UOB Personal Financial Services
Deposits, Investments & Insurance Strategy
Research & Product Advisory

Wednesday, 26 November 2014

Short Term Currency Views

Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.2600	1.2350
Spot Ref:	1.2472	
Tenor:	2 weeks	
Date:	26 Nov 2014	
Time:	11:30 hrs	
Resistance / Support:	1.2539	1.2369

Commentary:

- Eurozone business growth slower than thought as orders fall (Thu 20-Nov).
- ECB's Draghi says 'Strong recovery unlikely', hints at more stimulus (Fri 21-Nov).
- ECB's Coeure: No rush on stimulus as all assets to be debated (Tue 25-Nov).
- Eurozone consumer confidence worsens (Thu 20-Nov).
- Germany's Ifo business confidence index rises in November (Mon 24-Nov).

Eurozone business growth has been weaker than any forecaster expected this month and new orders have fallen for the first time in more than a year despite further price-cutting. Markit's composite flash PMI, seen as a good growth indicator, fell to 51.4. The dominant service industry PMI fell to 51.3 and the factory PMI fell to 50.4, both came in below forecast. The composite new orders index fell to 49.9, its first time below 50 since July 2013, signalling a downturn in demand.

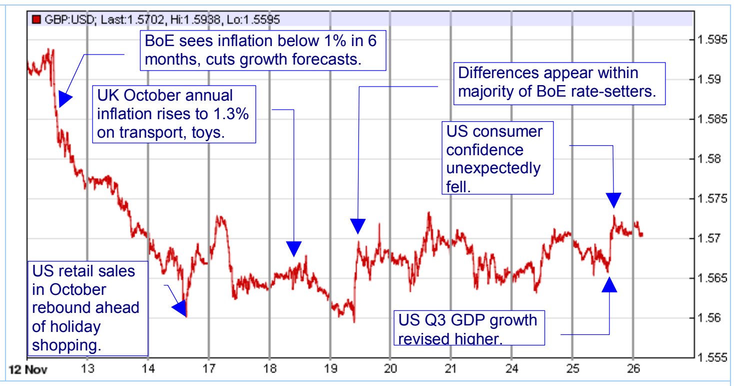
The German October PPI contracted 0.2%m/m (-1.0%y/y) after staying unchanged in September. Separately, the eurozone preliminary consumer confidence survey showed worsening conditions as it contracted further negative to -11.6 (from -11.1), while the expectations were for a slight improvement to -10.7.

The eurozone economy is likely to remain stagnant in the short-to-medium term, ECB President Mario Draghi said at the opening speech at the European Banking Congress on "The future of Europe", adding that 'strong recovery is unlikely in the coming months'. Draghi said the ECB must drive inflation higher quickly, and will broaden its asset-purchase program if needed to achieve that. Shorter-term inflation expectations "have been declining to levels that I would deem excessively low", he said.

Business confidence in Germany appears to be stabilising after long months of decline, with the Ifo business climate index rising for the first time since April. The closely watched barometer rose to 104.7 points in November from 103.2 points in October. The current business sub-index rose to 110.0 points from 108.4 points last month, while the outlook sub-index increased by 1.4 points to 99.7 points. The turnaround was encouraging after German investor sentiment rose for the first time this year in November.

The ECB won't make a hasty decision to add more stimulus and will hinge any measures on incoming economic data. "We'll have to understand how what we've already decided works -- we're not going to rush to a new decision without knowing. We have to look at the data around us and we have to discuss thoroughly all possible options in particular when it comes to buying new assets. We're not committing to any particular time line", said Coeure, who is responsible for market operations at the ECB.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.5850	1.5550
Spot Ref:	1.5702	
Tenor:	2 weeks	
Date:	26 Nov 2014	
Time:	11:30 hrs	
Resistance / Support:	1.5872	1.5524



Commentary:

- Differences appear within majority of BoE rate-setters (Wed 19-Nov).
- UK CBI factory outlook weakens despite November bounceback (Thu 20-Nov).
- UK October retail sales rebound, set to counter growth slowdown (Thu 20-Nov).

Differences over the risks to Britain's economy surfaced this month among the BoE officials who have voted to keep interest rates on hold, complicating the outlook for monetary policy. Minutes of the MPC's November 5-6 meeting showed its members voted 7-2 for the fourth month in a row to maintain rates at their record low 0.5%, where they have been since early 2009 when the financial crisis was raging. The tone of the report suggested some top BoE officials were less sure of the need to keep interest rates on hold going into 2015 than had seemed the case the week before, when the BoE said inflation might fall below 1% soon.

British retail sales jumped in October. Sales volumes rose by a much stronger-than-expected 0.8% on the month, helped by purchases of furniture after the housing market surged earlier this year and by falling prices. Prices among retailers fell by 1.5% in October compared with a year ago, their biggest fall since 2002, pushed down by lower petrol prices. The ONS believes strong furniture sales reflect the 6-month lag between mortgage approvals, house purchases and consumers buying household goods.

British manufacturers expect their output in the next 3 months be its weakest in more than a year even after orders picked up in November. The total order book balance from the CBI monthly industrial trends survey rose in November to a 3-month high of +3. Economists had expected it to remain unchanged from October's reading of -6, which was the lowest since January 2013. The CBI's measure for expected output in the next 3 months fell to +12, its lowest level since October 2013, from +18 in October.

Base Currency:	AUD	USD
Alternate Currency:	USD	AUD
Strike Price:	0.8750	0.8450
Spot Ref:	0.8544	
Tenor:	2 weeks	
Date:	26 Nov 2014	
Time:	11:30 hrs	
Resistance / Support:	0.8767	0.8449

Commentary:

- HSBC flash China manufacturing PMI dips to six-month low (Thu 20-Nov).
- Aussie rises after PBoC cuts interest rate for first time since 2012 (Fri 21-Nov).
- RBA's Heath says mining investment decline a "significant drag" (Fri 21-Nov).
- Iron ore futures for May delivery slide 2.7% to record low (Tue 25-Nov).

Manufacturing activity in China stagnated in November as HSBC's preliminary PMI for November came in at the 50.0 breakeven point dividing expansion and contraction, putting "significant" pressures on the China's economy as its key PMI hit a six-month low. It was lower than October's 50.4 and was the weakest reading since May's 49.4. It showed its employment component contracted at a faster pace this month than in October. HSBC said the final PMI for this month will be published on December 1.

The decline in mining investment will be a "significant drag" on Australia's economic growth, even as exports of coal and iron ore provide a boost, according to RBA's head of economic analysis Alexandra Heath. It's uncertain how far and fast investment will fall or how much the mines' operations will add to growth, Heath said in the text of a speech in Sydney. While China will probably find it more difficult to maintain its current pace of economic growth, the world's second-largest economy should remain a large market for Australian resource exports for some time, she said.

The Australian dollar climbed as far as $0.8723 after a surprise interest rate cut on Friday by China's central bank. The PBoC cut its benchmark interest rate for the first time in two years. The interest rate announcement from the PBoC gave equity markets a boost and lifted the Australian dollar. The thinking is that, because China is Australia's largest export partner, that if China's growth rate picks up, that will result in greater demand for Australian exports and therefore, benefit the Australian economy. But if you look at the exports out of Australia to China, they're pushing record highs right at this moment, despite four years of slowing in China's economy.

The Australian dollar relinquished almost all of its recent gains by Tuesday as relief over monetary easing in China gave way to worries about the underlying weakness in Asia's economic powerhouse, suggesting investors were still looking to sell the Aussie currency on any rally. Iron ore futures for May delivery slide 2.7% on Dalian Commodity Exchange to a record low, further highlighting the lack of traction after the post-China rate cut.

Base Currency:	NZD	USD
Alternate Currency:	USD	NZD
Strike Price:	0.7950	0.7700
Spot Ref:	0.7822	
Tenor:	2 weeks	
Date:	26 Nov 2014	
Time:	11:30 hrs	
Resistance / Support:	0.7914	0.7714

Commentary:

- PM Key concedes new budget forecasts could be a 'small' deficit (Mon 24-Nov).
- NZIER sees no need for RBNZ to raise rates again until 2016 (Tue 25-Nov).
- NZ inflation expectations slide as growth prospects slow: RBNZ (Tue 25-Nov).
- NZ balance of trade data release (due on Thu 27-Nov, 05:45hrs SGT).

PM John Key has intimated for the first time that the Treasury's half-year fiscal and economic update on December 16 could change the forecast of a budget surplus to a small deficit, although he is optimistic that by the June 30 year-end a surplus will be posted. Finance Minister Bill English warned that achieving the forecast surplus of NZ$297 million published before the September 20 general election, itself a reduction from the NZ$372 million surplus forecast in the May budget, would be "a challenge".

NZ businesses have trimmed their expectations for consumer inflation over the next two years as the rosy outlook for a booming economy comes off the boil. The CPI is seen rising an annual 1.59% on a mean basis in the year ahead, down from the 1.96% pace seen three months ago, according to RBNZ's survey of expectations. Two-year inflation expectations were lowered to 2.06% from 2.23%, and respondents anticipate a 0.26% lift in CPI in the December quarter, followed by a 0.4% rise in March. The CPI rose at an annual pace of 1% in the September quarter, below expectations, and only just within RBNZ's target band of between 1% and 3%. Strong inbound migration and a depreciating kiwi during that period had been expected to put pressure on consumer prices, and RBNZ has been surprised by the lack of inflation in the economy.

"There are enough risks on the global front for the RBNZ to react to concrete signs of accelerating inflation rather than pre-empting it and eroding economic growth and export competitiveness". NZIER said it sees no catalysts for rate increases until 2016, as the pace of economic growth is moderating as one-off boosts fade. Growth is expected to average 2.5% over next 5 years after 3.4% in 2014. Two key risks to the economic outlook are slowing global growth and overvalued Auckland housing market.