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

Wednesday, 16 October 2013

Short Term Currency Views

Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.3650	1.3450
Spot Ref:	1.3515	
Tenor:	2 weeks	
Date:	16 Oct 2013	
Time:	12:55 hrs	
Resistance / Support:	1.3620	1.3450
Commentary:		

- USD gains after Janet Yellen nomination, more than just a dove? (Wed 09-Oct).
- Eurozone industrial output rebounds in August (Mon 14-Oct).
- Samaras on offensive as Greek bailout 3.0 talks loom (Mon 14-Oct).
- Portugal plans €3.2 billion of spending cuts for next year (Tue 15-Oct).

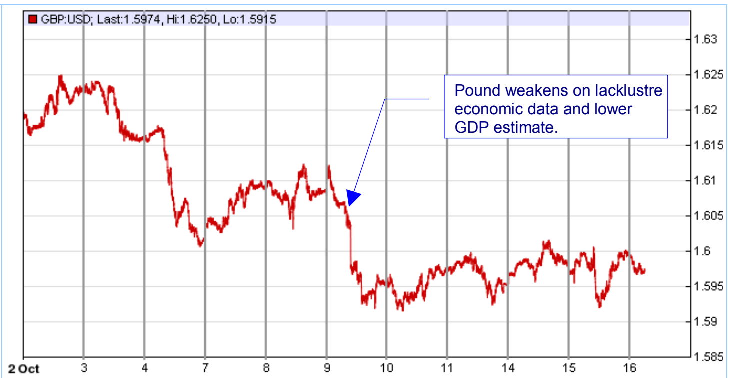
If the markets' rosy disposition was a pure reflection of Yellen's accommodative bias, the USD might have been expected to decline. On the contrary, the greenback rose by as much as 0.24% against the majors. With that in mind, overnight price action could have been a reflection of broader contentment with the selection of responsible rather than simply dovish stewardship. Indeed, despite her recent advocacy of stimulus, Yellen has a formidable inflation-fighting record over her history at the central bank. The Wall Street Journal also reports that based on its analysis, she's produced the most accurate economic forecasts of all the current Fed officials from 2009 to 2013.

Greek Prime Minister Antonis Samaras has gone on the offensive at home and abroad, ahead of the euro finance ministers meeting in Luxembourg on Monday, seeking leverage as the spotlight in Europe's financial-crisis drama returns to the country where it began. Samaras said his budget cuts are ahead of target, and wants more aid for a nation that has already been showered with €240 billion in pledges. German Chancellor Angela Merkel, the dominant politician in Europe, has ruled out offering what Greece may need most: a write-off of official loans to help the country meet a target for public debt to fall to 124% of GDP in 2020 from a peak of about 175%.

Official figures show that industrial output across the eurozone rebounded in August, raising hopes that the sector will contribute to a pick-up in economic growth. Eurostat, said Monday that industrial production rose by 1% during the month, recouping July's downwardly revised 1% decline (previously -1.5%). The increase suggests that the sector will contribute to the recovery if September shows a rise. From a year earlier, industrial output fell 2.1% in August. Industrial output in Germany, Europe's largest economy, rose 1.8% in August from July. In France, production increased 0.2% from July, Spain rose 0.1% and Italy fell 0.3%.

Portugal plans to cut spending by €3.2 billion in 2014 to meet budget deficit targets as it tries to exit its €78 billion bailout plan next June. The 2014 budget includes €1.3 billion of cuts to personnel costs. Salaries of state workers earning more than €600 a month will be cut by between 2.5% and 12%. “About 86% of the permanent adjustment effort introduced by this budget is on the spending side,” Finance Minister Albuquerque said. The country's net financing needs in 2014 will be €11.7 billion.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.6100	1.5900
Spot Ref:	1.5974	
Tenor:	2 weeks	
Date:	16 Oct 2013	
Time:	12:55 hrs	
Resistance / Support:	1.6040	1.5900
Commentary:		



- Pound weakens on lacklustre economic data and lower GDP estimate (Wed 09-Oct).
- UK's housing-bubble hysteria is misguided, EY Item Club says (Mon 14-Oct).
- UK retailers set for best Christmas sales growth since 2007 (Mon 14-Oct).

Industrial production in the UK declined 1.5% y/y in August, defying market expectation for a 0.6% drop and compared to a 1.1% fall seen in the previous month. Similarly, the nation's manufacturing production unexpectedly fell 0.2% y/y during August, compared to a 0.3% drop registered in the preceding month.

UK's total trade deficit of £3.320 billion in August is more than analysts' expectation for a £2.050 billion deficit, but improved from a £3.449 billion deficit in July. Negative sentiment was also fuelled after the NIESR GDP estimate of UK rose just 0.8% during the September quarter, compared to a 0.9% rise reported in the preceding quarter.

The UK is in “hysteria” about housing and concern that a bubble is brewing in the property market is overdone, said EY Item Club. PM David Cameron's *Help to Buy* measure to aid homebuyers with smaller savings will lead to a “stronger” housing market, EY said. It forecast a 7.5% increase in housing investment next year and 10% in 2015. Short-term growth is dependent on consumers cutting savings, EY said. While disposable incomes will increase 0.2% this year, consumer spending will grow 1.6%.

Market research specialist Verdict forecast spending in Q4 would rise 2.2% from the same period in 2012 to £88.4 billion - the best since 2007 when Q4 spending grew 3.1% to £82.4 billion. Improving consumer confidence and job creation, along with a pick-up in the housing market, were some of the reasons cited by Verdict, which also pointed out that a baby boom during the recession meant consumers now have more children to buy Christmas presents for.

Base Currency:	AUD	USD
Alternate Currency:	USD	AUD
Strike Price:	0.9650	0.9350
Spot Ref:	0.9524	
Tenor:	2 weeks	
Date:	16 Oct 2013	
Time:	12:55 hrs	
Resistance / Support:	0.9642	0.9390

Commentary:

- Jobless rate falls to 5.6% in September on lower participation rate (Thu 10-Oct).
- Aussie rises to nearly 4-month highs on RBA minutes (Tue 15-Oct).
- Australia's growth rate expected to slow (Wed 16-Oct).

Manpower recruited for the Australian federal election and a fall in the number of people looking for work has seen the unemployment rate drop to a four-month low. The unemployment rate fell to 5.6% in September, the ABS said, beating economists' expectations of 5.8%. The number of people with jobs rose 9,100 while the participation rate - the proportion of the population that have a job, are looking for work or ready to start work - fell to 64.9%, down from 65.0% in August.

The Australian dollar rose to nearly four-month highs on Tuesday, supported by the minutes of the RBA's latest policy meeting, while markets hoped for progress on the US budget front. The minutes of the RBA's October policy meeting showed that the bank was in no hurry to cut interest rates further, saying that previous rate cuts are affecting the nation's economy. The RBA repeated it retains the option of reducing rates as policy makers gauge the impact of "substantial" stimulus on the economy, minutes of the October 1 meeting showed. "Members noted that the Australian dollar was still around 10% below its peak in April," it said.

Australia's economy has suffered a significant loss of momentum since the start of the year as its transition away from being a mining investment gets bumpy. The Westpac/Melbourne Institute Leading Index, which indicates the likely pace of economic activity three to nine months into the future, was 3.2% in August, down from 4.1% in July but marginally above its long term trend of 2.9%. The coincident index, which gives an indication of current economic conditions, was 2.4% in August, the same as in July and below its long-term trend of 2.9%. "Although the growth rate in the leading index remains slightly above trend, it has slowed abruptly over the last six months," Westpac chief economist Bill Evans said. "Some months ago the index was pointing to significantly above trend growth in 2013 but this current slowdown is more consistent with Westpac's growth forecasts," he said. Westpac's forecast is for a 0.25% cash rate reduction in February and another in May.

Base Currency:	NZD	USD
Alternate Currency:	USD	NZD
Strike Price:	0.8450	0.8200
Spot Ref:	0.8392	
Tenor:	2 weeks	
Date:	16 Oct 2013	
Time:	12:55 hrs	
Resistance / Support:	0.8440	0.8180

Commentary:

- RBNZ says loan limits likely to reduce NZ house sales by 5% (Thu 10-Oct).
- RBNZ's LVR policy 'will make very little difference': ANZ chairman (Wed 16-Oct).
- NZ consumer prices rise at fastest quarterly pace in 2 years (Wed 16-Oct).
- Annual inflation back within RBNZ target; March rate hike pressure (Wed 16-Oct).

The RBNZ said house sales are likely to decline as a result of mortgage lending restrictions it imposed this month. "We estimate that the net effect on house sales is likely to be a reduction of around 5%," the RBNZ said. It reiterated that the limits are likely to reduce house-price inflation by up to 4% in the first year.

The RBNZ's restrictions on low-deposit home loans won't have much impact in alleviating pressures in a housing market driven by a shortage of land and high local authority compliance costs, says ANZ New Zealand chairman John Judge. Judge was speaking at Fletcher Building's annual meeting in Auckland, where he is a director. "The reality is price inflation is being driven in Auckland and Christchurch by an imbalance of supply and demand, and the costs foisted on us by the city council," Judge said. Without addressing the availability of land there won't be much improvement, he said, and "My polite thought is this (LVR restrictions) will make very little difference."

NZ inflation rose at its fastest quarterly pace in two years as petrol prices increased and out-of-season vegetables were more expensive, lifting the annual pace back within the RBNZ's 1%-3% target band for the first time in a year. The CPI increased 0.9% in the September quarter, its fastest pace since June 2011, and accelerating from a 0.2% increase in June. The annual pace of inflation accelerated to 1.4% from 0.7% in June, the slowest pace in 14 years, and slightly ahead of expectations.

The tepid pace of inflation has meant the RBNZ hasn't had to hike the official cash rate (OCR) from a record-low 2.5% as a bubbling property market fails to spill over into increased consumer spending. The central bank has been reluctant to lift the key rate as it might stoke investors to buy the kiwi, further strengthening an "over-valued" currency, though it has since signalled plans to raise the OCR next year. "It keeps the pressure on the Reserve Bank to hike by March," said a Westpac strategist.

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