



Wednesday, 04 July 2012

Short Term Currency Views

Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.2750	1.2350
Spot Ref:	1.2591	
Tenor:	2 weeks	
Date:	04 Jul 2012	
Time:	13:45 hrs	
Resistance / Support:	1.2850	1.2288
Commentary:		



- Euphoric deal for Spain and Italy at EU Summit; euro gains almost 2% (Fri 29-Jun).
- Euro area Manufacturing PMI contracts to 45.1 in June (Mon 02-Jul).
- Eurozone Unemployment rate edges higher to 11.1% (Mon 02-Jul).
- Eurozone factory prices (PPI) slip more than expected in May (Tue 03-Jul).
- Markets are expecting a 0.25% rate cut by the ECB to 0.75%. (Thu 05-Jul).

The European Union leaders ended its two day summit at Brussels with the agreements of accelerating plans for the creation of a single supervisor (banking union) for eurozone banks and more importantly, allowing the eurozone's financial rescue funds (EFSF and ESM) to be able to directly boost the capital of troubled banks without adding to the bank's home-country government's debt, much to the relief of Spanish and Italian governments and their bond markets. The EU leaders also agreed to remove a requirement that taxpayers get preferred creditor status on emergency loans to Spanish banks. This means that even if the European Stability Mechanism (ESM) were used, private investors in Spanish bond will not be subordinated under the ESM, and thereby will not repel private investors from buying Spanish government bonds. US stock markets rallied strongly, as did the euro FX and prices of commodities. Spanish and Italian 10-year yields corrected lower significantly.

Signs from the eurozone were generally discouraging, keeping sentiment toward the euro bearish. The jobless rate rose to a record in May and factory activity contracted again in June. The June manufacturing PMI for Euro area was revised higher to 45.1 from 44.8 in an earlier survey. The eurozone unemployment rate for May continued to creep higher to 11.1% (from 11%) as expected.

This week's key event for the euro remains the ECB meeting on Thursday, where expectations are for a 0.25% cut in the policy rate to 0.75%. While a rate cut had been discussed at the last meeting, a majority of the governing council had voted to maintain rates. It has since been rumoured that a majority now favours easing rates." Most investors are betting that the ECB will cut its benchmark interest rate amid poor eurozone data and doubts about a European plan to support indebted euro zone countries.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.5800	1.5450
Spot Ref:	1.5676	
Tenor:	2 weeks	
Date:	04 Jul 2012	
Time:	13:45 hrs	
Resistance / Support:	1.5765	1.5560
Commentary:		



- June Manufacturing PMI at 48.6; recovery unsustainable as economy stays weak (Mon 02-Jul).
- June Construction PMI, May consumer credit and May mortgage approvals (Tue 03-Jul).
- BoE expected to keep rates unchanged and increase its asset purchase programme by another £50 billion (Thu 05-Jul).

The Markit/CIPS Construction PMI sank to 48.2 in June from 54.4 in May. Factories also cut back on activity in both May and June; the June manufacturing PMI at 48.6, while a PMI poll of firms in the dominant service sector due on Wednesday is expected to show only tepid growth. Lending to consumers picked up in May and mortgage approvals fell less than forecast, BoE data showed, but the overall environment for consumer credit remains weak as the economy struggles with tight credit conditions.

Britain's economy is too weak to produce a sustainable recovery, the British Chambers of Commerce (BCC) warned on Tuesday, as a survey showed construction activity fell at its fastest pace in 2½ years in June. BCC said its economic survey of around 8,000 businesses suggested only marginal growth in Q2, in line with a 0.1% forecast in a Reuters poll. The BCC predicts economic growth of just 0.1% for 2012 but say it will pick up to 1.9% in 2013 on an upturn in exports to countries outside Europe.

The BoE is expected to top up the £325 billion of cash it has already pumped into markets with another £50 billion when it meets on Thursday as falling inflation gives it more scope to support the battered economy. Despite the BoE's ultra-loose monetary policy, effective interest rates for loans to small businesses as well as for mortgages kept rising and adding another constraint to growth. The government and the BoE are trying to get credit flowing through the economy by easing banks' funding costs, which are driven up by the uncertainties over the eurozone.

Base Currency: AUD USD
Alternate Currency: USD AUD
Strike Price: 1.0400 1.0000
Spot Ref: 1.0292
Tenor: 2 weeks

Date: 04 Jul 2012
Time: 13:45 hrs

Resistance / Support: 1.0400 1.0150

Commentary:



- Inflation drop indicates RBA could hold fire (Mon 02-Jul).
- Building approvals jump 27.3% (Tue 03-Jul).
- RBA holds rate at 3.5%, cites "material easing" (Tue 03-Jul).
- Retail sales exceed expectations in May (Wed 04-Jul).

The TD Securities-Melbourne Institute inflation gauge dropped 0.2% in June, after a rise in April and an unchanged reading in May. It showed prices rose for holiday travel, insurance and household appliances, but these were offset by falls in petrol, furniture and food. It also shows underlying inflation is outside the RBA's target band of 2% to 3%. Odds are that annual underlying inflation slowed to 2% last quarter, the lowest reading since 1999. Analysts suspect policy could be eased again in August should official figures on inflation for the second quarter, due later this month, prove as benign as expected.

Australian residential building approvals rose 27.3% in May, seasonally adjusted, data released on Tuesday showed. According to the Australian Bureau of Statistics figures, a 58.7% jump in "private sector dwellings excluding houses", which includes multi-story units and townhouses, was the major reason for the rise. There are signs that perhaps developers are getting better access to funding and are looking at the market and seeing cheaper interest rates.

The RBA held its main cash rate at 3.5% as it gauges whether back-to-back cuts already delivered will be enough to insulate the resource-rich economy from global gloom. "As a result of the sequence of earlier decisions, there has been a material easing in monetary policy over the past six months," wrote RBA governor Glenn Stevens. "The board judged that with inflation expected to be consistent with the target and growth close to trend, but with a more subdued international outlook than was the case a few months ago, the stance of monetary policy remained appropriate." The RBA made no mention of whether it might ease again, neither did it close the door on that option.

Retail sales rose 0.5% in May to A\$21.3 billion, exceeding forecasts of a 0.2% increase. Sales for April were also revised up to show a 0.1% rise, instead of a 0.2% drop, pointing to healthier spending in Q2. The data showed solid gains in sales of household goods, at department stores and restaurants, all areas of discretionary spending.

Base Currency: NZD USD
Alternate Currency: USD NZD
Strike Price: 0.8150 0.7850
Spot Ref: 0.8054
Tenor: 2 weeks

Date: 04 Jul 2012
Time: 13:45 hrs

Resistance / Support: 0.8100 0.7930

Commentary:



- Fonterra milk prices slump 5.9% (Wed 04-Jul).
- Auckland house prices hit new high, busiest June in 5 years (Wed 04-Jul).

Prices at Fonterra's latest online dairy auction slumped overnight following recent gains, with rising macroeconomic uncertainty sapping demand for commodities. The GDT-TWI Price Index fell 5.9% compared with the last sale, with an average winning price of NZ\$3460 per metric tonne. All eight product categories saw prices declines. The prices Fonterra gets at the online dairy auctions determine the payout it passes on to farmers. That, in turn, is closely watched as a lead into the rural economy, a sector that has remained largely subdued since the global financial crisis.

Auckland house prices have reached a new average high of NZ\$589,251 due to a shortage of properties and buyers committing to sales, a leading real estate company says. About three quarters of homes sold in the past month by Barfoot and Thompson who sell around one in three residential properties in Auckland went for well over NZ\$500,000 with 84 going for more than NZ\$1 million, further increasing the average price. The company sold 994 properties in June, the highest number in that month for five years. In June the average price increased by 1.2% over that for May.

As market sentiment tentatively improves ahead of the ECB and BoE central bank meetings later this week the Kiwi is displaying a gradual move higher, holding near a two-month high after US factory orders beat expectations, helping lift equity markets and risk appetite.



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