UOB 大華銀行

UOB WEALTH BANKING

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

Wednesday, 07 March 2012

Short Term Currency Views

Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.3450	1.2900
Spot Ref:	1.3146	
Tenor:	2 weeks	
Date:	07 Mar 2012	
Time:	14:15 hrs	
Resistance / Support:	1.3500	1.2624

Commentary:

- ECB LTRO 2: €529.5 billion as 800 banks ask for a handout (Wed 29-Feb, 18:15 SGT).
- Euro-region economy contracts in Q4 (Tue 06-Mar).
- Bondholders moving towards bond-swap participation (Mon 05-Mar).
- Greek deadline for debt restructuring (Thu 08-Mar / 09-Mar Asian Time Zone).

The ECB's 2nd 3 year LTRO allotted EUR 529.53 billion worth of cheap loans to 800 European banks. With the total take-up exceeding economists' forecasts, it appears that the European financial system may not be as healthy as previously thought. While many major banks stayed on the sidelines, the influx of capital into Italian and Spanish banks gives credence to the idea that, without ECB intervention, Italian and Spanish debt would be well-above the 7% yield "sustainable" threshold. The 1st LTRO tranche allotted EUR 489.19 billion in 3 year funds in December to 523 banks. The ECB charges 1% annual interest on the LTROs which total €1.018 trillion.

Europe's economy contracted in Q4 as investment declined by the most since 2009 and exports and consumer spending dropped. GDP shrank 0.3% from Q3, the European Union's statistics office said yesterday, confirming an estimate published on 15-Feb. Exports fell 0.4% after a 1.4% gain in the previous three months, while household spending declined 0.4% and investment dropped 0.7%.

Greece moved a step closer on Monday to avoiding default on its debt when a large group of private-sector bondholders said that it would participate in a restructuring through a bond swap. The Institute of International Finance, the global banking group that represents large private-sector holders of Greek debt, said that 12 members of its steering committee would trade in their Greek bonds for new ones, sustaining a loss of as much as 75%. Greece is likely to surpass its target of acceptance of the swap by holders of 75% of the debt outstanding. The deadline for the agreement is Thursday, and the results are expected to be announced on Friday.

The failure to close the deal would trigger a bout of risk aversion with the euro being sold off while the success of the bond swap deal will trigger further downgrade of Greek credit rating to default status while the ISDA may decide the $3.25 billion in Greek credit-default swaps would be triggered when the debt swap deal actually happens.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.6000	1.5550
Spot Ref:	1.5733	
Tenor:	2 weeks	
Date:	07 Mar 2012	
Time:	14:15 hrs	
Resistance / Support:	1.6169	1.5600

Commentary:

- UK economy picks up despite slower services growth (Mon 05-Mar).
- Monetary Policy Committee (MPC) Meeting (Wed-Thu) and Announcement (Thu 08-Mar, 20:00 SGT).

The closely-watched Markit/CIPS services Purchasing Managers' Index (PMI) fell to a three-month low of 53.8 from 56 in January. Economists had expected a smaller fall to 55. Although the PMI series, which includes surveys on the manufacturing and construction sectors, are not official data, they are respected by economists and policymakers at the Bank of England as early indicators of activity.

In good news for the BoE's MPC, the services PMI showed price pressures eased in February. The prices charged by companies in the sector fell for a fifth month. While input prices – those paid by service providers for their raw materials – continued to rise, they did so at the slowest pace since November 2010.

BoE policy-makers aren't expected to make any changes this Thursday to the key interest rate or the size of its stimulus program, but the rising price of oil is making the outlook for monetary policy increasingly uncertain. Economists forecast that the MPC will keep benchmark rate at a record low of 0.5% and the target for its bond-buying stimulus program at GBP 325 billion, following a GBP 50 billion extension last month.

Base Currency:	AUD	USD
Alternate Currency:	USD	AUD
Strike Price:	1.0750	1.0400
Spot Ref:	1.0555	
Tenor:	2 weeks	
Date:	07 Mar 2012	
Time:	14:15 hrs	
Resistance / Support:	1.0800	1.0400

Commentary:

- China cuts growth target to 7.5% (Mon 05-Mar).
- RBA leaves rate unchanged as expected (Tue 06-Mar).
- Australia Q4 GDP growth slows to 0.4% Q/Q, less than expected (Wed 07-Mar).

The Reserve Bank has left its key interest rate unchanged for a second consecutive month as it weighs improving global conditions against a patchy economy. As widely expected by economists, the central bank left its cash rate unchanged at 4.25%. RBA governor Glenn Stevens's message was little changed from a month ago.Treasurer Wayne Swan said the decision by the RBA to leave the cash rate on hold reflects the economy's underlying strength and resilience at a time of continued global uncertainty.

Australia's economy grew less than expected in the December quarter due mainly to the drag from private gross fixed capital formation while contributions from other components were largely in line with expectations. GDP rose 0.4% quarter-on-quarter in Q4, compared with a revised 0.8% (from +1.0%) growth in Q3, data from the Australian Bureau of Statistics showed today. Economists had expected a 0.8% rise in Q4 GDP, with risks to the upside. On an annual basis, the economy grew 2.3% in the Q4 compared with expectations for a 2.4% growth.

Despite today's reported slowdown, Australia remains among the fastest-growing economies in the world thanks in large part to rising demand for commodities in Asia. Its 2.3% annual growth compares with 1.6% in the US, 0.7% in the euro zone and the UK, and a 1% contraction for Japan. Still, the 2.3% expansion in 2011 was the weakest since 2008. It's also well below the average pace of 3.3% over the period since 1997.

Base Currency:	NZD	USD
Alternate Currency:	USD	NZD
Strike Price:	0.8300	0.7950
Spot Ref:	0.8176	
Tenor:	2 weeks	
Date:	07 Mar 2012	
Time:	14:15 hrs	
Resistance / Support:	0.8200	0.7981

Commentary:

- China cuts growth target to 7.5% (Mon 05-Mar).
- NZ dollar fall continues on Greece, China (Tue 06-Mar).
- New Zealand budget deficit wider than forecast on quake insurance costs (Tue 06-Mar).
- S&P says New Zealand's credit ratings face "downward pressure" (Tue 06-Mar).

China revised its growth target downwards to 7.5% from 8%, a level which had been in place since 2005. That saw investors sharply trim their Kiwi and Aussie dollar holdings, with both currencies and economies heavily exposed to the world's second biggest economy. The Kiwi dollar continued its fall against the greenback after last week's upbeat macroeconomic outlook soured, with lower China growth targets and another Greek debt deadlock weighing on the currency. Investors' appetite for risk assets continued to come off the boil due to the standoff between Greece and its private sector creditors on the bond swap agreement.

New Zealand's budget deficit was NZ$473 million wider than forecast in the seven months through January after higher-than-expected earthquake insurance liabilities. The government's operating deficit before gains and losses on investments was NZ$4.314 billion, compared with the NZ$3.841 billion gap forecast in the pre-election fiscal update published in October, the Treasury Department said in a report released in Wellington on Tuesday. Prime Minister John Key is forecasting the government will eliminate the shortfall by 2015 as it cuts spending and reduces debt by selling as much as 49% of four state-owned energy companies. Last month, the government said the 2015 surplus may be a third the size it predicted in October as weaker world growth curbs revenue.

Investors had a brief flurry of nervousness yesterday, after Dow Jones reported that Standard & Poor's warned New Zealand's credit rating could face "downward pressure" if its fiscal situation deteriorated. The announcement came just hours after Government revealed a budget deficit blowout due to lower tax revenues, causing some investors to read it as a sign the kiwi was set for sharp declines.