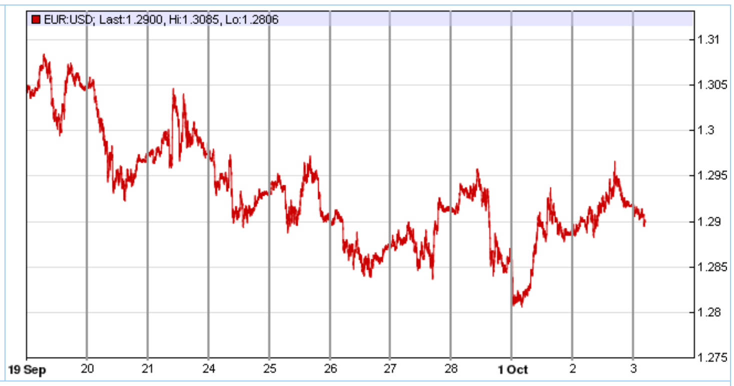
UOB Personal Financial Services
Deposits, Investments & Insurance Strategy
Research & Product Advisory

Wednesday, 03 October 2012

# Short Term Currency Views

## Suggested MaxiYield Pairings

| | | |
|---|---|---|
| Base Currency: | EUR | USD |
| Alternate Currency: | USD | EUR |
| Strike Price: | 1.3100 | 1.2800 |
| Spot Ref: | 1.2900 | |
| Tenor: | 2 weeks | |
| Date: | 03 Oct 2012 | |
| Time: | 11:30 hrs | |
| Resistance / Support: | 1.3170 | 1.2780 |
| Commentary: | | |




- Spain to borrow €207.2 Billion of debt amid bailout pressure (Sun 30-Sep).
- Record high Eurozone unemployment rate at 11.4% (Mon 01-Oct).
- Eurozone producer price index (PPI) higher than expected (Tue 02-Oct).
- Rajoy says Spain won't request aid this weekend; Moody's to announce review of Spain's ratings (Tue 02-Oct).

Spain plans to borrow €207.2 billion next year, as pressure builds for Prime Minister Mariano Rajoy to tap the European rescue fund instead of financial markets. Spain's debt will widen to 90.5% of GDP in 2013 as it absorbs the cost of bailing out its banks, the power system and euro-region partners Greece, Ireland and Portugal. This year's budget deficit will be 7.4% of GDP, Budget Minister Cristobal Montoro said. Spain's 6.3% target will be met because it can exclude the cost of the bank rescue.

The unemployment rate in the euro area reached the highest on record since the data series started in 1995, as the festering debt crisis pushed the economy toward a recession, prompting companies to cut jobs. Unemployment in the economy of the 17 nations using the euro was 11.4% in August, the same as in June and July after those months' figures were revised higher, the EU said Monday. Data showed that 18.2 million people were unemployed in September, up 34,000 from the previous month.

On an annual basis Eurozone PPI increased 2.7% in August, after growing 1.6% in July, Eurostat informed on Tuesday. This result is slightly higher than forecasts of a 2.6% rise. Month-over-month Eurozone PPI increased 0.9% in August, following 0.3% growth the previous month and above projections of +0.5%.

Spanish Prime Minister Mariano Rajoy said on Tuesday a request for European aid was not imminent following a report the country could apply for help as soon as this weekend. The premium Spain pays on its benchmark 10-year bond eased on Tuesday as investors focused on signs Madrid may be open to asking for help. The Treasury faces a new test of investor appetite on Thursday when it issues bonds maturing in 2014, 2015 and 2017. Moody's will announce the results of a review of Spain's sovereign debt rating, which currently stands just one notch away from losing investment grade, sometime this month, a spokeswoman said on Tuesday. Moody's last cut Spain in June 2012 from A3 to Baa3 and was due to announce a review of the rating in September.

| | | |
|---|---|---|
| Base Currency: | GBP | USD |
| Alternate Currency: | USD | GBP |
| Strike Price: | 1.6250 | 1.6050 |
| Spot Ref: | 1.6129 | |
| Tenor: | 2 weeks | |
| Date: | 03 Oct 2012 | |
| Time: | 11:30 hrs | |
| Resistance / Support: | 1.6310 | 1.6110 |
| Commentary: | | |


- UK could lose prized AAA debt rating, Fitch warns (Fri 28-Sep).
- UK house prices extend drop as Hometrack sees demand weakening (Mon 01-Oct).
- Mortgage approvals little changed on consumer uncertainty (Mon 01-Sep).
- Manufacturing slump deepens more than economists forecast (Mon 01-Sep).

Britain is edging closer to losing its gold-plated sovereign credit rating due to weak growth and ballooning government borrowing, ratings agency Fitch has warned. "The likelihood of a downgrade has increased", Fitch said as it reconfirmed the UK's "negative outlook" but slashed its forecast for 0.8% growth this year to a 0.3% decline and warned that international debt will hit almost 100% of GDP.

House prices fell for a third month in September on weakening demand that may continue to weigh on property values, Hometrack said. Prices declined 0.1% from August and 0.5% from a year earlier. New buyers registered with real-estate agents fell 3.6%, the biggest drop in 8 months. The BoE said mortgage availability increased the most in at least 5 years in the latest quarter as wholesale funding markets eased. Mortgage approvals were little changed in August as net lending on homes fell the most in almost three years. Lenders granted 47,665 mortgages in August, compared with a revised 47,556 in July, the BoE said Monday.

The Markit/CIPS index of manufacturing fell in September by more than forecast, indicating the economy is struggling to shake off a recession. The survey of purchasing managers fell to 48.4 from 49.6 in August. Economists had forecast a drop to 49.3. Consumer, intermediate and investment goods companies all said that production fell.

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|---|---|---|
| Base Currency: | AUD | USD |
| Alternate Currency: | USD | AUD |
| Strike Price: | 1.0450 | 1.0150 |
| Spot Ref: | 1.0223 | |
| Tenor: | 2 weeks | |
| Date: | 03 Oct 2012 | |
| Time: | 11:30 hrs | |
| Resistance / Support: | 1.0400 | 1.0100 |


Commentary:

- China manufacturing in second month of contraction (Mon 01-Oct).
- RBA cuts key rate to 3.25% to spur growth as mining boom ebbs (Tue 02-Oct).
- Aussie dollar sharply lower after trade deficit widens (Wed 03-Oct).

Since RBA's September 4 meeting, government data indicated a weaker economy: growth slowed in Q2 to 0.6% from 1.4% in Q1; employers unexpectedly cut payrolls in August; the nation recorded a wider-than-expected trade deficit in July; and business confidence declined. A quarter of Australia's exports, making up about 5% of GDP, goes to China, and 60% of those shipments are iron ore. China's manufacturing PMI contracted a second month for the first time since 2009, China revealed Monday.

"The RBA cut its benchmark interest rate to the lowest level since 2009 to revive demand outside of a mining boom it expects may crest at a lower level than previously forecast. It cut its main cash rate by 0.25% to 3.25% on Tuesday, the third cut in six months as the slowdown in China, a strong Aussie dollar, soft export prices and benign inflation all argued for easier policy. "Growth in China has also slowed, and uncertainty about near-term prospects is greater than it was some months ago", RBA Governor Stevens said. "Key commodity prices for Australia remain significantly lower than earlier in the year, even though some have regained some ground in recent weeks".

Weak export data confirms concerns about commodity prices and justifies the RBA's latest interest rate cut, economists say. Official figures released today showed Australia's trade deficit widened in August, with the balance on goods and services at a deficit of A$2.027 billion (seasonally adjusted), compared with a revised deficit of A$1.53 billion in July. Economists' forecast was for a deficit of A$670 million in August. During August, exports fell 3%, while imports dropped 1%, the ABS said. The result indicated a slowdown in Chinese growth and demand, confirming concerns about the price of bulk commodities, such as coal and iron ore, and their impact on Australian trade. The Aussie dollar fell after the larger than expected widening.

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|---|---|---|
| Base Currency: | NZD | USD |
| Alternate Currency: | USD | NZD |
| Strike Price: | 0.8350 | 0.8150 |
| Spot Ref: | 0.8225 | |
| Tenor: | 2 weeks | |
| Date: | 03 Oct 2012 | |
| Time: | 11:30 hrs | |
| Resistance / Support: | 0.8358 | 0.8188 |


Commentary:

- Mortgagee sales rising again (Sun 30-Sep).
- Auckland property market seeing fewer homes (Tue 02-Oct).
- Treasury says GDP growth slowing in second half (Mon 01-Oct).

Confusing data from the property market, with mortgagee sales rising again towards levels not seen since the recession. Terralink figures show there were nearly 1,030 forced sales in the six months to June, compared to just over 1,000 for the same period last year. Managing director Mike Donald says on average, more than 50 properties are subject to mortgage sales every week. But most of the increase this year seems to be in investment properties.

The number of homes coming onto the Auckland property market is falling. Figures from the latest property report show a 1% drop for September. Paul McKenzie from Realestate.co.nz says it's driven by a high demand for property, and will raise confidence amongst sellers in the region. Auckland inventory is at its lowest level in 5 years.

NZ's economic growth is slowing in the second half of 2012 amid weakness in manufacturing, exports and consumer spending, according to the Treasury Department. There is a risk that growth in Q3 may be less than the 0.6% expected, the Treasury said in a report on its website. GDP expanded 0.6% in Q2 following a 1% pace in Q1. "The outlook is not without its headwinds, with parts of the economy looking to have lost momentum over recent months", the Treasury said in its monthly report, which doesn't contain new forecasts.