



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

Wednesday, 27 May 2015

Short Term Currency Views

Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.1150	1.0750
Spot Ref:	1.0878	
Tenor:	2 weeks	
Date:	27 May 2015	
Time:	11:10 hrs	
Resistance / Support:	1.1144	1.0787

Commentary:

- German economy expands 0.3% in Q1 (Fri 22-May).
- US April inflation closer to Fed's goal after core prices advance (Fri 22-May).
- German Ifo business climate index declines marginally in May (Fri 22-May).
- Euro hit by fears Greece will miss IMF repayment (Tue 26-May).

The German economy grew a seasonally-adjusted 0.3% in Q1, markedly slowing from 0.7% in Q4 and matching preliminary estimates. The expansion was mainly driven by an increase in public consumption and investment while foreign trade brought a downward effect to the GDP. Year-on-year, the GDP expanded 1.1% after 1.6% in Q4.

The Ifo business climate index for German trade and industry edged down to 108.5 in May from 108.6 in April. Companies were more satisfied with their current business situation but expressed slightly less optimism about the months ahead. Assessments of the current business situation climbed to their highest level since May 2014.

US core inflation rose 0.3% in April, the biggest gain since January 2013, after increasing 0.2% in March. In the last three months, core inflation advanced an annualised 2.6%, the most since August 2011. Including food and fuel, the gauge was up a more moderate 0.1% as prices fell at grocery stores and gas stations. Inflation will need to keep rising in order for Fed officials to be "reasonably confident" that progress on their price stability mandate is sufficient to allow for an increase in interest rates.

Amid mounting fears of financial collapse, Tsipras instructed officials to act speedily as his government sought to defuse tensions saying it would do its best to honour its debts to pay €1.6 billion in loans to the IMF next month. Traders are also blaming Klaus Regling, the head of the European Stability Mechanism, for Tuesday's euro selloff. Regling said: "There is little time left... That's why we're working day and night for an agreement. Without an agreement with the creditors, Greece will not get any new loans. Then there's a threat of insolvency. There are a lot of risks contained in that." Those "ominous comments" have sent a shiver through trading floors.

EUR:USD; Last:1.0878, Hi:1.1464, Lo:1.0864

- Eurozone Q1 GDP strengthens to 0.4%.
- ECB hints at faster buying pre-summer.
- US April inflation closer to Fed's goal after core prices advance.
- Yellen sees rate rise in 2015, gradual tightening thereafter.
- Greece in final stretch of troubled loan talks.
- Weak US retail sales dampen sharp Q2 growth rebound hopes.
- Euro hit by fears Greece will miss IMF repayment.
- Slew of upbeat US data releases.
- US housing starts surge to 7½ year high.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.5650	1.5250
Spot Ref:	1.5389	
Tenor:	2 weeks	
Date:	27 May 2015	
Time:	11:10 hrs	
Resistance / Support:	1.5647	1.5284

Commentary:

- BoE MPC minutes showed growth to pick up in Q2 (Wed 20-May).
- UK April public sector net borrowing was lower than expected (Fri 22-May).
- UK retail sales boosted by warm weather in April (Thu 21-May).
- Carney loads up shotgun format for BoE's "Super Thursday" (Tue 26-May).

Details from the BoE MPC minutes showed unemployment could fall faster than expected in the May inflation report leading to faster wage growth, lower inflation could be holding back wages and therefore restrain wage growth; slack in economy is likely to be absorbed in the next 12 months; net exports projected to detract slightly from growth. Members expect Q1 GDP to be revised up and Q2 GDP will pick up towards historical averages.

UK retail sales rose by 1.2% in April, the strongest increase since November, as the warm weather encouraged shoppers to stock up on summer clothes. The increase was stronger than analysts' forecast of volumes rising by 0.4%. Sales of clothing, footwear and textiles jumped 5.2% in April from March, the biggest rise in 4 years. Sales volumes were up 4.7% from the year before. The better-than-expected figures lifted sterling as traders saw the figures as a fresh sign of strength in the UK economy.

The pound held steady against the US dollar on Friday, after data showed that UK public sector net borrowing rose less than expected last month, while demand for the greenback remained under pressure. The ONS reported that public sector net borrowing rose by £6.04 billion in April, compared to expectations for an increase of £7.80 billion. The change in public sector net borrowing for March was revised to a £6.06 billion gain from a previously estimated £6.74 billion increase.

BoE Governor Carney is overhauling a process that's almost two decades old and will present interest-rate decisions, voting records and the quarterly Inflation Report on one day rather than spread over two weeks. While the shotgun format will allow officials to immediately explain their stance and forecasts, the unfamiliarity of the new approach as the BoE heads toward a tightening cycle means the stakes are high to get it right. The plan, which will see a series of monetary-policy releases squeezed into one day, has earned the moniker "Super Thursday." Under the trial for June's decision, officials will gather on Wednesday for their "Pre-MPC" meeting to be briefed on economic developments. They will then meet again the next day – May 28 – for their first deliberation, hold a vote on June 3 and announce their decision on June 4.

GBP:USD; Last:1.5389, Hi:1.5810, Lo:1.5357

- UK wage growth strengthens as jobless rate falls to 5.5%.
- UK retail sales boosted by warm weather in April.
- UK April public sector net borrowing was lower than expected.
- UK inflation turns negative for first time since 1960.
- US April inflation closer to Fed's goal after core prices advance.
- BoE cuts growth outlook, projects first rate hike in Q3 of 2016.
- BoE's Carney sees "very low" inflation in next few months.
- US housing starts surge to 7½ year high.
- BoE MPC minutes showed growth to pick up in Q2.
- Slew of upbeat US data keeps alive interest rate normalisation.

Base Currency: AUD USD
 Alternate Currency: USD AUD
 Strike Price: 0.8000 0.7650
 Spot Ref: 0.7748
 Tenor: 2 weeks
 Date: 27 May 2015
 Time: 11:10 hrs
 Resistance / Support: 0.7993 0.7654
 Commentary:



- Yellen sees rate rise in 2015, gradual tightening thereafter (Fri 22-May).
- Australian construction work down 2.4% in March quarter (Wed 27-May).
- Stricter loans to cool Australian property market (Tue 26-May).
- Economy showing signs of recovery (Wed 27-May).

Fed Chair Janet Yellen said she expects to raise interest rates this year if the economy meets her forecasts, with a gradual pace of tightening to follow. While the labour market is nearing full strength, "we are not there yet," she said Friday in a speech. "If the economy continues to improve as I expect, I think it will be appropriate at some point this year to take the initial step to raise the federal funds rate," she said. Even after the first rate increase since 2006, "I anticipate that the pace of normalization is likely to be gradual". Yellen said it will be best to proceed "cautiously," which means taking "several years" before policy makers lift the federal funds back to its normal, longer-run level. Consumer prices as measured by the Fed's preferred gauge rose 0.3% in March from a year ago and have been below the Fed's goal since April 2012.

Many Australian banks, including the big four, have tightened their guidelines for lending to housing investors, either making loans tougher to get or more expensive. In a report on Tuesday, ANZ Bank economists David Cannington and Felicity Emmett say it is difficult to calculate exactly how much these changes will affect the supply of mortgages. But the new approach will take a bit of the shine off the housing market. "The changes to investor mortgages are likely to have a marginal softening impact on housing sales and price growth, and as such will give the RBA some breathing space to keep rates low to support a broadening of the non-mining recovery beyond housing," they said. The RBA's seasonally-adjusted measure shows mortgage growth slowed to an annualised pace of 10% over the first three months of this year.

The amount of construction work done in Australia fell 2.4% in Q1, said the ABS. In the 12 months to March it was down 8.8%. Total building work done on homes and non-residential buildings such as offices and shops, rose 3.3% in Q1. Engineering work done, which includes mines, roads, bridges and the like, was down 7.3% in Q1.

The Australian economy is gaining some momentum but growth remains sluggish. The latest Westpac/Melbourne Institute Leading Index, which indicates the likely pace of economic activity three to nine months into the future, rebounded from negative territory to rise 0.45 percentage points to 0.43 per cent in April.

Base Currency: NZD USD
 Alternate Currency: USD NZD
 Strike Price: 0.7450 0.7100
 Spot Ref: 0.7247
 Tenor: 2 weeks
 Date: 27 May 2015
 Time: 11:10 hrs
 Resistance / Support: 0.7458 0.7058
 Commentary:



- NZ trade surplus narrows in April as dairy exports fall (Tue 26-May).
- Auckland house price 'fire' means no rate cuts until 2017: NZIER (Wed 27-May).
- NZ annual trade deficit at 6-year high as exports to China dropped (Tue 26-May).

New Zealand's trade surplus narrowed as expected in April as whole milk powder exports to China declined. StatsNZ said the trade surplus was NZ\$123 million in April, compared with the NZ\$100 million expected by economists. That's smaller than the NZ\$754 million surplus in March, which was upwardly revised from the NZ\$631 million initially reported. The annual trade deficit was NZ\$2.62 billion, compared with the NZ\$2.79 billion expected by economists, marking the largest deficit since June 2009.

Annual exports to China, NZ's largest trading partner, dropped 26% in the year through April to NZ\$8.45 billion due to weaker demand for commodities such as whole milk powder. Exports of milk powder, butter and cheese, NZ's largest commodity export group, fell 27% to NZ\$888 million in April from a year ago due to lower quantities for whole milk powder and lower prices overall. Exports in April declined 5.5% to NZ\$4.17 billion from a year ago. Imports in April rose 2.6% to NZ\$4.04 billion from a year ago.

The RBNZ can't cut interest rates without throwing fuel on the fire of the Auckland housing market, according to NZIER. In its latest Quarterly Predictions, the Institute of Economic Research says the RBNZ is "in a bind" and that will see rates left on hold until 2017. Other economists believe official interest rates could be cut as soon as next month. Ordinarily low inflation and the uncertain global picture, would warrant an interest rate cut. "But the RBNZ can't afford to throw any more fuel on the Auckland housing market fire. We can see no alternative other than to hold rates steady until mid-2017," NZIER said. Auckland house prices were "bubbly" and could fall sharply, NZIER said, after rising 15% in the past year. The RBNZ's recently announced rule changes mean investors in Auckland will need at least a 30% deposit to buy a property.



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