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

Wednesday, 04 January 2012

Short Term Currency Views

Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.3350	1.2850
Spot Ref:	1.3052	
Tenor:	2 weeks	
Date:	04 Jan 2012	
Time:	16:45 hrs	
Resistance / Support:	1.3356	1.2867

Commentary:

- Global manufacturing displays resilience to Europe's debt crisis (Tue 03-Jan).
- Data from Germany, China boosts euro (Tue 03-Jan).
- All eyes on Germany's 5 billion euro 10-year note auction (Wed 04-Jan).
- US Non-Farm Payrolls (due on Friday 06-Jan, 21:30 SGT).

PMI indexes for the UK, Switzerland, China, India and Australia rose in December, while German unemployment fell more than economists forecast as exports of cars and machinery boomed. US manufacturing growth accelerated more than forecast to their fastest pace in six months, adding to evidence manufacturing is improving from India to UK. The US ISM factory index climbed to 53.9 in December from 52.7 in November, showing factory orders and production grew at their strongest rates in eight months while inventories were cut.

Investors are particularly concerned over Italy as it faces around 100 billion euros of bond redemption and coupon payments in the first four months of 2012, with 10-year borrowing costs near the crucial 7% level. Worries over Greece were reinforced after a government spokesman said it would have to leave the eurozone if it failed to clinch a deal on a second 130 billion-euro bailout with its international lenders. The euro may also get a reprieve if European policymakers make progress on steps to tackle the debt crisis in a series of meetings in January.

US job growth is expected to gather pace in December and the ongoing improvement in the labour market could prop up the dollar as the development dampens the scope for another round of quantitative easing. US Non-Farm Payrolls are projected to increase another 150K in December, up from 120K in November. As Fed officials see economic activity gradually gathering pace in 2012, the more robust recovery may lead the FOMC to further soften its dovish tone for monetary policy, and the central bank may curb speculation for additional monetary support as the risk of a double-dip recession subsides.

Today, the event that markets will sit up and pay attention to is Germany's 5 billion euro 10-year note auction. Recall that Germany failed to get bids for 35% of its 6 billion euro of 10-year bunds being offered on 23-Nov-2011, and that sparked concerns that the sovereign debt is now threatening the core of euro-zone, France and Germany.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.5900	1.5400
Spot Ref:	1.5642	
Tenor:	2 weeks	
Date:	04 Jan 2012	
Time:	16:45 hrs	
Resistance / Support:	1.5789	1.5489

Commentary:

- British manufacturing beat expectations in December (Tue 02-Jan).
- Manufacturing contraction slows but recession expected (Tue 02-Jan).

Data released yesterday showed that British manufacturing beat expectations in December, showing signs of stabilising after a two-month decline as orders from China and Germany picked up, although the risk of another recession persists. The UK PMI survey showed that export orders posted their first monthly rise since July, with the index rising to the highest level since April, helped by stronger demand for goods from China, Germany and eastern Europe. The Markit/CIPS Manufacturing Purchasing Managers' Index (PMI) rose to 49.6 from an upwardly revised 47.7 in November. Both new orders and employment continued to shrink in December, but at a slower place compared with the previous month.

A bright spot in the survey was a jump in the exports measure to 53.5 from 49 in November, which showed demand for British goods abroad fared well despite ongoing weakness in the eurozone, its largest trading partner. Economists warned however that the economy overall likely contracted in the fourth quarter of 2011, putting the UK at risk of recession in 2012. With the economy set to slide back into recession, it would be a major surprise if the Monetary Policy Committee didn't loosen policy further, possibly as early as next week, but more likely in February, once the current round of asset purchases has been completed.

Base Currency:	AUD	USD
Alternate Currency:	USD	AUD
Strike Price:	1.0350	0.9950
Spot Ref:	1.0351	
Tenor:	2 weeks	
Date:	04 Jan 2012	
Time:	16:45 hrs	
Resistance / Support:	1.0429	1.0150
Commentary:		

■ Aussie dollar rises on strong US ISM data (Tue 03-Jan).
■ Aussie post-Christmas sales in line with expectations (Tue 03-Jan).
■ Australia manufacturing expands 1st time in 6 months (Mon 02-Jan).

Australian retailers are seeing post-Christmas trading in line with already reduced expectations of a 2.4% annual increase, a leading industry group said yesterday. Two cuts in official interest rates by the Reserve Bank seem to have done little to boost sentiment, with confidence in December sliding 8.3% on worries about the economic outlook. Official Bureau of Statistics figures show that over the year to October (the most recent data available), spending at Australian department stores fell 3.3%, while spending at cafes, restaurants and takeaway food services rose 4.1%. The next official retail report, for November, is due on Jan 9.

The Aussie dollar continued its advance against the dollar as commodities prices soared on Tuesday (3-Jan) with the AUD/USD pair ending at 1.0378.

Activity in Australia's manufacturing sector improved in December as a survey showed the first expansion in six months, though firms remained cautious on the outlook. The Australian Industry Group/PriceWaterhouseCoopers performance of manufacturing index (PMI) rose 2.4 points in December to 50.2, the highest since June and just above the 50 level that marks the threshold between contraction and expansion. Manufacturing accounts for around 10% of the economy but is being rapidly overtaken by a booming mining sector. The PMI survey has often stood at odds with official measures of manufacturing, which have been generally firmer.

Base Currency:	NZD	USD
Alternate Currency:	USD	NZD
Strike Price:	0.8050	0.7750
Spot Ref:	0.7886	
Tenor:	2 weeks	
Date:	04 Jan 2012	
Time:	16:45 hrs	
Resistance / Support:	0.7980	0.7777
Commentary:		

■ Boxing Days sales up 6.9% (Wed 28-Dec).
■ Risk-on rally from stronger than expected US ISM data (Tue 03-Jan).
■ NZ Business has brighter outlook for 2012 (Wed 04-Jan).

After a month of consistently positive transaction growth retailers have enjoyed a final Christmas bonus with the value of Boxing Day transactions around the country up 6.9% year-on-year. Just under NZ$106 million was spent across the country as Kiwis made their way to the shops on what is traditionally the most discounted day of the shopping calendar.

Stronger than expected US ISM manufacturing data helped fuelled the New Year rally with the December data marking the 29th consecutive month of growth in the manufacturing sector. November construction spending also topped estimates with an increase of 1.2% m/m, beating calls for an estimate of just 0.5% m/m. Higher yielding currencies have remained on the offensive early in the session with the Kiwi and the Aussie acting as chief beneficiaries of risk-on flows.

New Zealand businesses have renewed confidence heading in to 2012, according to the latest Grant Thornton International Business Report (IBR). After a bullish outlook early in 2011, business confidence dipped last quarter but has now taken an upturn with 36% of respondents more upbeat compared with 32% in the previous period. This contrasts with New Zealand's major trading partners who are viewing the New Year less favourably. Confidence among Australian businesses declined for the fourth consecutive quarter, now standing at 24%; the US at 1% and the UK at -35%.

While tourism was challenging, New Zealand had been able to swap the traditional visitor markets of Europe and the US for Australia and China. Higher dairy prices have also had a flow on effect to trends predicted for 2012. More than half of respondents (56%) are expecting increased revenues and 47% are planning to invest in plant and machinery.