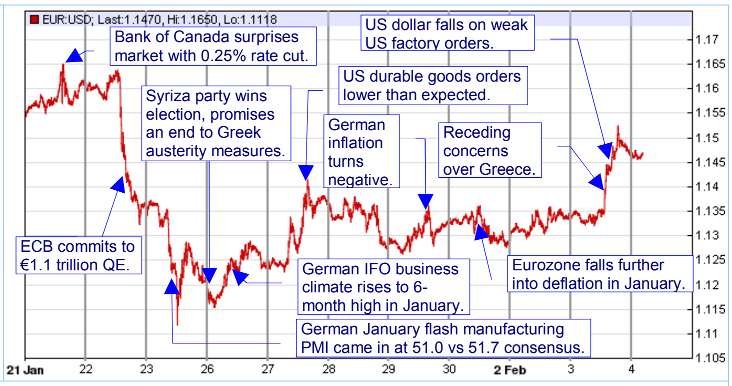
UOB Personal Financial Services
Deposits, Investments & Insurance Strategy
Research & Product Advisory

Wednesday, 04 February 2015

Short Term Currency Views

Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.1650	1.1000
Spot Ref:	1.1470	
Tenor:	2 weeks	
Date:	04 Feb 2015	
Time:	12:30 hrs	
Resistance / Support:	1.1664	1.1001
Commentary:		



- German inflation turns negative for first time since 2009 (Thu 29-Jan).
- Eurozone falls further into deflation in January (Fri 30-Jan).
- Spain defies deflation threat as economy expands most since 2007 (Fri 30-Jan).
- Greek finance minister heads to Germany, drops debt writedown (Tue 03-Feb).

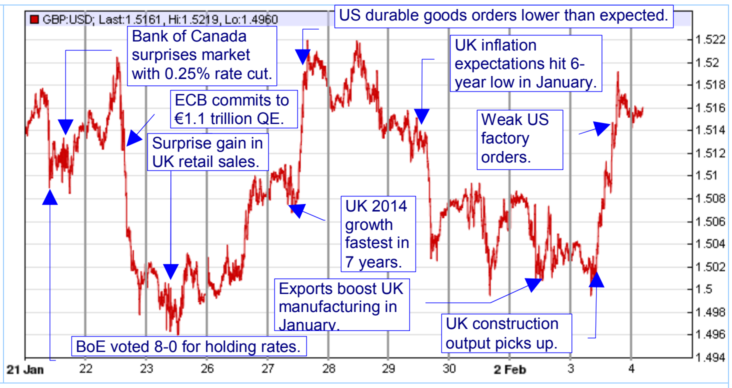
Annual inflation in Germany turned negative in January for the first time since the height of the global financial crisis in 2009, suggesting the eurozone rate could drop further and possibly vindicating the ECB's bond-buying programme. Preliminary data showed consumer prices in Europe's largest economy, harmonised for comparison, dropped by 0.5% on the year in January after rising by 0.1% in December. That undershot the consensus forecast for a 0.2% fall. It also falls far short of the ECB's target for close to but just under 2% over the medium term in the eurozone. The fall in prices was largely driven by lower energy prices, while cheaper food also had an impact.

Spain's economy expanded at its fastest pace in 7 years in Q4, defying the threat of deflation as lower prices helped boost domestic demand. GDP rose 0.7% from Q3, and 2% from a year earlier, the National Statistics Institute said in a preliminary report. That's higher than the Bank of Spain estimate of 0.6% growth for Q4 and 1.9% y/y.

Eurostat, said consumer prices fell by 0.6% in January after a decline of 0.2% in December. A nearly 9% drop in the oil prices and other energy costs accounted for most of the decline. Eurozone's core inflation rate, which excludes prices of energy, food, alcohol and tobacco, dipped in January to 0.6%, down from 0.7% in December.

In a welcome turnabout, Greek Finance Minister Varoufakis proposed to swap outstanding Greek debt for new GDP-linked bonds, rather than a straight write-off, running a permanent primary budget surplus (after interest payments) of 1%-1.5% even if it meant not fulfilling its election promises on public spending, and placing new emphasis on collecting from tax evaders. Ten-year Greek bond yields dropped 143 basis points Tuesday to 9.5%; on Monday, they opened above 11%. Germany expects talks with Greece to drag on until after the current round of bailout funding runs out at the end of the month and when the country approaches a cash crunch.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.5300	1.5000
Spot Ref:	1.5161	
Tenor:	2 weeks	
Date:	04 Feb 2015	
Time:	12:30 hrs	
Resistance / Support:	1.5246	1.5037
Commentary:		



- UK retail sales growth slows less than expected in January - CBI (Thu 29-Jan).
- Exports boost UK manufacturing in January as factories cut prices (Mon 02-Feb).
- UK inflation expectations hit 6-year low in January - Citi/YouGov (Thu 29-Jan).
- GBP jumps on strong UK construction PMI, weak US factory orders (Tue 03-Feb).

British retail sales growth slowed by less than expected in January, helped by the biggest rise in clothing sales in almost two years. The CBI's distributive trades survey's retail sales balance fell to +39 from December's 27-year high of +61 that was fuelled by a "Black Friday" shopping frenzy. Economists had expected a steeper slowdown to +30. Falling oil prices and low inflation mean consumers have a bit more money in their pockets. We expect to see this translate into strong sales growth in the months ahead. The CBI said growth in retail was broad-based, with clothing sales rising at the fastest rate since February 2013.

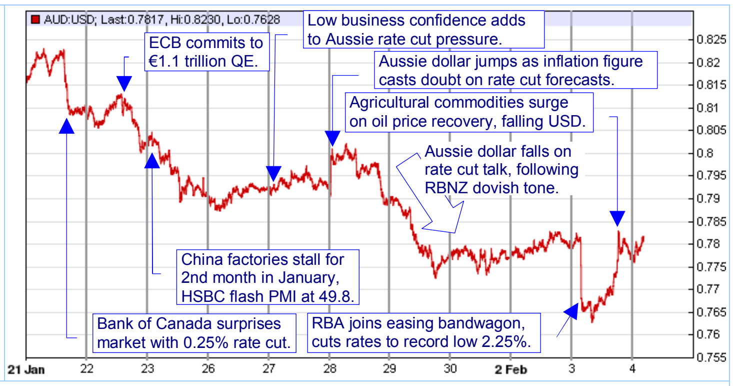
The British public's expectations for inflation in the next 12 months fell to their lowest level in six years in January, while longer-term inflation expectations hit a record low. The monthly Citi/YouGov survey found year-ahead inflation expectations fell to 1.2% in January from 1.5% in December, the lowest level since January 2009. Expectations for inflation over the next 5 to 10 years fell to 2.6% from 2.7% in December, marking a new record low. Official data showed British consumer price inflation plunged to its lowest level since May 2000 and BoE Governor Mark Carney has said it could turn negative in the next few months.

British manufacturing grew slightly faster in January thanks to a modest recovery in export orders, but factories cut prices at the fastest pace since 2009 to drum up business. Markit/CIPS UK Manufacturing PMI rose to 53.0 from 52.7 in December, beating a forecast for 52.6. The figures suggest manufacturing output is rising at a quarterly pace of around 0.2%, only a slight improvement on the 0.1% growth seen in the last three months of 2014.

British PMIs continue to point upwards in the January reports. Construction PMI jumped to 59.1 points, up from 57.6 a month earlier. This easily beat the forecast of 56.9 points. Meanwhile, US Factory Orders were weak, posting a sharp decline of 3.4%, a 4-month low. The pound received a boost from the strong UK and weak US data.

Base Currency:	AUD	USD
Alternate Currency:	USD	AUD
Strike Price:	0.8100	0.7650
Spot Ref:	0.7817	
Tenor:	2 weeks	
Date:	04 Feb 2015	
Time:	12:30 hrs	
Resistance / Support:	0.8207	0.7662

Commentary:



- Aussie dollar falls on rate cut talk, following RBNZ dovish tone (Thu 29-Jan).
- RBA joins easing bandwagon, cuts rates to record low 2.25%. (Tue 03-Feb).
- China January HSBC factory PMI shrinks again, below flash data (Mon 02-Feb).
- Agricultural commodities surge on oil price recovery, falling USD (Tue 03-Feb).

The Aussie dollar has been under pressure near 5½ year lows since last week after the RBNZ adopted an easing bias, triggering expectations that the RBA would do the same. The market is currently pricing a 60% chance of a cut. Iron ore and commodity prices have also been falling off again, which has a big impact on the Aussie dollar.

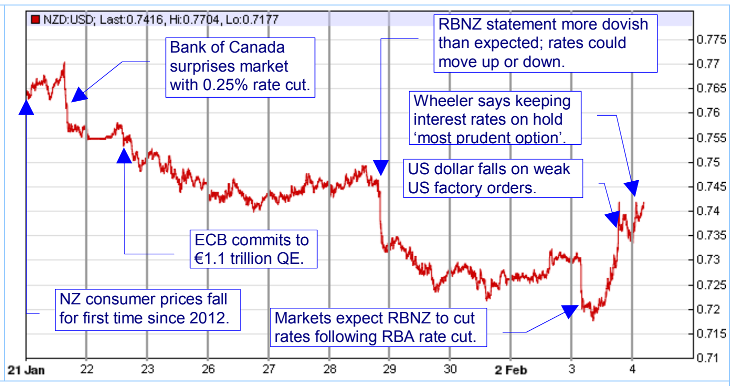
Activity in China's factory sector shrank for the second straight month in January, as the new year got off to a rocky start for the world's second-largest economy. The slack performance, including a 15th month of shrinking factory employment, will add to the debate over how and whether China will accelerate policy easing, with most bank economists calling for a combination of rate cuts and increased liquidity to spur productive investment. The final HSBC/Markit PMI for January came in at 49.7 on a seasonally adjusted basis. The number was slightly lower than a preliminary "flash" reading of 49.8 but higher than the final 49.6 in December.

The RBA joined many of its peers around the world to cut its benchmark policy Cash Target rate by 0.25% to 2.25%, the first cut since holding the rate at 2.5% in September 2013, and the lowest on record. The next immediate economic data that we will be watching will be the RBA's release of its Statement on Monetary Policy on Friday (6-Feb). Externally, RBA noted that growth in Europe and Japan was weaker than expected while lower energy prices will lower inflation temporarily. RBA noted that the Aussie dollar remains overvalued, "above most estimates of fundamental value" and that a lower Aussie dollar is likely needed for balanced growth.

A surge in oil prices and the prospect of a weaker US dollar have driven a broad based surge in commodities markets. The spike in oil prices – West Texas Intermediate crude was up 6% overnight and Brent futures jumped 4.9% - has had the effect of dragging agricultural commodities, base metals and bulks along in their wake. In base metals, copper rose almost 4 per cent, while among the bulk commodities iron ore and thermal coal also recorded solid gains.

Base Currency:	NZD	USD
Alternate Currency:	USD	NZD
Strike Price:	0.7600	0.7200
Spot Ref:	0.7416	
Tenor:	2 weeks	
Date:	04 Feb 2015	
Time:	12:30 hrs	
Resistance / Support:	0.7586	0.7212

Commentary:



- RBNZ more dovish than expected, rates could move up or down (Thu 29-Jan).
- Wheeler says keeping interest rates on hold 'most prudent option' (Wed 04-Feb).
- Bill English: RBNZ in a difficult situation (Tue 03-Feb).

In their latest policy statement, RBNZ dropped their hawkish bias, pushing the Kiwi lower. As expected, RBNZ Governor Graeme Wheeler decided to keep interest rates on hold at 3.50%. What took market watchers by surprise was Wheeler's remarks clarifying that their next interest rate move could be either up or down. Prior to this announcement, analysts had been speculating when the timing of the next RBNZ rate hike might be, as it had been holding on to its hawkish bias in its previous policy decisions. While some projected that the RBNZ would keep rates on hold for much longer, not many anticipated that the RBNZ would also be open to lowering rates just like most central banks these days. Wheeler didn't pass up the opportunity to jawbone the currency once more, reiterated that the exchange rate is "unjustified in terms of current economic conditions" and that it is "unsustainable" when it comes to longer-term fundamentals, stressing that he'd like to see "further significant depreciation".

NZ finance minister Bill English says RBNZ has a problem on its hands. 14 central banks have dropped their interest rates over the past couple of weeks. If NZ's interest rates are way ahead of the rest, the high exchange rate would be bad for exporters, and with rising housing prices, it's very difficult to make a case of putting rates up.

Wheeler acknowledged calls to cut interest rates, given the tumbling price of crude oil, before arguing that keeping rates on hold was the most prudent option given the potential for domestic inflation to accelerate. He said the biggest risks to the NZ economy, which is "performing well", are uncertainties over China's economy and four key prices - dairy, crude oil, houses and the exchange rate. A rate cut could also be warranted if domestic demand and price pressures fell further, perhaps in response to drought or some external economic event. "However, in our current situation there are important considerations why a period of OCR stability is the most prudent".