



Wednesday, 25 July 2012

## Short Term Currency Views

### Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.2200	1.1950
Spot Ref:	1.2071	
Tenor:	2 weeks	
Date:	25 Jul 2012	
Time:	11:15 hrs	
Resistance / Support:	1.2176	1.1985
Commentary:		



- Euro turns carry traders' favourite in worst year since 2003 (Mon 23-Jul).
- Euro continues slumps against major currencies as Spain's Q2 GDP falls 0.4% q/q (Mon 23-Jul).
- Eurozone government debt climbs to record 88.2% of GDP in Q1 (Mon 23-Jul).
- Moody's downgrades Germany, Netherlands and Luxembourg to negative outlook (Mon 23-Jul).
- Eurozone manufacturing output slumps further in July (Tue 24-Jul).

The euro sank to a 2-year low against the greenback as traders jumped on the low borrowing cost of the euro for carry-trades. The ECB lowered its deposit rate to zero on July 5 spurring investors to borrow euros to buy higher-yielding assets elsewhere, generating gains from the carry-trade for the first time in two years.

Spanish 10-year bond yields shot up to 7.56% on Monday and 7.621% on Tuesday, as the Bank of Spain said the country's economy contracted by 0.4% on a quarterly basis in Q2, having contracted by 0.3% in Q1 of this year. Bank of Spain deputy governor Fernando Restoy said the solution to the current debt crisis was to make more cuts, more reforms, and more mechanisms to strengthen the eurozone economy. With yields so high, unemployment at 24% and the economy expected to remain in recession throughout 2013, analysts say Spain will likely need a bailout for the Valencia and Catalonia regions on top of the one agreed for the country's banks last week.

Government debt as a percentage of GDP rose to 88.2% in Q1 from 87.3% in Q4 of 2011, the European Union's statistics office in Luxembourg said. That's the highest since the euro was introduced in 1999. Greece reported the largest debt on the list at 132.4% of GDP, down from 165.3% in the prior quarter after the nation's bond-swap operation. Italy was second-highest with debt of 123.3% of GDP, up from 120.1% in the fourth quarter, while Spain saw an increase to 72.1% from 68.5%.

Moody's changed its outlook for top-rated Germany, the Netherlands and Luxembourg to negative from stable, warning that they may have to increase support for indebted eurozone states such as Spain and Italy. It affirmed Finland's "Aaa" rating and stable outlook. Moody's also cited an increased chance of Greece leaving the eurozone, which would set off a chain of financial sector shocks. Auditors from the troika of Greek creditors are in Athens this week for an in-depth inspection of the new government's economic programme. Their report will determine whether Greece will receive fresh loans of 31.5 billion euros by September due under its debt rescue programme. Later today, the ECB will publish its third lending survey of the year, which could provide the ECB with a key piece of evidence to justify additional 3Y LTROs.

Markit's Eurozone Composite PMI, which combines the services and manufacturing sectors and acts as a good guide to overall growth, held steady at 46.4 in July, but manufacturing was dire and forward-looking indicators were grim. The index for the manufacturing sector fell to 44.1 (lowest since June 2009) from 45.1. The business expectations index fell to 50.1 from 52.1, the lowest since March 2009.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.5650	1.5400
Spot Ref:	1.5506	
Tenor:	2 weeks	
Date:	25 Jul 2012	
Time:	11:15 hrs	
Resistance / Support:	1.5580	1.5450
Commentary:		



- UK considered most at risk from worsening eurozone crisis (Wed 25-Jul).
- UK Q2 GDP expected to decline 0.2% as recession deepens (scheduled for release Wed 25-Jul).

Britain is the country most at risk from any worsening of the economic situation within the eurozone and urgently needs to diversify its trade to make itself less vulnerable to the crisis, according to a report released on Wednesday. Research says UK's strong trade and banking links with eurozone are potential source of weakness. The research from risk analysis firm Maplecroft warned that the UK's high level of interaction with, and dependence on, eurozone countries, alongside its own struggling domestic economy, meant it was most at risk from Europe's economic woes of 169 nations studied in a eurozone exposure index (EEI).

The focus for the UK economy will be the Q2 GDP (25 July) which is likely to have contracted again following the decline recorded in Q1 of 2012. According to economists in a Bloomberg survey, GDP likely fell 0.2% in Q2, extending its state of technical recession. GDP shrank 0.3% in the Q1 and 0.4% in Q4 of 2011.

Base Currency: AUD USD  
Alternate Currency: USD AUD  
Strike Price: 1.0400 1.0150  
Spot Ref: 1.0233  
Tenor: 2 weeks

Date: 25 Jul 2012  
Time: 11:15 hrs

Resistance / Support: 1.0350 1.0150

Commentary:



- Aussie mining boom could be over in 2 years (Mon 23-Jul).
- HSBC Preliminary China July PMI 49.5 versus Final June PMI 48.2 (Tue 24-Jul).
- Australian currency lifts on Glenn Stevens optimism (Tue 24-Jul).
- Aussie dollar drops on eurozone PMI (Tue 24-Jul).
- Annual inflation rate eases to 1.2% (Wed 25-Jul).

Australia's mining boom will slow more sharply than expected and could be over within two years due to easing demand from China and falling prices, a leading economic forecaster warned Monday. Mining exports to industrialising Asian nations, chiefly China, helped Australia weather the global crisis without entering recession and prompted Canberra to promise a budget surplus for the 2012-13 fiscal year starting July 1. But Australia's leading private-sector budget forecaster Deloitte Access Economics said the surplus plans could be undone as China slows and with coal and iron ore prices dropping. "The strong bit of Australia's two-speed economy won't stay strong for more than another two years or so," Deloitte said, referring to the mining boom.

The preliminary HSBC China Manufacturing Purchasing Managers Index, a gauge of nationwide manufacturing activity, rose to 49.5 in July compared with a final reading of 48.2 in June. The rise in the PMI could ease market concerns over a sharp slowdown in China, indicating that earlier easing measures are starting to work. Despite the rebound, the preliminary July reading marks the ninth straight month the index has been in contraction, signalling extended difficulties for the nation's manufacturers.

Glenn Stevens, governor of the RBA, said that Australia was well placed to deal with any fallout from Europe's crisis and added that he remained upbeat on the outlook for China growth. He added afterwards in a question-and-answer session that current policy settings are "about right". The Aussie dollar had rallied a little following the release of improved manufacturing figures from China but this was cancelled out by developments in Europe with weaker than expected manufacturing and services flash PMI.

The annual rate of inflation eased to 1.2% in the 12 months to June from 1.6% in the year to March. The annual consumer price index stands well below the central bank's 2%-3% target band after rising 0.5% in the June quarter, according to the Australian Bureau of Statistics.

Base Currency: NZD USD  
Alternate Currency: USD NZD  
Strike Price: 0.8000 0.7750  
Spot Ref: 0.7828  
Tenor: 2 weeks

Date: 25 Jul 2012  
Time: 11:15 hrs

Resistance / Support: 0.7950 0.7786

Commentary:



- NZ dollar down after euro news (Mon 23-Jul).
- NZ June trade surplus wider than expected on dairy exports (Wed 25-Jul).
- RBNZ widely expected to keep benchmark rate at 2.50% (scheduled for release Thu 26-Jul).

The kiwi dollar fell against the greenback Monday as markets processed the news of more bailout calls from indebted Spain. There were also rumours that IMF is thinking about ending its support for Greece on top of news the ECB won't accept Greek bonds as collateral anymore. It was all fairly negative.

NZ's trade surplus was wider than expected in the month of June as the country's dairy producers sold more product overseas. The surplus was NZ\$331 million in June, up from a revised NZ\$232 million in May, according to Statistics New Zealand. That's wider than the NZ\$134 million forecast in a Reuters survey. The annual deficit of NZ\$747 million, or 7.9% of exports, was smaller than the expected NZ\$870 million shortfall. Exports rose 6.2% to NZ\$4.2 billion, and imports rose 3% to NZ\$3.87 billion.

RBNZ should hold the official cash rate at a record-low 2.5% at the July 26 review, according to the majority of a nine-member panel of economists, academics and company executives. Seven of the shadow board set up by the New Zealand Institute of Economic Research said Governor Alan Bollard should leave the rate unchanged. Two members prefer a rate cut. Investors will be closely watching the accompanying statement for hints on the prospects for future policy.



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