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

Wednesday, 10 December 2014

Short Term Currency Views

Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.2550	1.2250
Spot Ref:	1.2374	
Tenor:	2 weeks	
Date:	10 Dec 2014	
Time:	11:30 hrs	
Resistance / Support:	1.2527	1.2215

Commentary:

- Eurozone retail sales return to growth at start of Q4 (Wed 03-Dec).
- ECB cuts eurozone growth forecasts, downgrades inflation outlook (Thu 04-Dec).
- ECB leaves rates unchanged and delays stimulus till Q1, 2015 (Thu 04-Dec).
- ECB's Praet says falling oil price may push inflation below zero (Tue 09-Dec).

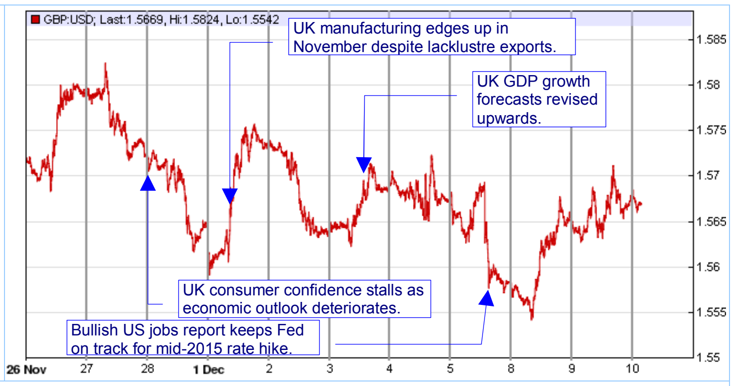
Eurozone October retail sales rebounded by 0.4%m/m (1.4%y/y) after a revised 1.2%m/m decline (+0.5%y/y) in September. This was slightly below the forecast for 0.5%m/m improvement. Though volatile, retail sales data is a proxy for household demand, one of the weaker elements of the eurozone's slow and fragile recovery.

The US dollar rally has pushed the USD stronger to multi-year highs against the euro ahead of the ECB decision, but swiftly lost ground against the euro after the ECB kept its policy stance unchanged last Thursday despite the worsening threat of deflation and anaemic economic environment in the eurozone. ECB President Mario Draghi said the ECB has stepped up preparations for more anti-deflation measures, but that they will be reassessed only in January. Draghi said that policy makers "won't tolerate" a prolonged period of low inflation, and that ECB officials discussed "all assets but gold" as potential targets for purchases. In 2015, ECB meetings will be held once every 6 weeks instead of the monthly format and the next meeting will on a Thursday, 22 Jan 2015. During the Q&A section, Draghi said that 'early 2015' means some time in the first quarter, but not necessarily the next immediate meeting. He also warned that it is important that oil price effect does not become embedded in inflation expectations.

The ECB downgraded its economic outlook. It now forecasts inflation of 0.5% in 2014, 0.7% in 2015 and 1.3% in 2016, down from the September projections of 0.6%, 1.1% and 1.4% respectively, with the economy expanding 0.8% in 2014, 1.0% in 2015 and 1.5% in 2016, down from 0.9% in 2014, 1.6% in 2015 and 1.9% in 2016. Draghi said those forecasts don't include the most recent decline in oil price.

ECB Executive Board member Peter Praet said falling oil prices could push the eurozone inflation rate negative, just as policy makers prepare to examine options for QE. The ECB intends to expand its balance sheet by as much as €1 trillion, and will review its current stimulus early next year. Plunging oil prices are putting further downward pressure on inflation that slowed to 0.3% in November, nudging the central bank toward the politically controversial path of large-scale government-bond buying.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.5800	1.5550
Spot Ref:	1.5669	
Tenor:	2 weeks	
Date:	10 Dec 2014	
Time:	11:30 hrs	
Resistance / Support:	1.5761	1.5579



Commentary:

- Osborne says will miss short-term budget goals, cuts property tax (Wed 03-Dec).
- BoE leaves rates unchanged, maintains cash stimulus at £375 billion (Thu 04-Dec).
- UK GDP growth forecasts revised upwards, unemployment falling (Wed 03-Dec).
- UK manufacturing unexpectedly posts first fall since May (Tue 09-Dec).

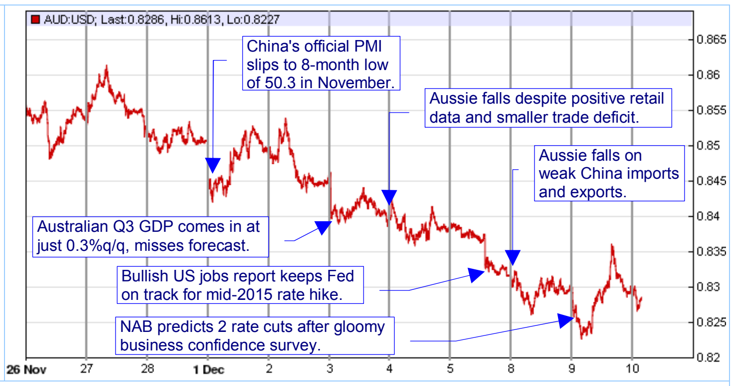
UK finance minister George Osborne said last week that UK will miss its deficit target but its economy should grow faster than expected in 2015. In his Autumn Statement to Parliament, Osborne said he could afford tax cuts for most home-buyers, saying 98% of home-buyers who have to pay so-called stamp duty will see their tax bill reduced; offering some relief to voters from his austerity push before elections. He also announced a fresh crackdown on corporate tax avoidance, saying multinationals which artificially move profits abroad would be hit with a 25% tax and banks would be able to claim fewer tax breaks for losses dating back to the financial crisis.

Osborne said that a year ago, he expected GDP to grow by 2.4%. In March, growth was expected at 2.7% and today, the British economy is forecast to grow by 3%. "Growth in the UK next year is forecast a little higher at 2.4%, with quarterly growth moderating as it returns to trend. Then 2.2% in 2016, 2.4% the year after, then 2.3% in 2018 and 2019. Unemployment is revised down in every year of the OBR forecast, falling from the 8% we inherited to 5.4% next year, before settling at 5.3%."

The BoE left its key interest rate unchanged at a record low 0.50% on Thursday and the monetary policy committee also chose to maintain its cash stimulus (QE) at £375 billion. More details on the December decisions will be available when the BoE publishes the minutes from the meeting on 17 December.

UK manufacturing output unexpectedly fell for the first time in five months in October, highlighting the risks to the economic recovery. Output fell 0.7% after rising 0.6% in September, the ONS said. The median estimate in a Bloomberg survey was for a gain of 0.2%. Total industrial production fell 0.1%. An increase of 0.2% was predicted.

Base Currency:	AUD	USD
Alternate Currency:	USD	AUD
Strike Price:	0.8500	0.8150
Spot Ref:	0.8286	
Tenor:	2 weeks	
Date:	10 Dec 2014	
Time:	11:30 hrs	
Resistance / Support:	0.8444	0.8148



Commentary:

- Aussie falls despite positive retail data (Thu 04-Dec).
- Australian banks not unquestionably strong: Murray (Mon 08-Dec).
- Slight lift in job ads as employment market stabilises: ANZ (Mon 08-Dec).
- Australia trade deficit narrows more than expected in October (Thu 04-Dec).
- A$ lower on strong US jobs data, weak China imports and exports (Mon 08-Dec).
- NAB predicts 2 rate cuts after gloomy business confidence survey (Tue 09-Dec).

Australia's retail sales exceeded expectations in October, sending mixed signals on the economy following below-view economic growth figures earlier this week. Retail sales rose 0.4% from the month before, above expectations for a flat reading in a Reuters poll, and compared with September's upwardly revised 1.3% increase.

Trade data released at the same time by the ABS showed imports fell a seasonally-adjusted 2.0% from September, while exports rose 2.0%. This brought the trade deficit to A$1.323 billion after a downwardly revised deficit of A$2.235 billion in September, and compared with expectations of a A$1.9 billion deficit. As expected, Australia's trade deficit narrowed due in part to reduced fuel imports and a strong lift in bulk commodity exports. The data sent mixed signals on Australia's economy.

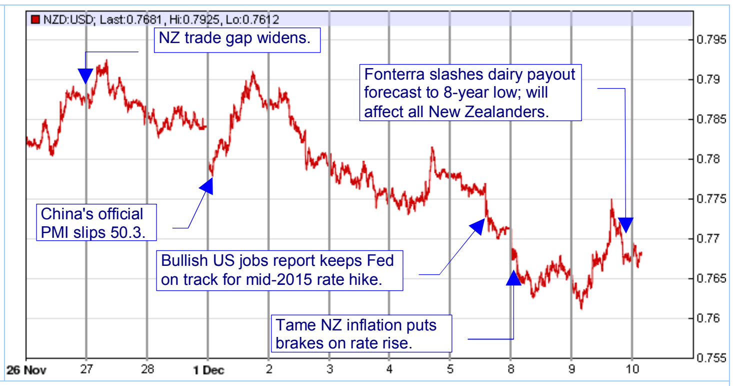
Australian banks are not "unquestionably strong" and need to hold more capital as a safety net against future external shocks. Mr David Murray said external shocks could and would occur, and Australian banks needed to be strengthened to ensure taxpayers would be off the hook in the event of failure. Australian banks needed to be among the top 25% of global banks, but currently, they're around the middle, he said. "Accordingly, they should be required to increase their ratios so they are in the top 25%."

The Aussie dollar has plummeted 12% since early September as greater-than-expected US job gains and weak Chinese imports piled more pressure on the RBA to cut interest rates further. China reported that imports dropped a surprising 6.7% y/y in November, much worse than expected. Export growth also slowed to 4.7% in November from 11.6% in October. Economists said this revealed slowing global and internal demand, as well as prices, both of which have repercussions for the Australian economy.

ANZ's monthly survey of jobs advertising showed the number jobs advertised online and in printed newspapers climbed 0.7% during November, suggesting a lift in employment in the months ahead. ANZ said the data, along with other forward-looking surveys, suggest "labour market conditions have improved, or at least stabilised".

NAB's November business survey showed a drop in confidence and trading conditions. NAB downgraded its growth outlook and increased its peak unemployment forecast. Its monthly business survey showed a retreat in business conditions during November, declining 8 points to a reading of 5 points. Business confidence fared worse and is now at its lowest level since the middle of 2013 after a decline of 4 points to 1 point. Included in that survey was an announcement from NAB that its economists had reversed their RBA cash rate forecasts, and now expect two cuts in 2015. It has joined Westpac is forecasting rate cuts. The Aussie dollar touched new 4½ year lows.

Base Currency:	NZD	USD
Alternate Currency:	USD	NZD
Strike Price:	0.7850	0.7550
Spot Ref:	0.7681	
Tenor:	2 weeks	
Date:	10 Dec 2014	
Time:	11:30 hrs	
Resistance / Support:	0.7837	0.7531



Commentary:

- Tame NZ inflation may see RBNZ flag longer pause in raising rates (Mon 08-Dec).
- RBNZ seen extending cash rate pause (due Thu 11-Dec, 04:00hrs SGT).

The RBNZ faced with inflation that has undershot its forecasts, may signal a longer pause in its tightening cycle this week and a lower peak when interest rates do rise. Governor Graeme Wheeler will likely keep the OCR at 3.5% when he releases the monetary policy statement on Thursday. He may signal a longer wait before raising interest rates via the bank's projected path for 90-day bank bills. Wheeler made no reference to raising interest rates in his last review on Oct. 30, saying only that "a period of assessment remains appropriate before considering further policy adjustment". He had the benefit of Q3 CPI data in October that showed annual inflation had slowed more than expected to 1%, the bottom of the bank's target range and 30 basis points below its forecast. Since then the price of oil has fallen and dairy prices have declined.

Sharp falls in dairy commodity prices will be delivering a close to NZ$6 billion hit to dairy incomes this season, which will flow through into lower domestic spending. Traders have reduced their expectations for a rate rise; interest-rate swaps are pricing just 8 bp of rate increases over the next year, down from 40 bp in early October.