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

Wednesday, 27 February 2013

Short Term Currency Views

Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.3200	1.2950
Spot Ref:	1.3047	
Tenor:	2 weeks	
Date:	27 Feb 2013	
Time:	10:05 hrs	
Resistance / Support:	1.3317	1.2877

Commentary:

- Eurozone recovery hopes dealt a blow in February: PMIs (Thu 21-Feb).
- Italy's centre left to win lower house, Senate deadlocked (Mon 25-Feb).
- Italy's trade deficit improves in January (Mon 25-Feb).
- Germany says Italy reforms must continue after vote deadlock (Tue 26-Feb).

Hopes the eurozone might emerge from recession soon were dealt a blow on Thursday, as PMI surveys showed the downturn in the region's businesses worsened unexpectedly this month - especially in France. The Flash Eurozone Services PMI indicator, a business survey and one of the earliest monthly indicators of economic activity, fell in February to 47.3 from 48.6, marking a year below the 50 threshold for growth and confounding expectations for a rise to 49.0. PMI compiler Markit said the schism between Germany and France - the two biggest economies in the euro zone - is now at its widest since the survey started in 1998. While firms in Germany sustained a healthy rate of growth, French services companies are in the midst of their worst slump since the nadir of the Great Recession in early 2009.

Italy greatly improved its trade deficit with countries outside the EU to €2.3 billion in January, less than half the €5.2 billion shortfall recorded a year ago. Exports surged by 17.7% and imports fell back 5.6% compared with a year earlier. Leaving energy products aside, the trade balance was positive at €2.9 billion, compared with €869 million in January 2012, thanks mainly to strong sales of equipment for businesses and services. Compared with December 2012, exports were up 3.9% and imports by 3.0%.

A huge protest vote by Italians enraged by economic hardship and political corruption left the eurozone's third-largest economy facing a dangerous vacuum on Monday after an election in which no group won enough votes to form a government. The euro plunged dramatically against the USD, as the uncertainty over the Italian election vote gave markets a rude wake-up call that the eurozone debt problems is far from over and a re-visit of the crisis could be just an election away. The outcome fanned fears of a new European financial crisis, with prospects of a long period of paralysis and uncertainty in Italy. The stalemate in parliament between right and left after a crunch vote showed the real winner appeared to be a new protest party calling for a referendum on Italy's membership of the euro.

Germany's foreign minister Tuesday urged Italy to continue its policy of reforms after an inconclusive election and stressed that a stable government must be formed as quickly as possible, and important for politicians in Italy to take responsibility for the bloc as a whole. "This is not only in the interests of Italy, but the interests of Europe as a whole ... When it comes to beating the debt crisis, we are all in the same boat, whether we live in Germany, France, Italy or Spain," added the minister.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.5300	1.5050
Spot Ref:	1.5106	
Tenor:	2 weeks	
Date:	27 Feb 2013	
Time:	10:05 hrs	
Resistance / Support:	1.5400	1.5000

Commentary:

- UK loses triple-A credit rating, but retains stable outlook (Fri 22-Feb).
- UK economy to take oil hit in 2013 before North Sea recovery (Mon 25-Feb).
- Chancellor Osborne faces MPs as sterling hits 2½-year low (Mon 25-Feb).

Moody's stripped the UK of its triple A credit rating, saying sluggish economic growth and austerity will continue to affect the government's finances into the second half of the decade. It was considering downgrading the UK last February, but was moved to act by the deteriorating economy which it now expects to grow just 1% this year compared with its previous forecast of 1.4%. Moody's lowered the UK rating by one notch to Aa1, with a stable outlook, suggesting no further downgrade was likely.

Britain's faltering economy will take another hit from declining UK North Sea oil production this year before a mini-recovery takes hold in 2014, removing a handbrake on the country's growth in the medium term. Oil and gas production will fall by between 3%-6% this year, predicted industry group *Oil & Gas UK* in its annual activity survey, on top of a 14% decline in 2012. Britain's production will rise to around 2 million barrels of oil equivalent per day by 2017, up from 1.55 million in 2012, the group forecast.

Chancellor George Osborne told MPs that the rating downgrading was a "stark reminder" of the debt problems built up in Britain. He added that the Treasury had not seen "excessive volatility" in the markets on Monday. PM David Cameron said in a recent party political broadcast that the government was "paying down Britain's debts". The PM's spokesman said: "The point the prime minister was making is that it is this government that does have a plan that, on the most recent set of OBR (*Office for Budget Responsibility*) forecasts, will have debt as a percentage of GDP falling in 2016-17 and it is the government that has reduced the deficit by a quarter."

Base Currency:	AUD	USD
Alternate Currency:	USD	AUD
Strike Price:	1.0350	1.0150
Spot Ref:	1.0216	
Tenor:	2 weeks	
Date:	27 Feb 2013	
Time:	10:05 hrs	
Resistance / Support:	1.0370	1.0200

Commentary:

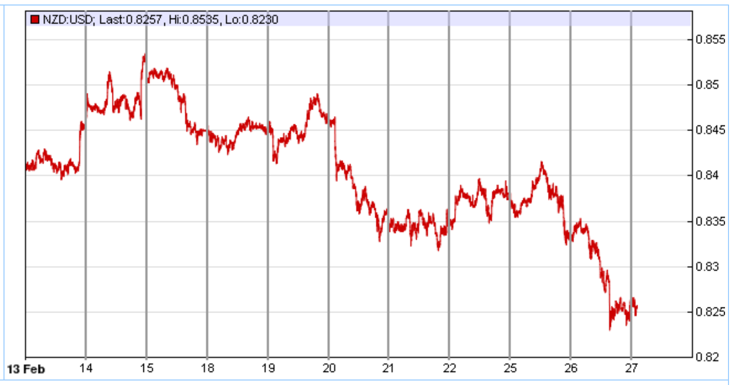
■ China's HSBC flash PMI for February slipped to 50.4 (Mon 25-Feb).
■ Italian parliamentary election uncertainty gives rise to greater risk aversion (Mon 25-Feb).
■ Aussie near 4-month low as RBA says currency may spur rate cuts (Tue 26-Feb).

In Italy, partial election results suggested the four-way race may end in a divided parliament, requiring another vote. Broadcaster RAI showed Democratic Party candidate Pier Luigi Bersani winning the lower chamber and former prime minister Silvio Berlusconi with a blocking minority in the Senate. The nightmare scenario of a Bersani-controlled lower house and a Senate effectively controlled by former Prime Minister Silvio Berlusconi is being rapidly priced in to markets. Uncertainty over whether or not another vote will be required in the Italian parliamentary election is likely to keep risk appetite on the back foot.

The Aussie dollar traded within 0.5% from the lowest in more than four months after RBA Assistant Governor Guy Debelle indicated monetary policy may be eased as the currency's strength damps the economy. Debelle said that the central bank retains "scope to lower interest rates further, should the need arise, including to counterbalance the pressures of an elevated exchange rate". Comments from the RBA weighed on the Aussie dollar. The Australian dollar would have to be higher than it currently is to justify any intervention to weaken it. Debelle also said that, theorically, there was no limit on the bank's ability to sell the local dollar should intervention be warranted.

The HSBC flash PMI showed demand for Chinese exports teetered in February as faltering global economic growth saw net exports drag on growth. The data is suggesting growth has stabilised and commodity demand will be still well supported. That's going to be supportive for the Aussie dollar longer term. The RBA lowered its cash rate by 1.75% since 1-Nov-2011, to 3%. Interest-rate swaps data compiled by Bloomberg show traders see a 36% chance the RBA will lower the rate to 2.75% on March 5.

Base Currency:	NZD	USD
Alternate Currency:	USD	NZD
Strike Price:	0.8350	0.8150
Spot Ref:	0.8257	
Tenor:	2 weeks	
Date:	27 Feb 2013	
Time:	10:05 hrs	
Resistance / Support:	0.8450	0.8125



Commentary:

■ RBNZ survey shows 74% of people expect house prices to rise in the next year (Tue 26-Feb).
■ RBNZ business expectations survey show inflation dropping in 2 years (Tue 26-Feb).
■ New Zealand's annual trade deficit widens in January as exports decline (Wed 27-Feb).

Expectations of a rising house market are soaring, according to results from the RBNZ's latest quarterly household expectations survey on Tuesday. The February results for the survey show that a net 74.3% of respondents expect higher house prices in a year. This has surged from 64.4% in the last survey in November. The latest figure is much the highest in a survey that has only been running since May 2011. The results in that very first survey showed just 34.1% of households expected prices to rise. Similarly the expectation for mean house price inflation in a year's time is at record levels, with an expected house price inflation rate of 4.7%, up from 4.1% in November.

The RBNZ's survey of business expectations showed conversely a fall in inflation expectations from business leaders. Firms have a median expectation of 1.7% inflation a year out, compared with 1.8% in November. Similarly, median expectations for two years out have dropped to 2.2% from 2.3%. Monetary conditions were perceived by businesses to be "easy" and expected to remain that way in the next year.

NZ's annual trade deficit unexpectedly widened in January as exports fell to a four-month low, led by reduced sales of dairy products. Imports exceeded exports by NZ$1.3 billion in the 12 months ended January, compared with a revised NZ$1.16 billion shortfall in the year through December. Economists expected an NZ$897 million gap. Exports fell 5.1% in the 12 months through January as slowing global demand curbed commodity prices and the kiwi's gain cut returns. Policy makers are betting that a recovery in Australia and China, which together take more than a third of NZ's exports, will help accelerate economic recovery this year. Exports in January declined 10% from a year ago to NZ$3.35 billion, the lowest since September, against expectations of NZ$3.6 billion. January imports fell 6% from a year ago to NZ$3.65 billion, versus forecasts of NZ$3.5 billion. January ended with a monthly trade deficit of NZ$305 million, compared with a revised NZ$534 million surplus in December.