

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

Wednesday, 28 January 2015





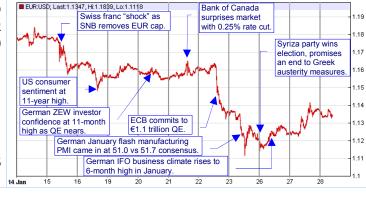
Short Term Currency Views

Suggested MaxiYield Pairings

USD Base Currency: **FUR** Alternate Currency: USD **EUR** Strike Price: 1.1550 1.1000 Spot Ref: 1.1347 Tenor: 2 weeks

28 Jan 2015 Date: Time: 17:30 hrs

1.0945 Resistance / Support: 1.1542 Commentary:



- ECB commits to €1.1 trillion QE to stimulate the eurozone economy (Thu 22-Jan). ■ Syriza rides anti-austerity wave to decisive election victory in Greece (Mon 26-Jan).
- Eurozone business activity rose to 5-month high as firms cut prices (Fri 23-Jan). German IFO business climate rises to 6-month high in January (Mon 26-Jan).
- Central banks continue to lead the headlines in January 2015: The ECB enters into a historic new era under the leadership of Mario Draghi with a pledge to buy €60 billion of public and private assets every month from March 2015 through September 2016 (a QE totalling at least €1.1 trillion, about 11% of GDP) in a push to put more cash into circulation and revive inflation in the eurozone. And the ECB exceeded market expectations by making the programme open-ended as Draghi pledged to keep spending until there's a "sustained adjustment in the path of inflation". The ECB left the key interest rates on refinancing operations, lending and deposit facilities unchanged

Eurozone business activity expanded to a five month high. Markit's flash PMI for January hit 52.2, up from 51.4 in December, beating expectations of 51.9. Growth remains worryingly weak with the PMI at a level consistent with GDP rising at a 0.2% quarterly rate, and the economy both fragile and susceptible to shocks and further setbacks.

The anti-austerity Syriza hands Tsipras a mandate to confront Greece's program of austerity imposed in return for pledges of €240 billion in aid since May 2010. The challenge for him now is to come good on his election pledges including a write-down of Greek debt, while persuading creditors in Berlin and Brussels to keep aid flowing.

The German January IFO survey pointed to a good start for the German economy on the back of falling oil prices and a weaker euro. The IFO business climate index was higher at 106.7 in January (from 105.5 in December and better than the projected 106.5) while the current assessment was also better at 111.7 in January (from 109.8 in December and above the forecast of 110.8). IFO expectations index was also better at 102.0 (from 101.4 in December) but fell short of the projected increase to 102.5. In addition, the IFO economist noted that the Swiss franc appreciation will help the German economy in the medium term, especially in the areas bordering Switzerland.

GBP USD Base Currency: **GBP** USD Alternate Currency: 1.5300 1.4950 Strike Price: 1.5194

Spot Ref: Tenor: 2 weeks

28 Jan 2015 Date: 17:30 hrs Time:

Resistance / Support: 1.5324 1.4996 Commentary:

■ GBP:USD; Last:1.5194, Hi:1.5265, Lo:1.4960 BoE's Cunliffe cautiously Swiss franc "shock" as welcomes EU capital 1.53 SNB removes EUR cap. markets plan. .525 Bank of Canada 1.52 with 0.25% rate cut ECB commits to 1.515 €1.1 trillion QE 1.51 US consume sentiment at 11-year high UK weekly wages may rise 2% in Q1 UK retail sales show 1 495 BoE minutes showed 8-0 vote surprise gain in December on food, fuel to keep rates unchanged.

- BoE MPC minutes showed unanimous decision to keep rates on hold (Wed 21-Jan).
 UK 2014 growth fastest in 7 years despite Q4 slowdown (Tue 27-Jan).
 UK banks approve fewest mortgages since April 2013 BBA (Tue 27-Jan).

The BoE released the latest minutes for its January MPC last Wednesday (21-Jan) which showed a unanimous decision (8-0 vote) to keep policy interest rates unchanged, the first unanimous decision since July 2014. Despite the generally dovish BOE minutes yesterday, GBP managed to rebound

British retail sales unexpectedly climbed in December as oil price fall boosts spending power. Economists had expected sales to be weaker after consumers took advantage in November of the country's first major round of US-style Black Friday sales. But retail sales volumes rose 0.4% on the month after surging by 1.6% in November, the strongest growth in more than a decade. Sales rose 4.3% in December compared with the same month a year ago. Economists had expected a fall of 0.6% on the month, after Black Friday sales brought forward some Christmas shopping into November, and a gain of 3.0% on the year.

Britain's economy recorded its fastest annual growth since 2007 last year despite a bigger-than-expected slowdown in the final three months of 2014, giving a mixed message just 100 days before Britons go to the polls (7-May). UK GDP grew by 2.6% in 2014 as a whole, the ONS said on Tuesday, up from 1.7% in 2013 and putting it on track to have been the world's fastest-growing major advanced economy last year. The data showed some loss of momentum, as growth in Q4 of 2014 fell to 0.5% from 0.7% in Q3 of the year, a sharper slowdown than the 0.6% growth most private-sector economists had expected

British banks approved 35,667 mortgages for house purchase in December, the lowest since April 2013, as the housing market continued to slow. Mortgage approvals for house purchase fell from 36,657 in November, 24% down from a year ago. For 2014 as a whole, the number of house purchase approvals was 9% higher than 2013.

■ AUD:USD: Last:0.7988. Hi:0.8291, Lo:0.7873 USD Base Currency: AUD China 2014 growth at 7.4% Bank of Canada is the slowest since 1990 USD AUD Alternate Currency: surprises market with 0.25% rate cut 0.825 Strike Price: 0.8150 0.7850 ECB commits to 0.82 Spot Ref: 0.7988 €1.1 trillion QE Tenor: 2 weeks US consume China factories stall for sentiment at 11-year high. 2nd month in January, HSBC flash PMI at 49.8. 0.81 805 Swiss franc "shock" as SNB removes EUR cap Date: 28 Jan 2015 0.8 Time: 17:30 hrs Australian December jobless rate falls to 6.1% 0.795 0.79 Low business confidence adds Resistance / Support: 0.8077 0.7870to Aussie rate cut pressure n 785 Commentary:

- Canada cuts key rate to insure against negative impact of oil price fall (Wed 21-Jan).
 Chances of Australian rate cut surge after Canada's surprise cut (Thu 22-Jan).
 China factories stall for 2nd month in January: HSBC flash PMI at 49.8 (Fri 23-Jan).
 Low business confidence adds to Aussie rate cut pressure: NAB (Tue 27-Jan).
 Aussie dollar jumps as inflation figure casts doubt on rate cut forecasts (Wed 28-Jan).
 Falling Aussie dollar dents consumer confidence (Wed 28-Jan).

Market shocks seem to come from central banks these days and the Bank of Canada was the latest to surprise the markets with an unexpected 0.25% cut bringing the rate lower to 0.75% as a response to cushion Canada from the recent oil price shock. Australian markets have rushed to narrow the odds on a near-term cut in interest rates following a surprise easing from Canada, not least because of the similarities between the two countries as major commodity exporters. The market is now fully priced for a cut by April and a total cut of 0.50% over the next 12 months. Last month, RBA governor Stevens said a rate closer to 75 US cents was more appropriate for the economy.

China's manufacturing growth stalled for the second straight month in January and companies had to cut prices at a faster clip to win new business, adding to worries about growing deflationary pressures in the economy. The HSBC/Markit flash manufacturing PMI hovered at 49.8 in January, little changed from December's 49.6. Reflecting the tumble in oil prices, which have more than halved in the last six months, a sub-index for input prices sank to 39.9, a level not seen since March 2009.

National Australia Bank's Monthly Business Survey again showed a "patchwork economy" with "little-to-no momentum" in December, supporting the case for further cuts to Aussie interest rates. Seasonally adjusted business confidence rose 1 point to a net balance of 2 points in the month, but remained below the trend rate, which has been declining for several months. Business conditions fell 1 point to 4 points, below the trend rate, which has been rising for the past few months. NAB's chief economist continued to predict two interest rate cuts from the RBA this year, but that the timing of the cuts would be "very dependent on data flow and could start a touch later"

While headline inflation fell with fuel prices, the RBA's preferred measure of inflation remained well above the bottom of its 2%-3% target band reducing the chances of a rate cut. The CPI rose 0.2% in the December quarter, down from a 0.5% rise in the September quarter. That took the annual rate of inflation down to 1.7%, from its previous level at 2.3% in the September quarter. The vast bulk of the decline came from falling fuel prices, which slumped 6.8% on the back of a global oil price slide.

ANZ and Roy Morgan's weekly consumer confidence index fell 0.4% to 113.2. ANZ said the drop was partly related to the Aussie dollar falling through the key psychological level of 80 US cents, lowest in 51/2 years, concerns about job security, weak wages growth, weaker currency and concerns about the government budget.

NZD USD ■ NZD:USD: Last:0.7468, Hi:0.7888, Lo:0.7399 Base Currency: Bank of Canada 0.79 US consumer surprises market with 0.25% rate cut USD NZD Alternate Currency: sentiment at 0.785 11-year high. Strike Price: 0.7600 0.7300 Eyes on RBNZ 0.7468 Spot Ref: 0.775 signs of rate cut. Tenor: 0.77 2 weeks 0.765 ECB commits to shock" as SNB €1.1 trillion QE 0.76 28 Jan 2015 Date: removes EUR cap. 0.755 Time: 17:30 hrs 0.75 NZ consumer prices fall 0.745 for first time since 2012. Resistance / Support: 0.7584 0.7308 D.74

- Kiwi slips to 2½ year low as traders bet on RBNZ cuts (Wed 21-Jan).
- Eyes on RBNZ statement for chance of rate cut (due on Thu 29-Jan, 04:00hrs SGT).

■ NZ services industry grew at faster pace in December (Mon 26-Jan).

The kiwi dollar has dropped to a 2½ year low as investors speculate the RBNZ may have to lower interest rates after the Bank of Canada surprised markets with a rate cut. The trade-weighted index dropped to 77.08 from 78.15 last Wednesday. Traders are pricing in 10bps of cuts to NZ's 3.5% official cash rate in the coming 12 months after Canada's central bank joined the growing number of monetary authorities moving to lower rates.

NZ's Performance of Services Index for December published by Business New Zealand and BNZ showed that the services industry expanded at a faster pace in December with the index rising to 56.5 from a revised 54.7 in November. All five sub-indices showed expansion for a seventh month.

Investors were also aware of growing speculation that a rates cut was likely in Australia and that the RBNZ might do the same. The market is pricing some chance of a rate cut in the next 12 months, but all eyes are on Thursday's Official Cash Rate statement to see whether the language will be changed to potentially hand it such a move.



Commentary:

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