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

Wednesday, 24 December 2014

Short Term Currency Views

Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.2400	1.2100
Spot Ref:	1.2171	
Tenor:	2 weeks	
Date:	24 Dec 2014	
Time:	10:55 hrs	
Resistance / Support:	1.2356	1.2113

Commentary:

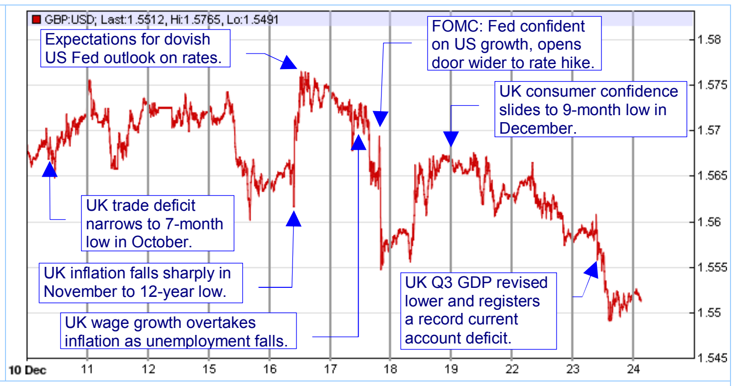
- ECB's Constancio sees negative inflation rate in months ahead (Sat 20-Dec).
- Bank of Spain forecasts more growth for Spanish economy (Tue 23-Dec).
- ECB's Coene supports government bond purchases (Sat 20-Dec).
- Greek drama draws market scrutiny as ECB impact weighed (Wed 24-Dec).

ECB Vice President Vitor Constancio said in a German magazine interview that he expected the inflation rate to turn negative in the coming months but added that if this was just a temporary phenomenon, he did not see a risk of deflation. "Our experts forecast just 0.7% inflation for 2015 but since this projection was made, oil prices have fallen by a further 15%. We now expect a negative inflation rate in the coming months". Annual inflation in the eurozone slowed to 0.3% in November as energy prices fell. Constancio also said that quantitative easing was legal and the ECB did not rule out measures that were legal.

The ECB should start buying government bonds to tackle poor investor confidence and low inflation in the eurozone, governing council member Luc Coene said in an interview. The Belgian central bank chief said the ECB had already waited too long, and that this could be one tool to spur economic activity in the 18-country eurozone and fight off deflationary pressures. "In this context, the purchase of sovereign bonds could prove to be an effective tool".

Spain’s economy picked up in Q4 on steady consumer spending, the central bank said, adding that growth would accelerate next year. In the first official estimate of the year’s economic performance, the Bank of Spain said the eurozone’s fourth-largest economy would grow 1.4% in 2014. The economy will likely expand 0.6% in Q4, slightly above the 0.5% quarterly growth posted in Q3, and slightly higher than previously anticipated. The economy grew 1.9% in Q4 from a year ago, up from 1.6% growth on the year in Q3. “For 2015, we believe the recovery will continue, and the anticipated growth would be at 2%”, the central bank said. It had earlier estimated growth of 1.9%.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.5750	1.5400
Spot Ref:	1.5512	
Tenor:	2 weeks	
Date:	24 Dec 2014	
Time:	10:55 hrs	
Resistance / Support:	1.5785	1.5416



Commentary:

- UK wage growth overtakes inflation as unemployment falls (Wed 17-Dec).
- BoE faces no urgency to raise UK interest rates, Miles says (Sun 21-Dec).
- UK households drive economy, current account deeper in red (Tue 23-Dec).
- UK consumer confidence slides to 9-month low in December: GfK (Fri 19-Dec).
- UK final Q3 GDP revised lower to 2.6% y/y (Tue 23-Dec).

UK unemployment fell in the three months through October and earnings growth outstripped inflation for the first time since March as the labour market continued to recover. Wages grew 1.4% from a year earlier, up from 1% in Q3, the ONS said. Unemployment based on ILO methods declined 63,000 to 1.96 million. It left the jobless rate at 6%, the lowest since 2008. The data showed the number of people in work rose 115,000 to a record 30.8 million. Jobless claims fell for the 25th month in a row in November, the longest stretch since 1998. They declined 26,900, more than the 20,000 forecast. Claims in October fell 25,100 instead of the 20,400 initially reported.

British consumer morale edged down in December to reach its weakest level since March as optimism about the economy hit a 17-month low, GfK said Friday. Its headline consumer confidence index fell to -4 in December, down from -2 in November and slipping below forecasts for a slight rise to -1. While the index was still well above its long-run average of -9, prospects for the coming year dimmed as GfK's measure of economic optimism slipped to its lowest level since July 2013.

“There is no great urgency in starting the process of moving monetary policy back towards a more normal setting”, policy maker David Miles wrote in the Sunday Telegraph. Inflation slowed to the least in more than a decade in November with consumer-price growth dropping to 1%, half the BoE’s 2% target. While the current undershooting of the inflation target “is not ideal”, Miles said it doesn’t merit an easing of monetary policy either. The main reason inflation has fallen is the drop in global commodity prices and he doubted people would postpone purchases because of concern deflation would mean prices would be lower in the future.

UK final Q3 GDP reading revised lower (2.6%y/y vs. 3.0%y/y preliminary) and its current account registers if largest deficit on record. Quarterly growth was confirmed at 0.7% in Q3, slowing slightly from 0.8% in Q2. The ONS also said Britain's deficit with the rest of the world via its current account rose to £27.0 billion in Q3, equivalent to 6.0% of GDP, matching the biggest deficit on record. Income from investments held abroad fell while payments to foreign investors in Britain rose.

Base Currency:	AUD	USD
Alternate Currency:	USD	AUD
Strike Price:	0.8300	0.8050
Spot Ref:	0.8112	
Tenor:	2 weeks	
Date:	24 Dec 2014	
Time:	10:55 hrs	
Resistance / Support:	0.8224	0.8056

Commentary:

- Sydney's shopping spree helps brighten Australian gloom (Mon 22-Dec).
- Conference Board *Leading Economic Index* for Australia decreased (Wed 24-Dec).
- Aussie falls after strong US Q3 GDP data (Tue 23-Dec).

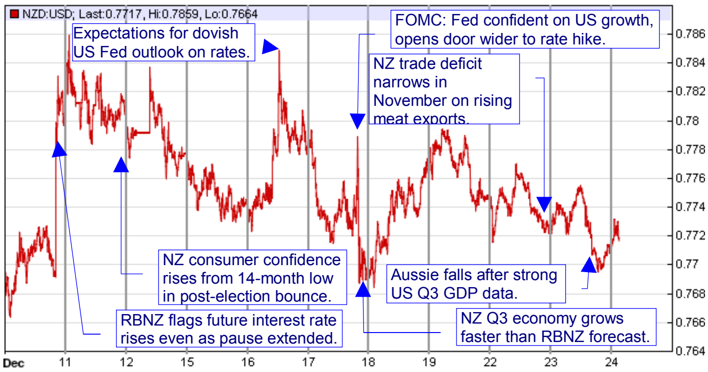
Australia's two-speed economy is back -- only this time Sydney is leading an east coast boom while mining states lag. Australia's biggest city contributed 38% of the country's growth in the year through June, up from an average of 22% in the past 24 years. The conundrum for RBA Governor Glenn Stevens is that record-low interest rates designed to rebalance growth are too low for Sydney, where house prices have soared, and too high for the rest as mining investment falls, new jobs fail to keep pace with population growth and confidence slides.

US GDP increased by 5% in Q3, the Commerce Department said, which beat market expectations of growth of 4.3%. The figures increased hopes that the US Federal Reserve will raise its interest rate sooner than anticipated, which has helped the US dollar rally. The US data put the Australian dollar under further pressure overnight. The Australian dollar and sterling are the weakest of the majors, as the Aussie is weighed down by rising expectations for one or two interest rate cuts next year.

The Conference Board Leading Economic Index for Australia decreased 0.2% in October to 127.0 (2004 = 100), following a 0.6% decrease in September, and a 0.3% decrease in August. At the same time, The Conference Board Coincident Economic Index for Australia, a measure of current economic activity, increased 0.2% in October to 125.8 (2004 = 100), following a 0.2% increase in September, and a 0.2% increase in August.

Base Currency:	NZD	USD
Alternate Currency:	USD	NZD
Strike Price:	0.7850	0.7600
Spot Ref:	0.7717	
Tenor:	2 weeks	
Date:	24 Dec 2014	
Time:	10:55 hrs	
Resistance / Support:	0.7842	0.7659

Commentary:



- NZ economy grows faster than RBNZ forecast (Thu 18-Dec).
- Kiwi falls as US economy grows more than expected (Tue 23-Dec).
- NZ trade deficit narrows in November on rising meat exports (Tue 23-Dec).

NZ's economic growth accelerated in Q3 more than economists and the RBNZ forecast as low interest rates and record immigration stoked consumption. GDP increased 1% from Q2, when it advanced 0.7%, StatsNZ said. That's more than the forecast of 0.7%. From a year earlier, GDP rose 3.2%. Growth was faster than the RBNZ's 0.9% forecast published last week, when it signalled a prolonged pause in its tightening cycle amid lower inflation than previously projected. Governor Graeme Wheeler said December 11 that interest rates remain stimulatory and further increases are expected to be required "at a later stage". Annual growth matched a revised 3.2% in the 12 months through June, and was the strongest since 2007. Economists expected 3.3%. StatsNZ had made changes to methodology used to calculate GDP.

NZ posted its smallest November trade deficit in four years, beating economist forecasts, as falling dairy prices were offset by a rise in meat exports. The trade deficit narrowed to NZ$213 million last month, the smallest November deficit since 2010 and down from October's deficit of NZ$908 million. The trade balance was a surplus of NZ$153 million in November last year, when exports were at record highs, according to StatsNZ. A deficit of NZ$500 million was expected by economists. Exports fell 9.5% to NZ$4.02 billion from the same month a year ago, beating the poll of $3.95 billion. Imports slipped 1.3% to NZ$4.24 billion, higher than forecasts for NZ$4.24 billion.

NZ benefited from strong terms of trade in the first half of the year as demand for dairy products and logs in China bolstered exports, while a historically high kiwi dollar has kept down the cost of imported goods. Dairy prices have nearly halved since the start of the year, as an oversupply in China weakened demand and pushed down prices, coinciding with a fall in log prices, easing its trade outlook, and weighing on the kiwi. Milk powder, butter and cheese dropped 27% to NZ$1.2 billion, led by a 34% tumble in milk powder. Offsetting the decline in New Zealand's biggest export commodity was a rise in meat and edible offal, which rose 20%, led by a 65% jump in frozen beef.

The kiwi dollar fell after data showed the US economy grew more than expected in Q3, stoking demand for the greenback on heightened expectations the Fed will start hiking interest rates. While the kiwi dollar was on the decline against the greenback, it was still strong against other cross-rates.