



## Short Term Currency Views

### Suggested MaxiYield Pairings

Base Currency:	EUR	USD
Alternate Currency:	USD	EUR
Strike Price:	1.3900	1.3650
Spot Ref:	1.3721	
Tenor:	2 weeks	
Date:	14 May 2014	
Time:	15:00 hrs	
Resistance / Support:	1.3876	1.3645
Commentary:		

- ECB ready to cut rates in June as strong euro threatens growth (Thu 08-May).
- Escalation of Ukraine tensions may cost Russia US\$115 billion (Tue 13-May).

The ECB kept the refinancing and deposit rates unchanged at 0.25% and 0% respectively. There were no other changes to policy and/or liquidity measures. ECB president Draghi signalled that officials are ready to cut interest rates in June if needed and stepped up his concern about the euro's strength. "The Governing Council is comfortable with acting next time, but before we want to see the staff projections that will come out in the early June. There wasn't a decision today. It's a preview of the discussion we will have next month." ECB officials are debating how much stimulus to give to a Eurozone economy haunted by the threat of deflation. While Mr Draghi gave no signal that radical moves such as QE are imminent, new economic forecasts next month may give them the scope to take interest rates into negative territory.

Further escalation of Russia's engagement in Ukraine could cost Russia 3% of GDP or US\$115 billion in current dollar terms for 2015, IHS said. The conflict could also exacerbate recessionary pressures, and lead to a reduction in European real GDP of 0.15% overall. European business to be most hit would be machinery, equipment, chemical product exporters in Netherlands, Belgium, Germany. "While Russia could end up paying a very heavy economic price for its annexation of Crimea and its ongoing conflict with Ukraine, the negative impacts on other parts of the world, notably Europe, will also be hard to avoid", says Nariman Behravesh, IHS's chief economist.

In the Eurozone, inflation will be the theme, with final German numbers for April expected to confirm the preliminary -0.2% m/m to take y/y CPI to 1.3% from 1.0%. Spain and France are due to report, followed by the final Eurozone release due on Thursday.

Base Currency:	GBP	USD
Alternate Currency:	USD	GBP
Strike Price:	1.7000	1.6750
Spot Ref:	1.6861	
Tenor:	2 weeks	
Date:	14 May 2014	
Time:	15:00 hrs	
Resistance / Support:	1.6962	1.6791
Commentary:		

- BoE kept repo rates and asset purchases unchanged as expected (Thu 08-May).
- UK trade deficit narrows to £1.3 billion in March (Fri 09-May).
- NIESR: UK GDP 'close to pre-crisis level', hikes predictions for growth (Fri 09-May).
- CBI sees brighter economic outlook, boosted by investment (Mon 12-May).

The BoE kept policy unchanged at its May meeting, keeping the size of its asset purchase programme at £375 billion and the official bank rate steady at 0.5%. It was the standard case of no substantial statement, which leaves the focus to the minutes, which will be due on 21-May.

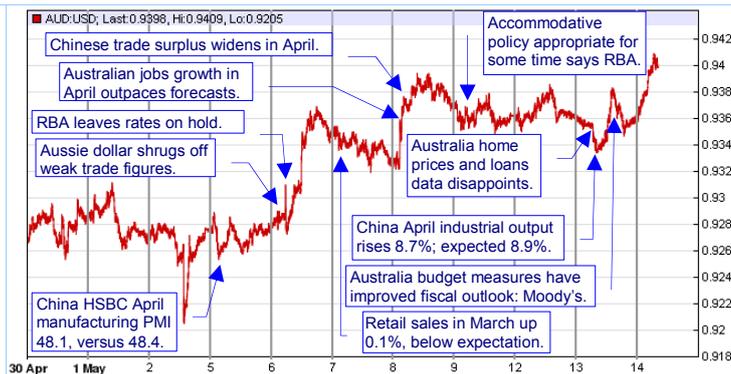
The UK's trade deficit stood at £1.3 billion in March, narrowing from a £1.7 billion deficit in February, according to the ONS. The headline trade balance was comprised of a £8.5 billion deficit in goods, which was partially offset by a surplus of £7.2 billion in services. The reported month-on-month narrowing of the trade deficit in March was due to exports growing faster than imports. Exports of goods increased by 4.9% whereas imports of goods increased by 2.8% during March.

The NIESR said that UK GDP should regain its Q1 2008 level soon as economic output at the end of April was just 0.17% below its pre-recession peak. "It can reasonably be expected that the peak will be regained within the next month or so", NIESR said. Separately, NIESR upgraded its growth forecast for the UK economy to 2.9% in 2014, from an earlier estimate of 2.5%. It increased its growth estimate for 2015 to 2.4% from 2.1%, and sees growth remaining at about 2.4% for the following two years.

The CBI upgraded UK economic growth forecasts for 2014 and 2015 as it expects to see marked improvements in British business investment and productivity. It predicted Britain's economy will grow 3.0% this year (up from 2.6% forecast previously) and growth of 2.7% for next year (compared with 2.5% earlier). It pointed to rising business investment as companies become more confident about strength of the upturn, helping to end years of poor productivity that has perplexed policymakers.

In the UK, the focus will be on the publication of the May BoE inflation report and the accompanying press conference given by Governor Carney today. We are likely to see a slight downgrade of the growth and inflation projections from the February forecasts. Meanwhile, Carney's emphasis is likely to be that when tightening begins it will be gradual, and modest in magnitude, although this would be enough to keep the market guessing as to when the first rate hike will be. The employment data is also due. Markets are looking for a further drop in the claimant count to take that measure of unemployment down to 3.3%, and the ILO/LFS unemployment rate to ease to 6.8%.

Base Currency: AUD USD  
 Alternate Currency: USD AUD  
 Strike Price: 0.9500 0.9250  
 Spot Ref: 0.9398  
 Tenor: 2 weeks  
 Date: 14 May 2014  
 Time: 15:00 hrs  
 Resistance / Support: 0.9459 0.9309  
 Commentary:



- Australian jobs growth in April outpaces forecasts (Thu 08-May).
- RBA raises 2015 CPI ranges 25bps, core inflation ranges unchanged (Fri 09-May).
- Business confidence grows in April despite talk of tough budget: NAB (Mon 12-May).
- Chinese trade surplus widens as imports and exports rebound (Thu 08-May).
- RBA says accommodative policy likely appropriate for some time (Fri 09-May).
- Aussie falls after Australia's house prices, home loans data (Tue 13-May).

Australian jobs numbers for April showed a 14,200 (versus 8,800 expected) surge in jobs added, while the unemployment rate was steady at 5.8%. The market was expecting unemployment to tick higher to 5.9% and considering participation also remained steady at 64.7%, the result was indeed a positive outcome. Even more encouraging was the fact that all the jobs added were full-time jobs, unlike previous months when we've seen part-time employment dominating.

China posted a wider-than-estimated trade surplus for April as exports and imports unexpectedly rose. Exports grew at an annual rate of 0.9% in April, up from a 6.6% slump in March and surprising analysts who had forecast a fall of 3%. Imports increased by 0.8% year-on-year in April, compared with a 11.3% fall in March and better than the -2.1% forecast. Combined, the trade balance increase to US\$18.46 billion, up from a revised US\$7.7 billion in March and ahead of analysts' estimate of US\$16.7 billion.

The RBA reinforced that interest rates will remain on hold for the foreseeable future as a fall in mining investment and fiscal tightening weigh on growth. "A degree of spare capacity will be present for much of the forecast period", the RBA said in its quarterly monetary policy statement. "The current accommodative monetary policy setting is likely to be appropriate for some time yet." The RBA raised projected GDP growth for June 2014 to 3% from 2.75%, and lowered its growth ranges for 2015 by 0.25%.

On core inflation, the RBA cut the forecast for June to 2.75% from 3%, while other periods were little changed. With the RBA flagging inflation will remain consistent with its 2% to 3% target, growth will be below trend and spare capacity remain in the labour market, traders see little chance of an increase in the record-low 2.5% cash rate this year. One variable is the currency, which the RBA said presents "a significant source of uncertainty" even as the local dollar may move lower with commodity prices.

Talk of a "tough" budget has failed to dent business confidence in April, which strengthened as the gap between confidence and conditions widened, according to an NAB survey. Business conditions slipped to zero in April, from +1 in March. Business confidence rose to +6 in April from +4 in March. House prices in Australia were up a seasonally adjusted 1.7% on quarter in Q1 of 2014, the ABS said. That missed forecasts for an increase of 3.0% following the 3.5% gain in Q4. Meanwhile, the total number of home loans in Australia was down a seasonally adjusted 0.9% on month at 52,013 in March. That was well shy of forecasts for an increase of 1.0% following the 2.3% gain in February. The government aims to reduce the budget deficit starting 1-July to A\$29.8 billion from A\$49.9 billion in the current fiscal year.

Base Currency: NZD USD  
 Alternate Currency: USD NZD  
 Strike Price: 0.8800 0.8550  
 Spot Ref: 0.8646  
 Tenor: 2 weeks  
 Date: 14 May 2014  
 Time: 15:00 hrs  
 Resistance / Support: 0.8750 0.8588  
 Commentary:



- Spencer says RBNZ could start removing loan limits late in 2014 (Fri 09-May).
- NZ house sales drop 20% in April as central bank moves bite (Mon 12-May).

The RBNZ could start to remove restrictions on low-deposit mortgage lending late this year, Deputy Governor Grant Spencer said. The restrictions are achieving their purpose of curbing house-price inflation, "but before removing them we want to be confident that the housing market is responding to interest-rate increases and that immigration pressures are not causing a resurgence of house-price pressures", Spencer said in a speech in Auckland last Friday. It will take some time to gain this assurance and "at this stage we consider the earliest date for beginning to remove" the loan limits "is likely to be late in the year", he said.

NZ house sales fell 20% in April from a year earlier, extending a decline in sales of cheaper property as the RBNZ's restrictions on low-equity mortgages and interest rate hikes weigh on buyers. The number of houses sold by real estate agents fell to 5,670 in April, from 7,104 in the same month last year, according to the REINZ. The national median sale price fell 1.8% from a record NZ\$440,000 in March to NZ\$432,250 in April. The REINZ stratified housing price index, which smooths out peaks and troughs, climbed 8.5% to a record 3971.2 points in April, compared to a year earlier.



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