

# global markets

Tuesday, 30 August 2005

- **The greenback** continued to wiggle its way into positive territory against the majors amid fairly thin liquidity conditions as UK was closed for a holiday. The positive upward drift in the USD could probably be attributed to both technical momentum from last week (as specs reverted to long USD positions) and some position squaring ahead of a heavy stretch of US data releases this week. Thinner liquidity conditions ahead of the long Labor Day weekend in the US coupled with the gyrations in crude prices could create additional volatility for the USD, especially if US data releases surprise on the downside (given the upside bias on the data front).

- Despite strengthening against the majors yesterday, the greenback kept to its recent trading range over the last 3 sessions. The **USD/JPY** touched a high of 110.71 before ending at 110.62, up from 110.19 previously in LDN/NY. The other majors also ended on the weaker side against the USD, but stayed within familiar ranges: The **EUR/USD** touched a low of 1.2216; **GBP/USD** drifted to a low of 1.7926; **USD/CHF** brushed against a high of 1.2689.

- As we have mentioned in the past, despite **Japan's** high dependence on imported oil, in terms of energy intensity (energy use per unit of GDP), it is among the lowest in the industrialized world. Hence, given a sustained \$10 increase, the IEA finds that the Japanese economy would be impacted by less than the Euro-zone economies, but greater than the US economy.

- **US data watch for today:** Like the UM consumer sentiment index, the CB consumer confidence index is expected to fall in Aug (UOB: 100; cons: 101.5) from July's 103.2 on the back of rising gasoline prices. The emp indicators (jobs hard to get, plentiful, etc) in the release should also provide some indication on the trajectory of payrolls and more so the UR. Separately, the release of Aug FOMC mins will provide more color on the intensity of the inflation and growth debate within the Committee. We expect the members and participants, on balance, to continue to highlight the need for additional monetary tightening for the time being; however, with well contained long term inflation expectations and relatively benign actual core inflation, the pace of tightening could proceed at a gradual pace. On the other hand, as the target funds rate inches closer towards an implied comfort zone, future policy moves should become increasingly dependent on the evolution of the US economy in the coming months. To be sure, the extent of the impact on the US economy, in light of the recent upward momentum in energy prices, might not entirely be reflected in the debate because the FOMC meeting was held on Aug 9.

- Expectations of a less ominous Hurricane helped improve investor sentiment and the expected boost to the home refurbishment companies also contributed to the advance in stock prices. The broad **US equity indexes** gained by at least 0.6%.

- **Near-term crude futures** increased by over \$1 to settle at \$67.20/bbl, after touching a record high of \$70.80/bbl. The current ramifications of the temporary shutdowns of energy refineries and facilities could still pose a transitory threat to supply and perhaps resume the continued chopiness in energy prices.

- **UST prices** gained modestly as crude prices pushed higher. However, investors remain cautious ahead of the data releases that appear to be biased to the upside, which could cause yields to rise.

- The **Nikkei** fell by over 1% (largest 1-day % loss since the end of June) to end at 12,310 on the back of the sharp rise in crude prices during the Asian session.

## Foreign Exchange Rates

■ as at 29 August 2005

	JPY	EUR	GBP	CHF	AUD	NZD	CAD
<b>Europe &amp; NY</b>							
High	110.71	1.2319	1.8060	1.2689	0.7558	0.6943	1.1995
Low	110.26	1.2216	1.7926	1.2543	0.7516	0.6918	1.1970
<b>Asian</b>							
High	110.50	1.2347	1.8087	1.2555	0.7577	-	-
Low	109.88	1.2307	1.8033	1.2503	0.7541	-	-

■ as at 30 August 2005 08:54 (local time)

Last	110.55	1.2223	1.7954	1.2672	0.7505	0.6919	1.1972
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## Stock Indices (as at 29 August 2005)

		% chg
Dow Jones Industrial Average	10463.05	+0.63
S&P 500 Index	1212.28	+0.60
NASDAQ Composite Index	2137.65	+0.80
Tokyo Nikkei 225	12309.83	-1.04
London FTSE 100 Index	-	-
Frankfurt DAX Index	4812.24	+0.59

## Commodities (as at 29 August 2005)

NYMEX Crude Futures (October)	67.20	+\$1.07
Comex Gold (December)	441.40	-\$0.70
Reuters CRB Index	323.23	+6.13

## Bond Yields (as at 29 August 2005)

		bps
US 2 Year Bond	4.05%	-2
US 10 Year Long Bond	4.17%	-2
Japanese 10 Year JGB	1.36%	-5
Euro 10 Year Bund	3.15%	-
UK 10 Year Long Gilt	4.22%	+1

## 3-Month Interest Rates

		bps
United States USD (SIBOR)	3.87	-
United Kingdom	4.48	-
Europe	2.08	-
Australia	5.47	-
New Zealand	6.86	-

## Economic Indicators

GMT	Indicators	Mth	Actual	Mkt	Last
<b>Today</b>					
0130	AU Bal Gds/Scvs A\$	Jul			1.4bn
0130	AU Retail Trade	Jul			1.3
1230	CA C/A	Q2	4.90		3.99bn
1230	CA PPI mm	Jul	0.2		0.0%
1230	CA PPI yy	Jul			0.2%
1230	CA Raw Mat'ls mm	Jul	2.0		5.4%
1230	CA Raw Mat'ls yy	Jul			13.9%
1400	US Consumer Conf'ce	Aug	101.5		103.2
1400	US Durable Gds R	Jul			-4.9%
1400	US Factory Ords	Jul	-2.3		1.4%
2330	JP Manufg PMI	Aug			54.1
2350	JP IP Prelim mm	Jul	-0.5		1.6%
<b>Previous</b>					
2330	JP Unempl't	Jul	4.4	4.2	4.2%
2330	JP House Spend yy	Jul	-3.3	0.8	0.1%
2350	JP Retail Sales yy	Jul	0.6	2.5	3.1%

## Key Events

Date	Ctry	Event
30/08	US	FOMC issues minutes from its Aug 9 meeting at 1800 GMT

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