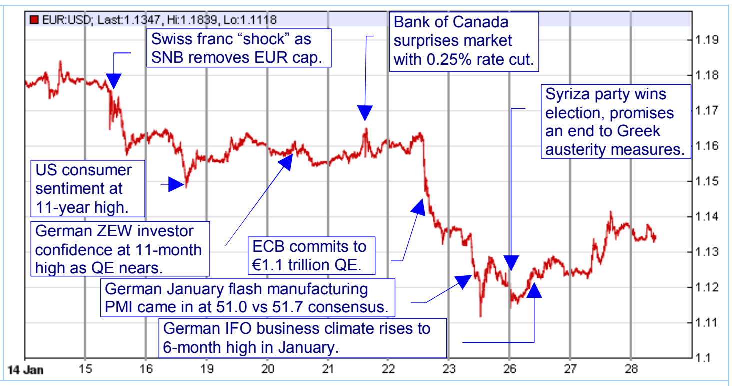
UOB Personal Financial Services
Deposits, Investments & Insurance Strategy
Research & Product Advisory

Wednesday, 28 January 2015

Short Term Currency Views

Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.1550	1.1000
Spot Ref:	1.1347	
Tenor:	2 weeks	
Date:	28 Jan 2015	
Time:	17:30 hrs	
Resistance / Support:	1.1542	1.0945



Commentary:

- ECB commits to €1.1 trillion QE to stimulate the eurozone economy (Thu 22-Jan).
- Syriza rides anti-austerity wave to decisive election victory in Greece (Mon 26-Jan).
- Eurozone business activity rose to 5-month high as firms cut prices (Fri 23-Jan).
- German IFO business climate rises to 6-month high in January (Mon 26-Jan).

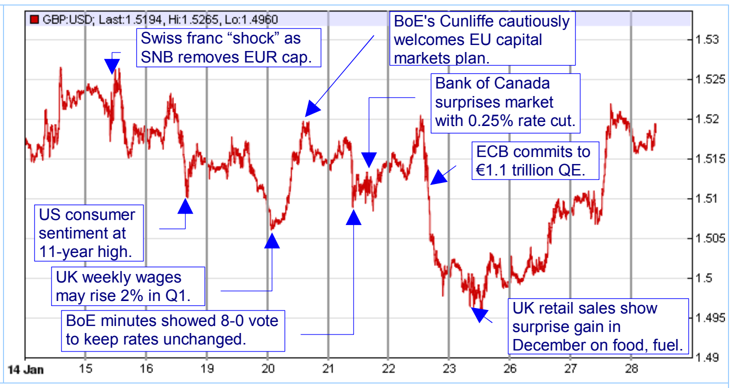
Central banks continue to lead the headlines in January 2015: The ECB enters into a historic new era under the leadership of Mario Draghi with a pledge to buy €60 billion of public and private assets every month from March 2015 through September 2016 (a QE totalling at least €1.1 trillion, about 11% of GDP) in a push to put more cash into circulation and revive inflation in the eurozone. And the ECB exceeded market expectations by making the programme open-ended as Draghi pledged to keep spending until there's a "sustained adjustment in the path of inflation". The ECB left the key interest rates on refinancing operations, lending and deposit facilities unchanged.

Eurozone business activity expanded to a five month high. Markit's flash PMI for January hit 52.2, up from 51.4 in December, beating expectations of 51.9. Growth remains worryingly weak with the PMI at a level consistent with GDP rising at a 0.2% quarterly rate, and the economy both fragile and susceptible to shocks and further setbacks.

The anti-austerity Syriza hands Tsipras a mandate to confront Greece's program of austerity imposed in return for pledges of €240 billion in aid since May 2010. The challenge for him now is to come good on his election pledges including a write-down of Greek debt, while persuading creditors in Berlin and Brussels to keep aid flowing.

The German January IFO survey pointed to a good start for the German economy on the back of falling oil prices and a weaker euro. The IFO business climate index was higher at 106.7 in January (from 105.5 in December and better than the projected 106.5) while the current assessment was also better at 111.7 in January (from 109.8 in December and above the forecast of 110.8). IFO expectations index was also better at 102.0 (from 101.4 in December) but fell short of the projected increase to 102.5. In addition, the IFO economist noted that the Swiss franc appreciation will help the German economy in the medium term, especially in the areas bordering Switzerland.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.5300	1.4950
Spot Ref:	1.5194	
Tenor:	2 weeks	
Date:	28 Jan 2015	
Time:	17:30 hrs	
Resistance / Support:	1.5324	1.4996



Commentary:

- BoE MPC minutes showed unanimous decision to keep rates on hold (Wed 21-Jan).
- UK 2014 growth fastest in 7 years despite Q4 slowdown (Tue 27-Jan).
- UK retail sales show surprise gain in December on food, fuel (Fri 23-Jan).
- UK banks approve fewest mortgages since April 2013 - BBA (Tue 27-Jan).

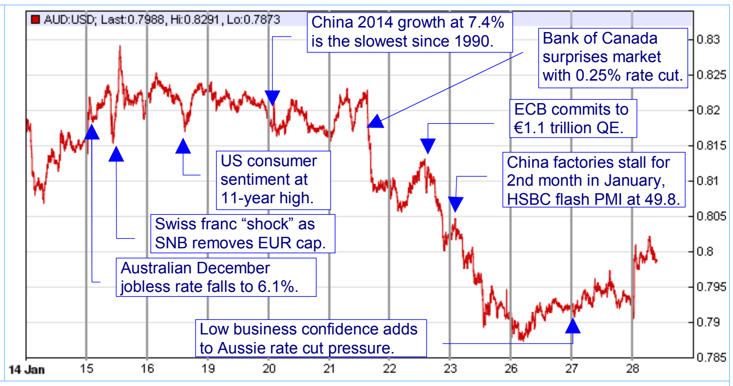
The BoE released the latest minutes for its January MPC last Wednesday (21-Jan) which showed a unanimous decision (8-0 vote) to keep policy interest rates unchanged, the first unanimous decision since July 2014. Despite the generally dovish BOE minutes yesterday, GBP managed to rebound.

British retail sales unexpectedly climbed in December as oil price fall boosts spending power. Economists had expected sales to be weaker after consumers took advantage in November of the country's first major round of US-style Black Friday sales. But retail sales volumes rose 0.4% on the month after surging by 1.6% in November, the strongest growth in more than a decade. Sales rose 4.3% in December compared with the same month a year ago. Economists had expected a fall of 0.6% on the month, after Black Friday sales brought forward some Christmas shopping into November, and a gain of 3.0% on the year.

Britain's economy recorded its fastest annual growth since 2007 last year despite a bigger-than-expected slowdown in the final three months of 2014, giving a mixed message just 100 days before Britons go to the polls (7-May). UK GDP grew by 2.6% in 2014 as a whole, the ONS said on Tuesday, up from 1.7% in 2013 and putting it on track to have been the world's fastest-growing major advanced economy last year. The data showed some loss of momentum, as growth in Q4 of 2014 fell to 0.5% from 0.7% in Q3 of the year, a sharper slowdown than the 0.6% growth most private-sector economists had expected.

British banks approved 35,667 mortgages for house purchase in December, the lowest since April 2013, as the housing market continued to slow. Mortgage approvals for house purchase fell from 36,657 in November, 24% down from a year ago. For 2014 as a whole, the number of house purchase approvals was 9% higher than 2013.

Base Currency:	AUD	USD
Alternate Currency:	USD	AUD
Strike Price:	0.8150	0.7850
Spot Ref:	0.7988	
Tenor:	2 weeks	
Date:	28 Jan 2015	
Time:	17:30 hrs	
Resistance / Support:	0.8077	0.7870



Commentary:

- Canada cuts key rate to insure against negative impact of oil price fall (Wed 21-Jan).
- China factories stall for 2nd month in January: HSBC flash PMI at 49.8 (Fri 23-Jan).
- Aussie dollar jumps as inflation figure casts doubt on rate cut forecasts (Wed 28-Jan).
- Chances of Australian rate cut surge after Canada's surprise cut (Thu 22-Jan).
- Low business confidence adds to Aussie rate cut pressure: NAB (Tue 27-Jan).
- Falling Aussie dollar dents consumer confidence (Wed 28-Jan).

Market shocks seem to come from central banks these days and the Bank of Canada was the latest to surprise the markets with an unexpected 0.25% cut bringing the rate lower to 0.75% as a response to cushion Canada from the recent oil price shock. Australian markets have rushed to narrow the odds on a near-term cut in interest rates following a surprise easing from Canada, not least because of the similarities between the two countries as major commodity exporters. The market is now fully priced for a cut by April and a total cut of 0.50% over the next 12 months. Last month, RBA governor Stevens said a rate closer to 75 US cents was more appropriate for the economy.

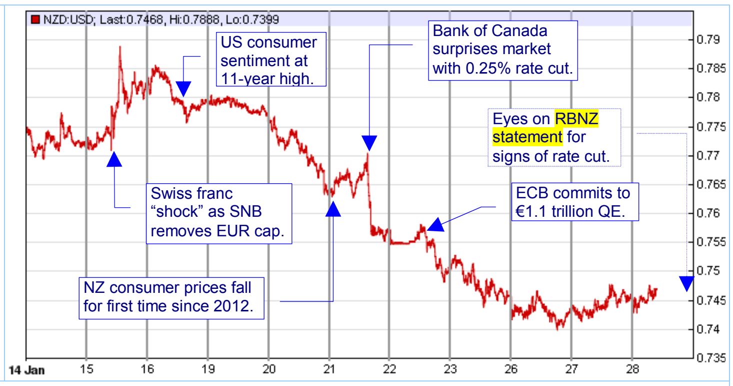
China's manufacturing growth stalled for the second straight month in January and companies had to cut prices at a faster clip to win new business, adding to worries about growing deflationary pressures in the economy. The HSBC/Markit flash manufacturing PMI hovered at 49.8 in January, little changed from December's 49.6. Reflecting the tumble in oil prices, which have more than halved in the last six months, a sub-index for input prices sank to 39.9, a level not seen since March 2009.

National Australia Bank's Monthly Business Survey again showed a "patchwork economy" with "little-to-no momentum" in December, supporting the case for further cuts to Aussie interest rates. Seasonally adjusted business confidence rose 1 point to a net balance of 2 points in the month, but remained below the trend rate, which has been declining for several months. Business conditions fell 1 point to 4 points, below the trend rate, which has been rising for the past few months. NAB's chief economist continued to predict two interest rate cuts from the RBA this year, but that the timing of the cuts would be "very dependent on data flow and could start a touch later".

While headline inflation fell with fuel prices, the RBA's preferred measure of inflation remained well above the bottom of its 2%-3% target band reducing the chances of a rate cut. The CPI rose 0.2% in the December quarter, down from a 0.5% rise in the September quarter. That took the annual rate of inflation down to 1.7%, from its previous level at 2.3% in the September quarter. The vast bulk of the decline came from falling fuel prices, which slumped 6.8% on the back of a global oil price slide.

ANZ and Roy Morgan's weekly consumer confidence index fell 0.4% to 113.2. ANZ said the drop was partly related to the Aussie dollar falling through the key psychological level of 80 US cents, lowest in 5½ years, concerns about job security, weak wages growth, weaker currency and concerns about the government budget.

Base Currency:	NZD	USD
Alternate Currency:	USD	NZD
Strike Price:	0.7600	0.7300
Spot Ref:	0.7468	
Tenor:	2 weeks	
Date:	28 Jan 2015	
Time:	17:30 hrs	
Resistance / Support:	0.7584	0.7308



Commentary:

- Kiwi slips to 2½ year low as traders bet on RBNZ cuts (Wed 21-Jan).
- Eyes on RBNZ statement for chance of rate cut (due on Thu 29-Jan, 04:00hrs SGT).
- NZ services industry grew at faster pace in December (Mon 26-Jan).

The kiwi dollar has dropped to a 2½ year low as investors speculate the RBNZ may have to lower interest rates after the Bank of Canada surprised markets with a rate cut. The trade-weighted index dropped to 77.08 from 78.15 last Wednesday. Traders are pricing in 10bps of cuts to NZ's 3.5% official cash rate in the coming 12 months after Canada's central bank joined the growing number of monetary authorities moving to lower rates.

NZ's Performance of Services Index for December published by Business New Zealand and BNZ showed that the services industry expanded at a faster pace in December with the index rising to 56.5 from a revised 54.7 in November. All five sub-indices showed expansion for a seventh month.

Investors were also aware of growing speculation that a rates cut was likely in Australia and that the RBNZ might do the same. The market is pricing some chance of a rate cut in the next 12 months, but all eyes are on Thursday's Official Cash Rate statement to see whether the language will be changed to potentially hand it such a move.