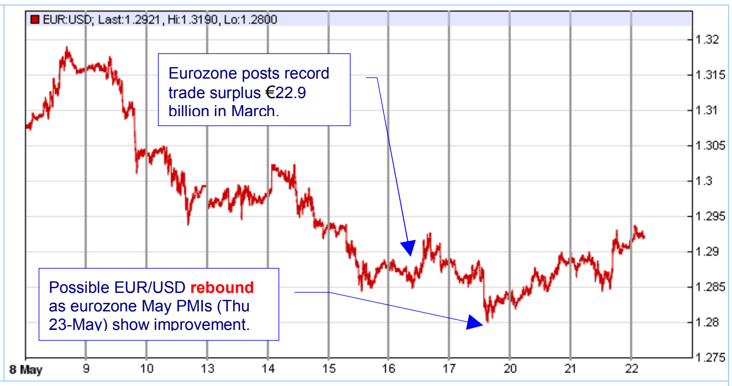
UOB Personal Financial Services
Deposits, Investments & Insurance Strategy
Research & Product Advisory

Wednesday, 22 May 2013

Short Term Currency Views

Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.3100	1.2800
Spot Ref:	1.2921	
Tenor:	2 weeks	
Date:	22 May 2013	
Time:	12:00 hrs	
Resistance / Support:	1.3074	1.2877



Commentary:

- ■ Eurozone posts record trade surplus amid gloom (Thu 16-May).
- ■ EU law key to ending 'too big to fail' banks: BoE's Tucker (Mon 20-May).
- ■ Moody's: US may be downgraded unless Fed fixes rising debt ratio (Tue 21-May).
- ■ EU leaders struggling with economic growth turn to tax policy (Mon 20-May).
- ■ Eurozone PMI data for May expected to be better (due on Thu 23-May).
- ■ Fed's Bullard says ECB needs aggressive QE to avoid Japan fate (Tue 21-May).

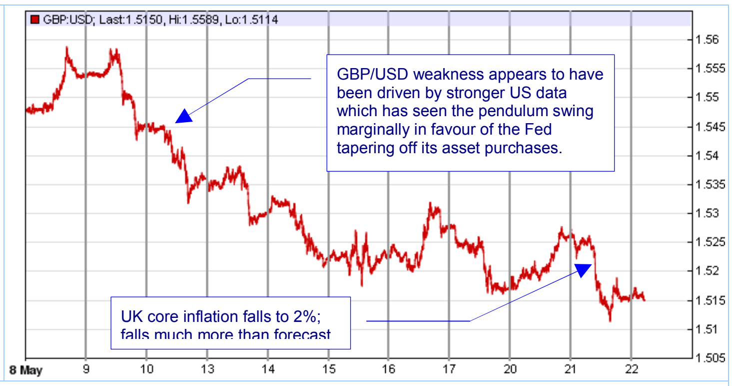
The 17-nation eurozone posted a record trade surplus of €22.9 billion in March, up from €10.1 billion in February. Eurostat data showed on Thursday that March exports on a monthly comparison rose 2.8% while imports fell 1.0%. For the 27-member EU, there was a trade surplus of €15.8 billion, up from €1.7 billion in February. Germany more than accounted for the positive eurozone figures with a March trade surplus of €30.4 billion. Netherlands and Ireland contributed €9.3 billion and €5.1 billion, respectively. The largest March trade deficits were reported by non-euro Britain with €17.9 billion and euro states France on €15.3 billion, Spain €3.8 billion and Greece €3.7 billion.

EU leaders struggling to find a consensus on how to overcome the debt crisis and revive economic growth will meet in Brussels on May 22 to focus on fighting tax evasion. BoE's Tucker said there had been "marked convergence" recently on a global approach to winding down banks which typically have operations in many countries. But more political impetus was needed as it would still be a "nightmare" to wind down a big bank. The EU law will have powers to force big banks to hold a "loss-absorbing" cushion of bonds that can be converted into equity to shore itself up without taxpayer cash. Tucker said a discussion on such a cushion at the global level was still needed.

Eurozone officials will release the results of May's PMI survey by Markit for both manufacturing and service companies on Thursday 23-May. Analysts expect the PMI for manufacturing in the 17-nation eurozone to improve to 47 compared with 46.7 in April; analysts expect the PMI for services to be 47.2 compared with 47 in April.

Fed official Bullard said Europe risks an extended period of low growth and deflation like Japan's unless the ECB acts with an aggressive quantitative easing program. Speaking in Frankfurt, Bullard said the ECB's governing council may want to consider a QE program that's weighted to account for GDP differences in the 17-member eurozone. Bullard said that the Fed should continue its bond buying because it's the best available option for policy makers to boost growth that is slower than expected.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.5300	1.5050
Spot Ref:	1.5150	
Tenor:	2 weeks	
Date:	22 May 2013	
Time:	12:00 hrs	
Resistance / Support:	1.5276	1.5030



Commentary:

- ■ UK jobless rate hits lowest level since April 2011 (Wed 15-May).
- ■ Home sellers raised asking prices to record in May: Rightmove (Mon 20-May).
- ■ BoE upgrades UK growth outlook, faster fall in inflation (Wed 15-May).
- ■ UK inflation falls to seven-month low (Tue 21-May).

Britain's jobless rate hit the lowest level since April 2011, while the number of British people claiming unemployment benefits plummeted, in the latest sign that the UK economy is recovering. According to the Office for National Statistics, data revealed that the UK jobless rate reached 4.5% in April, reaching the same level from exactly two years ago. Meanwhile, the number jobless benefit claimants dropped by 7,300 last month, compared with analysts' forecasts for a dip of 3,000 from March.

The BoE forecasted a better growth outlook for the UK economy and predicted a faster fall in inflation. In its Quarterly Inflation Report, the BoE bucked the trend of its recent forecasts and gave no sign that it was on the verge of doing more stimulus, as the British economy fragilely recovers. "The economy is likely to see a modest and sustained recovery over the next three years," the central bank said, and that the recovery would "remain weak by historical standards". UK CPI headline inflation has fallen to 2.4% in April, a larger-than-expected drop from the 2.8% figure in March, and the first fall since September last year. The ONS said "by far the largest downward contribution" came from transport costs – motor fuels, air fares. The core inflation rate fell from 2.4% to 2%, the lowest since November 2009.

UK home sellers raised asking prices for a fifth consecutive month, pushing values to a record and giving the market its best start to a year since 2004. Prices sought rose 2.1% in May to an average £249,841, taking the increase in the first five months of the year to 9.1%, Rightmove said in a report Monday. London asking prices increased 3.3% to £509,870, also a record. The report suggests a credit-easing program and the government's March budget, which pledged £3.5 billion to help homebuyers plus billions of pounds more in guarantees, may be boosting confidence in the property market, which has been hampered by the lackluster economy.

Base Currency:	AUD	USD
Alternate Currency:	USD	AUD
Strike Price:	0.9950	0.9700
Spot Ref:	0.9787	
Tenor:	2 weeks	
Date:	22 May 2013	
Time:	12:00 hrs	
Resistance / Support:	0.9928	0.9680

Commentary:

- RBA's rate cuts shrink yield gap as Fed QE taper looms (Mon 20-May).
- RBA forecast that GDP growth "below trend", outlook unchanged (Tue 21-May).
- RBA minutes: CPI subdued, gives scope for cuts (Tue 21-May).
- Consumer sentiment slumps most in 17 months on budget (Wed 22-May).

Australia's benchmark bond yield is offering the smallest premium over US notes in 11 months as the sharpest predicted growth slowdown in four years spurs bets on further interest rate cuts. The 10-year rate was 3.22%, compared with 1.95% for similar-dated Treasuries, the narrowest since June 4. The gap reached 1.22% on May 17, the least since November 2008. RBA Governor Glenn Stevens indicated May 7 he has scope for further reductions after lowering the key rate to a record 2.75%.

In a new study of Chinese data, Capital Economics questions recent reports that Chinese exports have grown by 17% on the year and suggests the real level is only half that. In a sobering assessment, the consultancy says "there was little sign in the April data of a meaningful recovery after the weakness of the first quarter". Given this, the decline in global commodity prices is hardly surprising and the chances of the Aussie staging a sustainable bounce any time soon look distinctly poor.

The RBA, in its statement on monetary policy, has cut the 2013 inflation forecast while the GDP outlook remains almost unchanged. On the mining investment, the RBA commented that it is likely to stay at current levels through 2013/2014, a slightly positive sign that should help cool some dovish observers. GDP growth is expected to be a little below trend over 2013, before picking up through 2014 to be around trend pace. The approaching peak in resource investment, the high level of the Australian dollar and ongoing fiscal consolidation are all likely to weigh on growth over the next year or so, while at the same time the low level of interest rates is helping to support demand. In the near term, the forecasts for year-ended inflation are a little lower than those published in the February Statement, at close to 2% through this year.

Australian consumer confidence slumped by the most in 17 months as a government announcement the budget would remain in deficit overshadowed record low interest rates. The sentiment index for May dropped 7% to 97.6, a Westpac/Melbourne Institute survey taken May 13-18 of 1,200 adults showed, the biggest drop since December 2011 and the first time since October 2012 the figure has fallen below 100, which indicates pessimists outnumber optimists.

Base Currency:	NZD	USD
Alternate Currency:	USD	NZD
Strike Price:	0.8350	0.8050
Spot Ref:	0.8158	
Tenor:	2 weeks	
Date:	22 May 2013	
Time:	12:00 hrs	
Resistance / Support:	0.8210	0.8066

Commentary:

- Kiwi at 8½ month low as improving US economy spurs taper of QE (Fri 17-May).
- NZ's services sector expands at fastest pace in five months in April (Mon 20-May).
- NZ house prices put pressure on RBNZ to tighten (Sun 19-May).
- Kiwi gains on concern Fed may be cautious on US growth (FOMC, Wed 22-May).

New Zealand's rising house prices will increase the pressure on the central bank to raise interest rates, Finance Minister Bill English said. "These households heading into quite high debt to buy highly priced houses need to be aware at some stage the RBNZ will increase interest rates, particularly if the housing market keeps growing at rapid rates", English said on Sunday. The government doesn't want borrowing costs to go as high as they did, at 8.25%, in the previous housing boom in 2006-07, English said. Last week it agreed with the central bank on new tools to potentially curb lending, and also announced plans to increase the supply of housing to ease pressure on prices.

NZ's services sector, which accounts for 70% of economic activity, expanded at the fastest pace since October last month, led by activity/sales. The latest BNZ-Biz NZ Performance of Services Index (PSI) rose 0.5 points to 56.1, the highest for the month of April since the survey began in 2007. Sales/activity climbed 4.9 points to 62.6 in the April, while new orders/business rose to 60.7 and supplier deliveries rose to 53.3. Employment dropped 1.8 points to 51.3 and stocks/inventories fell 2.2 points to 47.1.

Investors had been betting the Fed would pull back its US$85 billion a month asset purchase programme after improving data out of the US. A report last Friday showed Americans' confidence in the economy climbed in May to the highest level in almost six years as rising real estate values and record stock prices boosted household wealth. That added to recent positive jobs and retail reports. Bernanke's testimony in front of a House of Representatives committee on Wednesday may be more cautious than other Fed officials who support unwinding QE. The kiwi should trade in a range of 0.8120 – 0.8220 as markets are still focused on the outlook for the US dollar.

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