



Wednesday, 16 July 2014

Short Term Currency Views

Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.3700	1.3500
Spot Ref:	1.3564	
Tenor:	2 weeks	
Date:	16 Jul 2014	
Time:	11:30 hrs	
Resistance / Support:	1.3678	1.3505
Commentary:		



- French, Italian and Dutch industrial output falls in May (Thu 10-Jul).
- Eurozone industrial production stumbles in May (Mon 14-Jul).

- Draghi seen delivering US\$1 trillion to banks in ECB offer (Mon 14-Jul).
- German ZEW investor confidence drops for 7th straight month (Tue 15-Jul).

Industrial production in France, Italy and the Netherlands contracted in May, raising fresh concerns about the solidity of the eurozone's recovery days after the German economy showed signs of fatigue. French industrial output plunged 1.7% in May compared with a month earlier. Italian industrial production suffered its steepest drop since November 2012, falling 1.2% from April. The Dutch manufacturing sector also took a hit in May, with output falling by 1.9% compared with a month earlier.

Mario Draghi's newest stimulus tool will hand banks more than €700 billion (US\$950 billion) of cheap funding. The ECB has identified lending to companies and households as a key weakness in the eurozone's fragile recovery. The so-called TLTRO program, part of a wider package of measures announced in June, offers as much as four years of low-cost funding tied to bank lending that Draghi said this month could ultimately provide as much as €1 trillion.

Eurozone industrial production dropped sharply in May with the energy sector the only one to thrive, data showed on Monday, highlighting the fragile state of the bloc's recovery. Output in the 18 countries sharing the euro dropped 1.1% on the month in May, following a 0.7% rise in April, Eurostat said. Analysts had expected a 1.2% monthly fall in May. Compared with the same period in 2013, factory gate output grew in line with market expectations by 0.5% after a 1.4% rise in April.

The German July ZEW survey came in below expectations, with the current situation survey at a much lower 61.8 (from 67.7 in June and the projected 67.4) and the expectations survey at 27.1 (from 29.8 in June and the projected 28.2). The eurozone ZEW also disappointed at 48.1 in June, significantly lower than 58.4 in May. The US dollar rose against most G-10 currencies ahead of US Fed chair Janet Yellen's testimony. Her prepared speech says that the US economy is "going to require an unusually accommodative monetary policy" even after being back on track. Her speech suggested that the Fed is in no rush to increase rates.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.7250	1.7000
Spot Ref:	1.7137	
Tenor:	2 weeks	
Date:	16 Jul 2014	
Time:	11:30 hrs	
Resistance / Support:	1.7180	1.7043
Commentary:		



- BoE keeps rates at 0.5% but voting pattern seen splitting soon (Thu 10-Jul).
- Retail sales growth slows sharply in June - BRC (Tue 15-Jul).

- UK construction activity falls in May by 1.1% (Fri 11-Jul).
- UK inflation accelerates in June to 1.9% on food and clothes prices (Tue 15-Jul).

The BoE last Thursday kept its interest rate at a historic-low of 0.5% and the size of QE at £375 billion as widely expected by economists. The minutes of the meeting will be released on July 24. Given the shift in the BoE's rhetoric over recent weeks, the Quarterly Inflation Report due on August 13 will be closely watched when Carney and other officials give a detailed update on their outlook for the economy. One or two MPC members might possibly contemplate voting for a tightening as early as this August.

Construction output dropped by 1.1% in May after rising by 1.2% in April, causing the annual rate of growth to slow to a six-month low of 3.5%, said the ONS. Private sector housing, which accounts for roughly three quarters of all new activity, showed zero growth in May. Excluding February's weather-related decline, this represents the weakest growth since November 2013. The ONS also reported a decline in private commercial work, which fell by 3.6%, and a 1.1% drop in maintenance work.

British retail sales growth slowed in June to one of its weakest rates since May 2011, possibly in response to fears of higher interest rates, adding to recent lacklustre economic data. The British Retail Consortium said total retail spending in June was just 0.6% higher than a year before. Consumer spending has been a major driver of Britain's unexpectedly strong economic recovery over the past year, but in May the BoE said it expected the rate of growth to fall slightly in the second half of 2014.

The UK June CPI inflation rose faster than expected at 0.2% m/m (versus forecast of -0.1% m/m) translating into a **1.9% y/y inflation** (from 1.5% in May) and core inflation reaching 2.0% y/y (from 1.6% y/y). The June RPI also came in higher than expected at 0.2% m/m (2.6% y/y) from 0.1% m/m (2.4% y/y) in May. Upward pressure came mainly from cost of clothing, food and air travel. Sterling jumped as traders added to bets the BoE could take the first step toward exiting emergency stimulus by the end of 2014.

Base Currency: AUD USD
 Alternate Currency: USD AUD
 Strike Price: 0.9500 0.9250
 Spot Ref: 0.9342
 Tenor: 2 weeks
 Date: 16 Jul 2014
 Time: 11:30 hrs
 Resistance / Support: 0.9460 0.9292
 Commentary:



- Australia's unemployment rate edges up to 6.0% in June (Thu 10-Jul).
- RBA repeats most prudent course likely period of rates stability (Tue 15-Jul).
- China June trade data misses forecasts, doubts over economy (Thu 10-Jul).
- Australia housing a significant source of risk, inquiry says (Tue 15-Jul).

Australia's unemployment rate rose to a higher-than-expected 6% in June from 5.9% in May as more people than anticipated began looking for work. Economists had expected the unemployment rate to stay at 5.9%. The number of people employed rose by 15,900 compared with an expected 12,000 rise, the ABS said last Thursday. The number of people in full-time work fell by 3,800 while those in part-time work rose by 19,700. The rise in the number of those employed was offset by an increase in the amount of people actively seeking employment. The workforce participation rate rose to 64.7% in June from 64.6% in May, against expectation of 64.6%, the ABS said.

China's trade performance improved in June but still missed market forecasts, reinforcing expectations of more stimulus measures to stabilise its economy and meet its 2014 growth target. Exports rose 7.2% in June from a year ago, the best pace in 5 months, but below forecasts of 10.6%. Imports missed expectations, growing by 5.5% versus forecasts of 5.8%, although they returned to positive territory after a small drop in May. China's combined exports and imports rose 1.2% in first half of the year.

RBA minutes showed "the exchange rate remained high by historical standards, particularly given the declines in key commodity prices, and was therefore offering less assistance than it otherwise might in achieving balanced growth in the economy. Low interest rates were working to support demand, but members agreed that it was difficult to judge the extent to which this would offset the anticipated substantial decline in mining investment and the effect of planned fiscal consolidation." Mining exports were expected to continue growing in coming quarters but at a slower pace than in Q1, with GDP growth forecast to be a little below trend over the next year, said the RBA.

An increase in Australian housing debt since 1997 and banks' exposure to mortgages are a significant source of risk to the country's financial system, according to a government inquiry. Australia's average home price rose to a record in April and since a trough in May 2012 has climbed 15%. Household debt increased to around 1.5 years of income in 2008 from 0.8 years in 1997, according to the inquiry panel, which said it will seek more information on how to temper the effects of the housing market on the financial system and economy. The inquiry panel also asked for submissions on whether the bigger banks should set aside more capital against mortgages.

Base Currency: NZD USD
 Alternate Currency: USD NZD
 Strike Price: 0.8850 0.8650
 Spot Ref: 0.8706
 Tenor: 2 weeks
 Date: 16 Jul 2014
 Time: 11:30 hrs
 Resistance / Support: 0.8840 0.8662
 Commentary:



- Fitch affirms New Zealand at 'AA'; Outlook revised to positive (Tue 08-Jul).
- NZ inflation steady at 0.3% in Q2, matching RBNZ forecast; kiwi falls (Wed 16-Jul).
- Construction boom driving growth in job ads (Tue 15-Jul).
- Sliding dairy prices may crimp NZ growth (Wed 16-Jul).

Fitch revised its outlook on NZ's sovereign ratings to "positive" from "stable", saying fiscal consolidation is strengthening the resilience of NZ's credit profile. NZ's business environment, standards of governance, and economic policy framework warrant high-grade sovereign ratings. Fitch last Tuesday warned that vulnerabilities remain, primarily related to high net external debt and strong commodity dependence. NZ remains heavily exposed to developments elsewhere, notably in China and Australia.

The construction boom is driving a growth in job ads. Website Seek has recorded a 13.7% increase in job ad volumes for June, compared to the same time last year. Construction is the most in demand, with a 51% increase in postings. That's closely followed by design and architecture, with a 38% increase.

NZ inflation held steady in Q2 compared to Q1 as gains in prices of electricity, home rentals and new houses were partly offset by cheaper package holidays, vehicles and liquor. The CPI was unchanged at 0.3% for an annual rate of 1.6%, below the 0.4% quarterly and 1.8% annual pace forecast and broadly in line with RBNZ's expectations.

The RBNZ may question its track to raise interest rates after dairy prices dropped 8.9% at the latest GlobalDairyTrade auction today. Prices of dairy products may continue to extend this year's 34% slump, taking some of the steam out of NZ's economic expansion. The kiwi dollar fell as traders mull the future interest rate track.



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