



## Short Term Currency Views

### Suggested MaxiYield Pairings



- July US FOMC minutes sends a hawkish tone (Wed 20-Aug).
- *Jackson Hole*: Yellen cautious on labour market, no clarity on rate hike (Fri 22-Aug).
- Draghi pushes ECB closer to QE as deflation risks rise (Mon 25-Aug).
- Eurozone business growth slows, consumer confidence weakens (Thu 21-Aug).
- Draghi signals ECB action as inflation expectations slide (Fri 22-Aug).
- German business morale sours for fourth straight month in August (Mon 25-Aug).

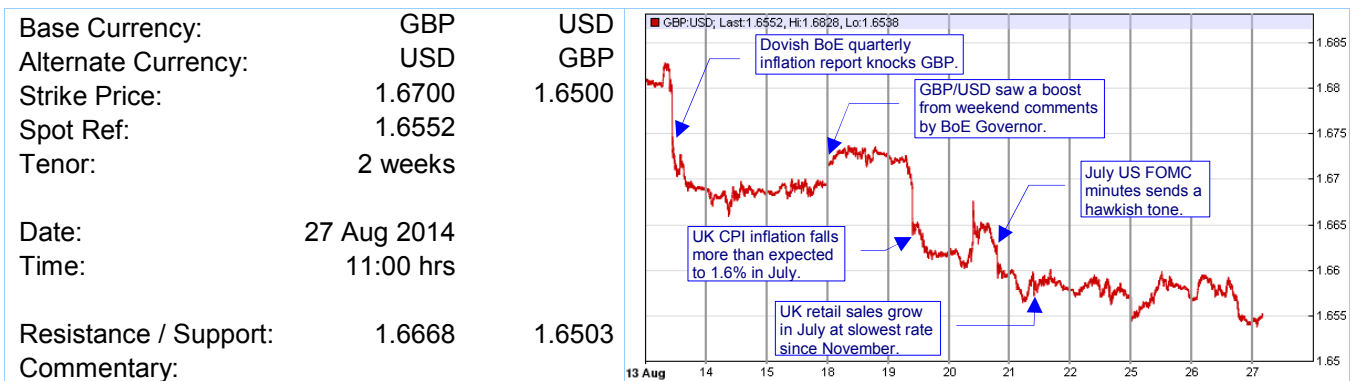
The US dollar jumped after minutes from the FOMC showed the Fed was gradually shifting its stance in a more hawkish direction. FOMC members saw labour-market progress and increases in inflation accelerating in a manner that was bringing conditions closer to normal or to those before the financial crisis. There were clear disagreements regarding how much slack remained in the labour market, a key gauge along with consumer prices, that the Fed uses to assess the state of the economy.

Eurozone business growth slowed in August, weighed down by sluggish French and German economies. The flash eurozone composite PMI fell to 52.8 from July's 53.8. The eurozone manufacturing PMI fell 1 point to 50.8, with weaker readings seen in Germany and France; and the services PMI fell 0.7 points to a more robust 53.5, with Germany a little softer and France a little firmer. The flash eurozone consumer confidence index fell 1.6 points to -10.0, which is the weakest level since February.

Fed Chair Yellen's Jackson Hole speech did not provide any new insights to the timeline of the Fed's eventual rate normalization cycle as she painted a hazy job market outlook, committing to neither views that there is still a lot of slack nor that the slack is fast disappearing. Yellen said increases in the Fed funds rate may come sooner than the FOMC expects and could then proceed at a more rapid pace. Investors bid up the US dollar when they realised that Yellen said nothing to discourage the hawks.

There was also interest in comments made by ECB President Draghi during his speech at Jackson Hole. Whilst the bulk of his speech dealt with analysing unemployment in the eurozone, he took the time to make some comments on inflation: "Over the month of August financial markets have indicated that inflation expectations exhibited significant declines at all horizons". Eurozone inflation likely slowed to 0.3% in August, way below the ECB's goal of just under 2%, according to the forecast in a Bloomberg survey ahead of a report out on August 29. Other releases this week are predicted to show unemployment sticking close to a record high and economic confidence falling.

German business sentiment dropped for a fourth straight month in August, suggesting concerns about the Ukraine crisis and the impact of sanctions against Russia are sweeping through corporate boardrooms in Germany. The Ifo think tank's business climate index fell to 106.3 from 108.0. Consensus forecast had been for a drop to 107.0.



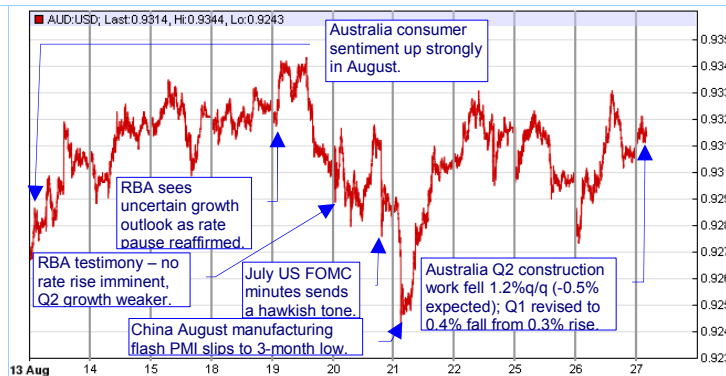
- UK retail sales grow in July at slowest rate since November (Thu 21-Aug).
- British banks approve fewer home loans in July - BBA (Tue 26-Aug).
- Growth in UK services companies slows in three months to August (Tue 26-Aug).
- UK GfK consumer confidence report (due on Fri 29-Aug, 07:05hrs SGT).

British retail sales grew in July at the slowest annual rate since November of last year. The figures add to signs that Britain's consumer-led recovery might be starting to slow, which could leave the government with a lot of catching-up to do to meet full-year borrowing targets before May's national election. Monthly growth in retail sales volumes unexpectedly fell to just 0.1% in July, down from 0.2% in June, below forecasts for a rise to 0.4%. Annual growth in the volume of goods sold dropped to 2.6%, the weakest since last November and again below forecasts. Sales slowed despite prices falling at their fastest rate in almost five years.

Growth in services companies that form the bulk of Britain's economy slowed in the three months to August, according to a CBI survey on Tuesday that suggested the swift pace of economic recovery has eased recently. The quarterly survey showed growth in business volumes slowed across a broad range of types of service, although almost all expected to see an improvement in the next three months.

The BBA said British banks approved 42,792 mortgages in July, down from June's 3-month high of 43,180 and below an average in Q1 of 2014 of just under 47,000 as tighter rules on mortgages lending introduced late in April took some heat out of the housing market. BoE data for all British mortgage lending in July is due on 1-Sep.

Base Currency: AUD USD  
 Alternate Currency: USD AUD  
 Strike Price: 0.9400 0.9200  
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 Tenor: 2 weeks  
 Date: 27 Aug 2014  
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 Resistance / Support: 0.9362 0.9244  
 Commentary:



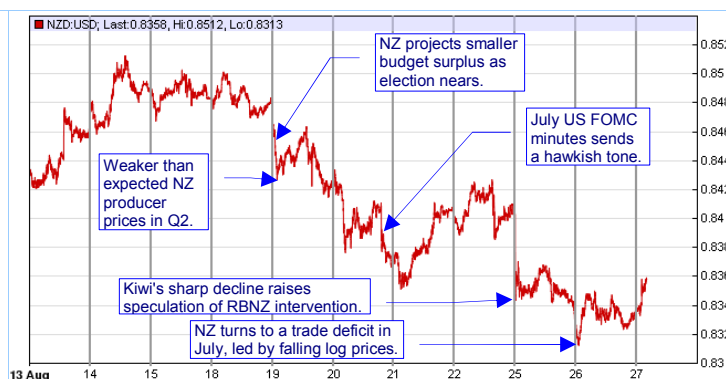
- China August HSBC flash manufacturing PMI slips to 3-month low (Thu 21-Aug).
- Australia Q2 construction work: -1.2% versus -0.5% expected (Wed 27-Aug).
- Moody's downgrades Western Australia's rating to Aa1 (Mon 25-Aug).
- China: Westpac-MNI August consumer sentiment falls 1.3% m/m (Wed 27-Aug).

Growth in China's vast factory sector slowed to a three-month low in August as output and new orders moderated, reinforcing concerns about increasing softness in the economy. The HSBC/Markit Flash China Manufacturing PMI fell to 50.3 from July's 18-month high of 51.7, missing a forecast of 51.5. It was the lowest reading since May, though the PMI stayed above the 50-point. A sub-index measuring new orders, a gauge of demand at home and abroad, fell to a three-month low of 51.3. The sub-index for output also dropped to a three-month low in August. Employment fell at a faster pace than in July, indicating more layoffs in the manufacturing sector.

Moody's has downgraded the credit ratings of Western Australia to Aa1 from Aaa, in yet another sign of the ending mining boom. "The ratings downgrade reflects the state's ongoing deficit position, the deterioration in its debt metrics, and a growing risk that this trend may not be reversed soon", Moody's said. It changed the outlook for the state's ratings to stable from negative, but warned that the WA government's plans to trim its deficits were underpinned by "a fairly optimistic forecast for iron ore prices". Despite this year's slump in the iron ore price, the WA government is persisting with its forecast, which equates to a spot price of about US\$122 per tonne. The price has fallen over recent weeks to just above US\$90 a tonne on Friday, which, if it remains at these levels, could wipe more than A\$1 billion from state revenue. Despite the mining investment slowdown, WA's economy was still expected to outpace other Australian states. The cut comes a year after S&P stripped WA of its AAA rating.

The Westpac-MNI Westpac MNI China Consumer Sentiment Indicator fell modestly to 113.3 in August from 114.8 in July, a -1.3% change over the month and -2.4% over the year. The August outcome is 6.8% below the long run average. The survey indicates that the anxieties gnawing away at the Chinese consumer through the first half of the year remain in evidence, and have arguably strengthened. Current and expected family finances both declined, by 3.6% and 2.8% respectively.

Base Currency: NZD USD  
 Alternate Currency: USD NZD  
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 Tenor: 2 weeks  
 Date: 27 Aug 2014  
 Time: 11:00 hrs  
 Resistance / Support: 0.8409 0.8292  
 Commentary:



- Kiwi's sharp decline raises speculation of RBNZ intervention (Mon 25-Aug).
- NZ turns to a trade deficit in July, led by falling log prices (Tue 26-Aug).
- NZ economy could hit the rocks - economists (Mon 25-Aug).
- ANZ Business Outlook Survey for August (due on Fri 29-Aug, 09:00hrs SGT).

The Kiwi dollar dropped sharply in early morning trade on Monday, shedding half a US cent in five minutes and prompting speculation of RBNZ intervention. RBNZ has previously said the local currency is too high and raised the possibility it could intervene in the market by selling kiwi in an attempt to push it down. Traders speculated the sharp drop could have been caused by the RBNZ taking advantage of thin liquidity on a Monday morning, following a meeting of central bankers at Jackson Hole in the US at the weekend which strengthened the US dollar. However, the currency's move could also be attributed to a large options or hedging transaction by a trading bank.

NZ's booming economy is at risk of a hard landing once temporary factors ramping up growth wear off, economists say. "Our economy is the envy of the world with an annual GDP growth rate of 3.3% and unemployment of 5.6%, both near the top in the OECD. But the current rate of growth is unsustainable", a panel of some of NZ's top economists told a briefing in Auckland on Monday. And they said many New Zealanders are not aware how much the economy is relying on one-off boosts like the Christchurch rebuild, or how quickly it could slow down when they come to an end. ANZ economist Zollner said a soft landing for the NZ economy was unlikely to happen.

NZ posted its first monthly trade deficit in nine months in July, led by falling prices for export logs and wood products. StatsNZ said the country had a trade deficit of NZ\$692 million in July, bigger than the NZ\$475 million deficit forecast in a Reuters poll. Exports in July fell 3.3% from the same month a year ago to NZ\$3.7 billion, lower than the NZ\$3.98 billion forecasted. Imports dropped 4.8% to NZ\$4.4 billion, close to the NZ\$4.5 billion forecast. Falling prices for NZ pine log exports to China led the export declines. Exports of logs and wood products, NZ's third largest commodity export, fell 16% to NZ\$282 million in July from the same month a year earlier while volumes were little changed. Seasonally adjusted exports fell 7.5% in July compared with June, while imports fell 1.8% in line with a strong kiwi dollar during the month.



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