the ports of Yokohama, Nagoya and Osaka.

RIO TINTO MONGOLIA COPPER OUTPUT CLIMBS, BUT CHINA IMPORT SNAG DRAGS ON

SYDNEY, Oct 15 (Reuters) - Global miner Rio Tinto could be forced to stockpile the material while buyers negotiate with Chinese customs officials over import approvals.

"Oyu Tolgoi’s customers are making good progress with Chinese customs officials to resolve matters with purchased concentrate at the border," Turquoise Hill Chief Executive Kay Priestly said in a statement.

Turquoise Hill said it was sticking to a forecast to produce between 75,000 and 85,000 tonnes of copper in concentrates at Oyu Tolgoi in 2013.

"Shipments of concentrate are expected to be aligned with production rates by the end of 2013," it said.

The mine shipped 38,000 tonnes of concentrate to a bonded warehouse in China between July and Sept. 18 and another 122,000 tonnes was being held in inventory at the mine, the company said previously.

Data from Turquoise Hill on Tuesday showed the concentrate contained 43,700 tonnes of copper metal.

The mine also yielded 83,000 ounces of gold and 281,000 ounces of silver in the first nine months of 2013, it said.
MARKET NEWS (Continued)

Given the mine and concentrator are still early in development and operation, ore grades and recovery rates are expected to improve throughout the fourth quarter, according to Turquoise Hill.

The concentrate is destined for Chinese smelters. Buyers are seeking the necessary approvals to enable them to collect the material from the warehouse.

Mongolia has a 34-percent stake in Oyu Tolgoi, but will not share in any profits until Turquoise Hill recovers all the costs of the project.

Economic growth in the sparsely populated and landlocked country is heavily tied to its vast copper and coal resources, and reinvigorating foreign investment has been a top priority for its government.

Rio Tinto, which releases its third quarter production data later on Tuesday, is expected to provide an update on efforts to resume normal operations at its Kennecott copper mine in Utah, following a pit collapse in April.

Russia's Evraz to idle U.S. steel mill

MOSCOW, Oct 14 (Reuters) - Russia's largest steelmaker Evraz will idle its 500,000 tonne-capacity steel mill in the U.S. state of Delaware due to weak demand and oversupply, the firm said in a statement on Monday.

An inflow of steel products from Europe due to rising global oversupply has put pressure on U.S. steel producers.

"Unfortunately, market conditions continue to be challenging and low market visibility makes it difficult to foresee when positive changes will occur," John Zanieski, Evraz's Executive Vice President of Flat Products and Recycling said in the statement.

Like steel firms around the world, Evraz has been downsizing since signs of a growth slowdown in China and stagnation in crisis-hit Europe sent steel prices tumbling from all-time highs in 2011.

Evraz's suspension of work at the U.S. mill, which worked at around 70 percent capacity in 2012, follows its decisions to idle its Italian plate mill and to sell its South African Highveld mill and its Czech Vitkovice steel plant.

The financial results of the firm's U.S. division will not be affected by the idling of the Delaware plant, Evraz said.

Evraz's London-listed shares, which are trading around 70 percent below their all-time peak hit in early 2012, closed up 0.6 percent.
ANALYTIC CHARTS (Click on the charts for full-size image)

Daily LME Aluminium 3-months

Daily LME Copper 3-months

Daily LME Nickel 3-months

Daily LME Zinc 3-months

Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months

Daily LME Nasaac 3-months
MARKET REVIEW

METALS-London copper slips; traders wait for U.S. fiscal deal news

By Melanie Burton

SINGAPORE, Oct 15 (Reuters) - London copper edged lower as markets waited for news about a possible end to the U.S. fiscal deadlock, while Shanghai copper eased back from one-week highs after chasing overnight gains in London.

Copper prices bounced last week from the bottom end of the $7,000-7,500 range in place since early August but momentum appears to be spluttering, with risk appetite constrained until U.S. lawmakers forge a deal on the U.S. debt problem.

"What is happening in the U.S. is probably keeping market participants on the sidelines for now," said Alexandra Knight of National Australia Bank in Melbourne.

"But we're thinking in the near term there could be a little upside in copper... based on the possibility of some mini-stimulus by China's government and seasonal demand in the lead-up to Christmas," she added.

Three-month copper on the London Metal Exchange edged down 0.1 percent to $7,247.25 a tonne by 0707 GMT. In the previous session it had gained 0.8 percent.

The most traded January copper contract on the Shanghai Futures Exchange climbed 0.5 percent to close at 52,150 yuan ($8,500) a tonne. Earlier it reached its highest in a week at 52,390 yuan.

A month of combat in the U.S. Congress over government spending showed signs on Monday of giving way to a Senate deal to reopen shuttered federal agencies and prevent an economically damaging default on federal debt.

In the euro zone, the world's second-biggest copper consumer, factory output grew more strongly than expected in August from July.

China's central bank appeared to underline its commitment to currency reform on Monday by allowing the yuan to rise to a record high against the dollar despite unexpected weakness in exports in September.

Barclays said that Chinese copper demand could lose some momentum into the year-end as power sector spending dried up.

"Grid investment dropped 15 pct on the year in September, the first year-on-year decline in 2013," it said.

"Total spending is still likely to exceed targets set at the beginning of the year, and the power sector has been a main driver of strong copper demand in China. But if grid growth has already peaked and stabilised, copper demand could, too."

China accounts for around 40 percent of global refined copper demand.

Global miner Rio Tinto could be forced to amass a mountain of copper concentrate at its new $6 billion Oyu Tolgoi mine in Mongolia while Chinese buyers resolve a lengthy customs impasse with their government.

The global miner raised its forecast copper output for 2013 after a better-than-expected recovery at its landslide-hit U.S. Kennecott mine and it posted record iron ore and coal output in the third quarter.

PRECIOUS-Gold in tight range amid U.S. budget talks, fund outflows

By A. Ananthalakshmi

SINGAPORE, Oct 15 (Reuters) - Gold hovered near three-month lows as outflows from gold funds continued and as lawmakers made some progress towards resolving the U.S. budget impasse.

Gold, whose safe-haven appeal is usually burnished during times of geopolitical and economic uncertainty, has failed to gain despite protracted wrangling over the fiscal deadlock in the United States.

It has dropped about 4 percent to below $1,300 an ounce since a partial government shutdown began on Oct. 1.

"Based on historical analysis, we think the weeks following a (possible) default would be the time for gold to rally," said Amber MacKinnon, an analyst at Nomura Securities in Sydney.

"Unless we actually see that, gold will be in a holding pattern. The upside is more likely if we get a (credit) downgrade."

During the last fiscal debate over raising the U.S. debt ceiling in 2011 - when a deal was only reached at the last minute - gold did not react sharply until after Standard & Poor's downgraded the U.S. credit rating, MacKinnon said. Prices eventually hit an all-time high of $1,920 in September that year.

"It appears that gold doesn't rally on a safe-haven basis in times of political tensions in the U. S. until after the event has occurred," MacKinnon said.

Spot gold had slipped 0.2 percent to $1,270.70 an ounce by 0641 GMT, after snapping a four-day losing streak in the previous session.

SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, said its holdings fell 1.85 tonnes to 889.13 tonnes on Monday to hit fresh four-year lows - reflecting diminishing investor confidence.

A month of combat in the U.S. Congress over government spending showed signs of giving way to a Senate deal to reopen shuttered federal agencies and prevent an economically damaging default on federal debt.
Senate Majority Leader Harry Reid, a Democrat, and his Republican counterpart, Mitch McConnell, ended a day of constant talks with optimistic proclamations, as details leaked out of the pact they were negotiating.

FOREX-Dollar firm on hopes U.S. debt deal may be around corner

By Hideyuki Sano

TOKYO, Oct 15 (Reuters) - The dollar held firm, hitting a two-week high against the yen as top U.S. senators signalled they could soon reach a bipartisan deal to reopen the government and avert an immediate debt default.

Moves in major currencies were mostly modest, however, as investors remained wary of further political bickering. The exception was the Australian dollar, which jumped to a four-month high, getting an extra lift from meeting minutes showing Australia’s central bank was in no hurry to cut interest rates.

"Excessive pessimism about the U.S. has receded," said Kyo-su Ke Suzuki, director of forex at Societe Generale. "People have been building dollar long positions, giving consideration to the risk of not having dollars when a deal will eventually be signed."

The dollar rose as high as 98.71 yen, its highest level in two weeks, before giving up gains to trade at 98.47 yen, down 0.1 percent on the day. Still it maintained much of its recovery from a two-month low of 96.55 hit a week ago.

The dollar’s index against a basket of currencies stood at 80.329, having bounced back from Monday’s low of 80.126 and keeping some distance from an eight-month low of 79.627 hit earlier this month, just after the U.S. government entered a partial shutdown.

The euro was little changed at $1.3558, well within a recent trading band of $1.35 to $1.36.

Senate Majority Leader Harry Reid on Monday suggested a deal could be announced as early as Tuesday. His comments boosted hopes that a final deal could be reached before the Thursday deadline to raise the U.S. debt ceiling.

AUSSIE SHINES

Still, many uncertainties remain, given that any deal would have to win approval in the House of Representatives, where there will likely be stiffer resistance from conservative Republicans who demand more spending cuts.

The plan under discussion in the Senate is not particularly inspiring to markets either, as it seeks only to raise the debt ceiling through mid-February 2014 and to fund the government operations to the middle of January.

"This is unlikely to lead to a sustainable rally in the dollar and shares," said Masafumi Yamamoto, forex strategist at Praveidentia Strategy. "U.S. policy makers are just kicking the can and we will have another showdown in January. Under such circumstances, it would be difficult for the Fed to reduce its stimulus."

The debt crisis has taken talk of the Fed's tapering its stimulus off the table for now, as the government shutdown since the start of this month has hurt consumer sentiment.

Receding expectations of Fed tapering are a boost for high-yielding currencies, such as the Australian dollar, which had been hit by worries about a shrinking yield advantage over the dollar earlier this year.

Against this backdrop, the Australian dollar hit a four-month high, also benefiting from increased risk sentiment on expectations of an imminent deal on the U.S. debt ceiling.

In addition, minutes of the Reserve Bank of Australia’s October policy meeting showed that the central bank was in no hurry to lower rates and did not look overly concerned by the recent currency rise.

The Aussie rose as high as $0.9534, above its Sept. 18 peak of $0.9518 hit after the Fed’s surprise decision not to trim back its stimulus. It last stood at $0.9527, up 0.5 percent on the day.

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