UOB 大華銀行

UOB WEALTH BANKING

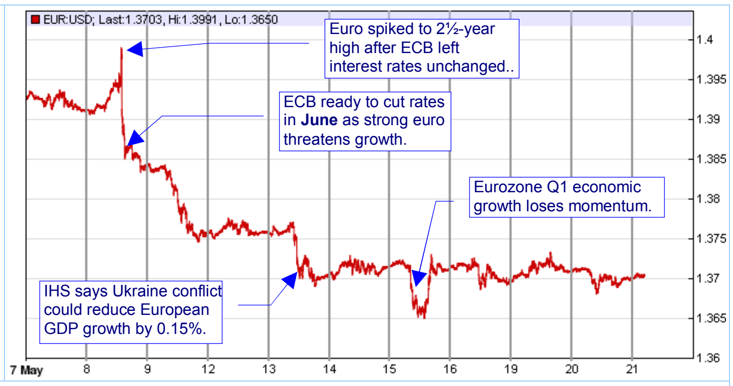
UOB Personal Financial Services
Deposits, Investments & Insurance Strategy
Research & Product Advisory

Wednesday, 21 May 2014

Short Term Currency Views

Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.3850	1.3650
Spot Ref:	1.3703	
Tenor:	2 weeks	
Date:	21 May 2014	
Time:	11:40 hrs	
Resistance / Support:	1.3775	1.3615
Commentary:		



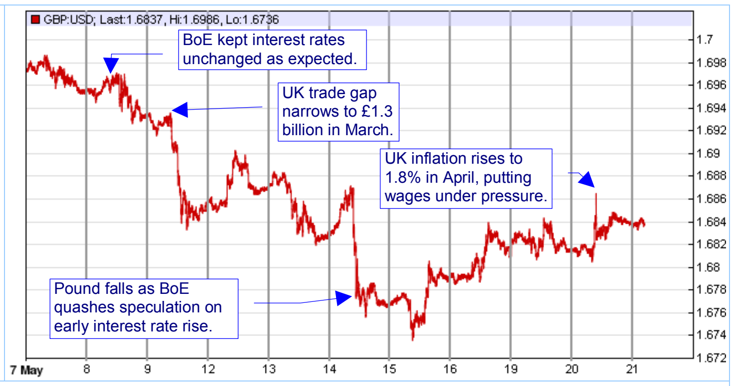
■ Eurozone Q1 economic growth loses momentum (Thu 15-May).
■ ECB's Mersch says chances for June action have grown substantially (Mon 19-May).
■ Eurozone current account data (due on Wed 21-May, 16:00hrs SGT).
■ Eurozone inflation rises slightly in April to 0.7%y/y (Thu 15-May).
■ German April PPI continued to contract by 0.1%m/m from March (Tue 20-May).

Eurozone economic growth lost momentum in Q1 of 2014. The Q1 GDP growth came in at 0.9%y/y (0.2%q/q) missing forecast of 1.1%y/y (0.4%q/q). Nonetheless, this was still an improvement from Q4's 0.5%y/y (0.2%q/q) expansion. German growth picked up pace, with the economy expanding by 2.3%y/y (0.8%q/q). But France and Italy disappointed. The French economy failed to grow (0.8%y/y, 0%q/q), while Italy's contracted by 0.5%y/y (-0.1%q/q), having only just emerged from recession last year. Spain's economy grew by 0.4%q/q. The weak data add to the likelihood of the ECB taking action at its upcoming 5-June meeting to inject more stimulus into the economy.

The Eurozone final April CPI inflation rate was 0.7%y/y (0.2%m/m), slightly up from its 5-year low of 0.5% in March. A year earlier the rate was 1.2%. The largest upward impacts to Eurozone annual inflation came from package holidays (+0.09%), tobacco and electricity (+0.07% each), while fuels for transport (-0.18%), telecommunications (-0.11%) and vegetables (-0.08%) had the biggest downward impacts. Core inflation, which strips out prices of food, energy, alcohol and tobacco rose to 1% from 0.7%.

There were increasing signs on Monday that the ECB will add more stimulus to the euro zone economy at its June policy meeting as inflation remains stuck at very low levels. ECB Executive Board member Yves Mersch said the likelihood of policy action at the bank's next meeting had grown substantially, warning about the risks of inflation staying very low for too long, even though there were no signs of deflation. Investors' renewed appetite for Eurozone sovereign bonds could contribute to an appreciation of the euro but the lower yields should have an expansionary effect on financing over the medium term, Bundesbank Weidmann said in a speech in Frankfurt.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.7000	1.6750
Spot Ref:	1.6837	
Tenor:	2 weeks	
Date:	21 May 2014	
Time:	11:40 hrs	
Resistance / Support:	1.6962	1.6710
Commentary:		



■ BoE refuses to raise rates until 'spare capacity' falls (Wed 14-May).
■ BoE's Mark Carney warns on housing market risk to financial system (Sun 18-May).
■ Pound falls as BoE quashes speculation on early interest rate rise (Wed 14-May).
■ UK inflation rises to 1.8% in April, putting wages under pressure (Tue 20-May).

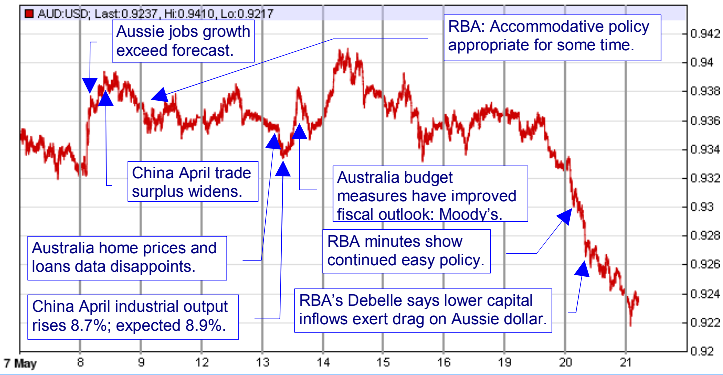
In spite of the recent falls in the rate of inflation, which hit 1.6% in March, the BoE said it expects the figure to rise back nearer to 2% "as the falls in petrol prices in the spring of 2013 drop out of the annual comparison". The BoE said that while spare capacity in the economy had reduced since its last report in February, the committee members estimated the slack in the economy still stood at the equivalent of between 1% and 1.5% of GDP.

In its latest inflation report, the BoE said the economy had grown by 3.1% in the year to the end of Q1 of 2014. Meanwhile, unemployment has fallen below the 7% target originally guided as the point at which the Bank might consider raising rates, while inflation has remained near the 2% target. It therefore justified its lack of action in raising the base rate because it "judged that there was scope to make further inroads into slack before an increase in Bank Rate was necessary".

BoE Governor Mark Carney has given his strongest warning yet about the dangers to Britain's economy posed by the booming housing market. He said the market represented the "biggest risk" to financial stability and the long-term recovery. He added there were deep structural problems which needed to be addressed. He told Sky News the fundamental problem was a shortage of homes - and the BoE had no solution to that. He said the Bank was "closely watching" rising property prices and the subsequent increase in large-value mortgages, which he warned could lead to a "debt overhang" which could destabilise the economy. Separately, the ONS said annual house-price inflation slowed to 8% in March from 9.2% in February. In London, price growth was 17%, down from 17.8%, which was the highest since July 2007.

Easter boosted UK inflation in April as air and sea fares helped push up consumer prices by more than economists forecast. The acceleration to 1.8% from 1.6% in March may do little to trouble BoE Governor Mark Carney, who says the outlook for price growth is "benign" and will be limited by the strength of the pound. Inflation is in the midst of its longest stretch below the BoE's 2% target since 2009. Retail-price inflation, a measure used as a basis for the inflation-linked bond market, held at 2.5% in April.

Base Currency:	AUD	USD
Alternate Currency:	USD	AUD
Strike Price:	0.9400	0.9150
Spot Ref:	0.9237	
Tenor:	2 weeks	
Date:	21 May 2014	
Time:	11:40 hrs	
Resistance / Support:	0.9374	0.9178



Commentary:

■ Australia's conservative government battered over austerity budget (Mon 19-May).
■ Aussie dollar down as RBA minutes show continued easy policy (Tue 20-May).
■ S&P says no immediate risk to Australia's AAA credit rating (Tue 20-May).
■ RBA bemoans lower economic growth and foreign capital inflows (Tue 20-May).

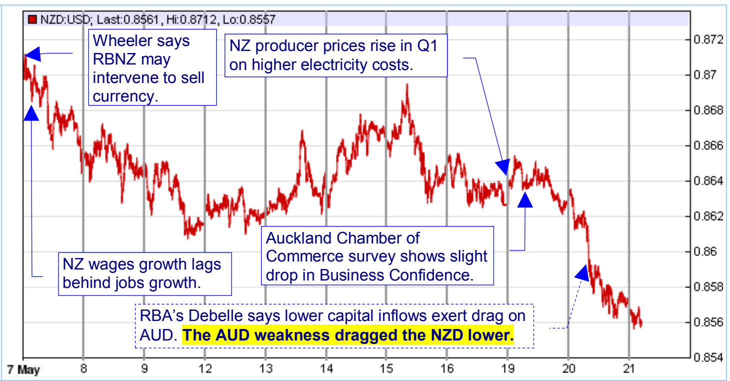
Support for Australian Prime Minister Tony Abbott's conservative government has collapsed following the release of an austerity budget that has emboldened opponents and even sparked calls for early elections. The government last week released a contentious budget packed with deregulation moves, new levies and spending cuts aimed at overcoming what it calls unsustainable deficits totalling A$60 billion over the next four years. The budget is likely to further dent consumer confidence, which could be reflected in consumer sentiment data due on Wednesday, said Stephen Walters, an analyst with JP Morgan.

Australia's top credit rating is not immediately at risk as the coalition government showed commitment to "prudent finances" in last week's budget, S&P said. The nation's stable AAA grade means there's a less than one-in-three chance of a change to the rating over the next couple of years, Craig Michaels, a Melbourne-based analyst with S&P said in a phone interview. Prime Minister Tony Abbott's government outlined on May 13 cuts to foreign aid, welfare and the public service as well as a tax on the highest paid as he tries to downsize government and set a path to surplus. "There is no immediate risk to the rating", Michaels said. "We see the government as committed to running prudent finances and the budget they released last week reflects that."

The Aussie dollar weakened after minutes released Tuesday from the RBA May board meeting show that current monetary policy will be "appropriate for some time". The RBA also believed inflation is consistent with its target, forecast to remain so for the next few years. The board also noted that growth in the coming quarters will likely remain below trend and the demand for labour is likely to remain subdued as well, and stay so for some time.

After the RBA minutes bemoaning lower economic growth outlook due to weaker mining investments, demand and exports, it was followed by RBA Assistant Governor Debelle's negative comments that foreign capital inflows to Australia were likely to decline and in turn exert a drag on the Aussie dollar. The AUD weakened against the USD and closed markedly lower at 0.9243 from the previous close of 0.9330. The Aussie weakness also dragged the kiwi dollar lower against the US dollar and the NZD/USD pair ended the trading session at 0.8574 (from 0.8629).

Base Currency:	NZD	USD
Alternate Currency:	USD	NZD
Strike Price:	0.8700	0.8500
Spot Ref:	0.8561	
Tenor:	2 weeks	
Date:	21 May 2014	
Time:	11:40 hrs	
Resistance / Support:	0.8736	0.8514



Commentary:

■ NZ producer prices rise in Q1 on higher electricity costs (Mon 19-May).
■ NZD dragged lower by AUD weakness after RBA's negative remarks (Tue 20-May).
■ Slow bill payers concern businesses, dip in business confidence (Mon 19-May).

NZ producers' input and output prices rose in Q1, driven by higher costs to generate electricity because of low hydro-lake levels and more expensive thermal generation. Producer output prices, which measure the prices received by NZ producers, rose 0.9% in Q1, turning from a 0.4% decline in Q4 of 2013, StatsNZ said. Input prices, representing the prices of goods and services used by local producers, rose 1% in the quarter, from a 0.7% drop in the prior period. On an annual basis, output prices were up 4%, and input prices 3.1%. The increase was led by a 14% gain in output prices for electricity and gas supply, and a 20% jump in input prices.

Rising producer prices come as the RBNZ steps up efforts to curb the threat of future inflation, which has been relatively benign in recent years. Consumer prices rose at an annual pace of 1.5% in Q1, while labour costs were up 1.6%. The RBNZ started hiking interest rates in March to head off the threat of looming consumer price rises.

Auckland businesses are concerned at the slow pace at which people are paying their bills. A business confidence survey by the Auckland Chamber of Commerce indicates confidence peaked in February. It suggests continuing high levels of confidence but there are some warnings. Chief executive Michael Barnett said that increased interest rates, difficulties finding staff with the right skills and cash flow issues all seemed to be creating a drag on what most had hoped was a recovering economy.

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