


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

Wednesday, 13 November 2013

Short Term Currency Views

Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.3600	1.3300
Spot Ref:	1.3446	
Tenor:	2 weeks	
Date:	13 Nov 2013	
Time:	12:30 hrs	
Resistance / Support:	1.3474	1.3365
Commentary:		



- ECB cuts rates to new low, ready to do more if needed (Thu 07-Nov).
- EU negotiators clinch deal on 2014 budget (Tue 12-Nov).

- France credit rating cut to AA by S&P from AA+ on growth outlook (Fri 8-Nov).
- Eurozone Q3 GDP data release (due on Thu 14-Nov, 18:00hr SGT).

The ECB cut interest rates to a record low on Thursday and said it could take them lower still to prevent the eurozone's recovery from stalling as inflation tumbles. The ECB cut its main refinancing rate by 0.25% to 0.25%. It held the rate it pays on bank deposits at zero and cut its emergency borrowing rate to 0.75% from 1.00%. Draghi said the ECB still had room to act if needed; "we have a whole range of instruments to activate before reaching the lower bound ... in principle we could even cut further the interest rate." The 23-man Council had faced intense pressure to act after a shock slump in eurozone inflation to 0.7% in October, far below the ECB target of just under 2%.

Negotiators in Brussels have clinched a deal on the 2014 EU budget after a long night, cutting spending by about 6% compared to 2013. It still requires final approval from the parliament and EU ministers next week. Spending will total €135.5 billion, €0.5 billion less than the EC sought and €0.9 billion short of the European Parliament's (EP) target, but €0.5 billion more than what austerity-conscious government leaders were demanding. It reflects stricter new terms agreed by EU leaders in February. The deal should pave the way for the EP to adopt the EU's long-term trillion-euro budget for 2014-2020. An extra €3.9 billion is to settle bills for 2013 incurred in cohesion projects.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.6100	1.5800
Spot Ref:	1.5890	
Tenor:	2 weeks	
Date:	13 Nov 2013	
Time:	12:30 hrs	
Resistance / Support:	1.6025	1.5835
Commentary:		



- BoE leaves rates, asset purchase target unchanged (Thu 07-Nov).
- Inflation eases sharply to 13-month low of 2.2% on lower fuel costs (Tue 12-Nov).

- UK RICS house-price index hits 11-year high on "Help to Buy" (Tue 12-Nov).
- BoE to publish latest inflation forecast today (Wed 13-Nov).

The BoE left interest rates at a record low of 0.5% and its asset purchase target unchanged at £375 billion as expected last Thursday. Sterling also showed little movement against the dollar. The focus will now shift to the inflation report due today (13-Nov) with Governor Mark Carney likely to give an update on growth forecasts and any updates on policy. Under the new governor's leadership, the bank has said it will not consider raising interest rates from their current 0.5% until the jobless rate falls to 7%, which the bank does not expect to happen before the end of 2016.

The house price index by the RICS increased to 57, the highest since June 2002, from 53 in September, as government programs to boost home ownership increased the pressure on supply across the country. Prime Minister David Cameron announced that more than 2,000 people had been accepted for a government-backed mortgage under his Help to Buy initiative, which has drawn criticism from the IMF and politicians for potentially stoking a housing bubble. The program, which has reduced down-payment requirements to as little as 5%, is allowing "hardworking people" to get onto the property ladder, Cameron said.

British inflation unexpectedly dropped to its lowest rate for more than a year in October, offering reassurance for the BoE that it has ample time to allow the economy to strengthen before it raises interest rates. Consumer price inflation fell to an annual rate of 2.2% in October from 2.7% in September, the ONS said on Tuesday, echoing a similar sharp fall in inflation in the eurozone last month. This is well below economists' forecasts of an average drop to 2.5% and is the lowest rate since September 2012, due to lower petrol prices and other transport costs and technical effects related to a multi-year programme of university tuition fee rises.

An underlying measure of inflation, which strips out increases in energy, food, alcohol and tobacco, rose by just 1.7%, its smallest increase since September 2009. However some economists see upward pressure on inflation over the next few months, when the impact of recently announced price rises for household heating gas and electricity take effect. The ONS said factory gate prices rose by 0.8%, their slowest since October 2009, compared to economists' forecasts of a 1.0% increase on the year.

A separate measure of inflation, the retail prices index (RPI), fell from 3.2% in September to 2.6% in October. The drop in the inflation rate means the BoE is considerably closer to its inflation target of 2%, which it has exceeded since December 2009. However, recently announced price rises by most of the UK's large energy firms have yet to take effect and will have an inflationary impact in the coming months. The BoE will publish its latest inflation forecast later today.

Base Currency: AUD USD
 Alternate Currency: USD AUD
 Strike Price: 0.9450 0.9200
 Spot Ref: 0.9310
 Tenor: 2 weeks
 Date: 13 Nov 2013
 Time: 12:30 hrs
 Resistance / Support: 0.9425 0.9210
 Commentary:



- Business confidence falls as growth outlook weakens: NAB (Tue 12-Nov).
- Aussie falls to 6-week low on China caution, sagging sentiment (Tue 12-Nov).
- Consumer confidence up but Aussies worry about jobs: Westpac (Wed 13-Nov).

Business confidence fell sharply in October as actual conditions remained weak. NAB's monthly business survey showed business confidence dropped to +5 points, from September's +12 points due to political optimism around the change of federal government. "Businesses may have reassessed their expectations about future activity in the changed political environment given the continued weakness in actual business conditions," NAB chief economist Alan Oster said. Business conditions were steady at (minus) -4 points, same as September. "Nonetheless, overall confidence remains relatively higher than the well below-average levels over the previous three years".

The Aussie fell to a 6-week low as traders weighed prospects for growth in China, Australia's biggest trading partner, before a four-day Communist Party summit ends Tuesday. The Aussie extended its decline after a report from National Australia Bank showed business confidence fell. The Aussie had weakened on Monday after Chinese loan growth slowed more than forecast last month. The China new loans data weighed on sentiment and there's a cautious tone with China's third plenum going on.

Low interest rates and rising house prices are boosting consumer confidence but Australians are growing more concerned about their job security. Consumer sentiment increased by 1.9 points to 110.3 points in November, from 108.3 in October, according to the Westpac Melbourne Institute Index of Consumer Sentiment. Employment figures were also released last week, but although the unemployment rate held at 5.7% in October, the report overall was weak and dented employment confidence.

Base Currency: NZD USD
 Alternate Currency: USD NZD
 Strike Price: 0.8400 0.8100
 Spot Ref: 0.8231
 Tenor: 2 weeks
 Date: 13 Nov 2013
 Time: 12:30 hrs
 Resistance / Support: 0.8280 0.8160
 Commentary:



- NZ home prices record high in October, sales volumes hit by LVR (Tue 12-Nov).
- Kiwi drifts lower as investors awaits RBNZ financial stability report (Tue 12-Nov).
- RBNZ's Wheeler says kiwi may face upward pressure as rates rise (Wed 13-Nov).
- Housing market still at risk; financial system remains sound: RBNZ (Wed 13-Nov).
- NZ food prices fall 1% in October; slide in fruit and vegetable prices (Wed 13-Nov).

New Zealand's median house price rose 1.9% to a record in October, although sale volumes were dented as RBNZ lending restrictions began to bite. The median sale price rose NZ\$7,525 to a record NZ\$407,525 in October from September, and the price is 7.2% ahead of the year earlier month, according to REINZ. The number of houses sold last month rose 0.9% to 6,778 from September, up 2.1% from the same month in 2012. On a seasonally adjusted basis, sales volumes fell 4.1%.

Traders will be watching the RBNZ's financial stability report on Wednesday for any hint on how the monetary authority's loan restrictions are faring after their first month, and whether governor Graeme Wheeler will try to talk down the kiwi dollar, which he has said will give him "greater flexibility" in hiking rates if it stays persistently high.

RBNZ Governor Graeme Wheeler said the nation's currency may be driven higher when he starts raising interest rates next year, as major economies are unlikely to increase borrowing costs. "The concern will be that the interest differential between New Zealand and any of the advanced economies will widen," Wheeler told a parliamentary committee in Wellington today. "That could increase pressure on the exchange rate and put the traded goods sector under more pressure."

New Zealand's financial system remains sound, but the housing market remains at risk. The RBNZ has released its Financial Stability Report, saying the main threat to the financial system is imbalance in the housing market. Governor Graeme Wheeler says early indications are that banks have significantly reduced high loan-to-value ratio lending approvals, but it is too soon to know the impact. And the governor has indicated that the rules could be relaxed for newly built homes.

NZ food prices fell in October from September as the price of tomatoes tumbled, leading a seasonal decline of 8.8% in fruit and vegetables for the month. Food prices declined 1% in October from the previous month to be up 0.8% from a year earlier, according to StatsNZ. Fruit and vegetable prices fell 3.7% from a year earlier.



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