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Weekly FX Focus

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A dimmed outlook of growth in the US and firm risk appetite has seen the greenback ending lower for an eighth straight week. Besides, relief from the European bank stress tests has propped up the Euro to higher ground. This week, the main event to look out for will be Friday's non-farm payroll report which is expected to show the US economy losing another 60,000 jobs, and the jobless rate to rise to 9.6%. Other important economic reports include ISM manufacturing data on Monday and ISM non-manufacturing on Wednesday. Both of these reports hold a key employment component. Meanwhile, personal income, pending home sales along with monthly auto sales numbers will be released on Tuesday. Markets will also be watching the ADP employment report rolled out on Wednesday as well as the weekly jobless claims on Thursday. Chain stores' monthly sales are also expected on Thursday, followed by consumer credit on Friday. For now, we think that disappointing fundamental data (in the US) could weigh in the reserve currency unless a broader flight to safety lends support.

	Direction	View
EUR/USD	↔	EUR/USD maintained the rally with prices seen rising above 1.3100 for the first time since May last week. Indeed, the results of the European bank stress tests appear to have calmed fears surrounding the European banking system. However, sovereign debt issues still remain in the background and we may see trades turning cautious as the ECB is likely to maintain a dovish bias for future policy this Thursday. Widely expected to hold the benchmark interest rate at 1.00%, it would be the Q&A session with ECB President Jean-Claude Trichet that markets will be more concerned about, and that may stoke volatility this week. Whilst economic indicators coming out from Germany of late have been strong, we do not expect this to lead to a change in the ECB's opinion on the economy. The ECB has held a cautious outlook for the economy and expects banks to tightening borrowing standards further over the coming months, adding that "negative spillover effects from the sovereign debt crisis appears to have worsened banks' ability to obtain funding," which is likely to weigh on the recovery going forward. Besides, with inflation not an immediate threat, we see no change in our view that the ECB will only begin to tighten policy in the second quarter of 2011. EUR/USD to trade the trend but will need another big leg up to hit the 1.3130-resistance level. Major support for the currency pair seen at 1.2830.
GBP/USD	↔	The BoE will also be delivering its interest rate decision on Thursday, to which more weight will be attached given that the decision will have been made in light of updated projections for the inflation report, due the following Wednesday. That said, we expect the majority of the MPC to have opted for no change to the current policy stance despite a stronger-than-expected 2Q outcome. Afterall, growth is expected to weaken substantially moving further into the year, though an elevated CPI profile will validate Sentance's call for tightening. Nevertheless, policymakers in the UK continued pushing a neutral tone in last week's testimony to the Parliament's Treasury Committee, with Governor Mervyn King downplaying the stronger-than-expected 2Q GDP result to stress lingering uncertainty about the recovery in general and inflation in particular. Data-wise, we will receive the PMI reports for July, whilst the IP report is also due. We look for Cable to find a base level at 1.5630; resistance seen at 1.5780 ahead of 1.5900.

	Direction	**View**
AUD/USD	↓	It was shown last week that consumer prices in Australia increased 0.6% in the second quarter after expanding 0.9% during the first-three months of the year, while the headline reading for inflation advanced at an annualized pace of 3.1%, which fell short of expectations for a 3.4% rise in price growth. All eyes will be on the RBA's policy decision due on Tuesday. Although we have seen trades in the AUD/USD pair strengthening (in the last 2 weeks) on the back of the increase in risk appetite, we may see bullish sentiment tapering off as the central bank is widely expected to keep the benchmark interest rate on hold for the third time. We will also be watching out for comments which could potentially weigh on interest rate expectations. Other highlights this week include retail sales and dwelling approvals reports (also Tuesday) and the RBA's Statement on Monetary Policy (due Friday) for guidance on how policy may evolve over the remainder of the year. Looking at price action in the AUD/USD to hold under major resistance level of 0.9210; good support sits at 0.8920.
NZD/USD	↔	Despite the RBNZ's 25bps rate hike (to 3.00%) last week, the Bank has talked down their recent rate hike, and that was the main driver in the NZD/USD, which fell to lows of 0.7191. Governor Alan Bollard was more bearish on the economic outlook than the previous meeting as he stated that "growth had softened somewhat," and went onto add that "the pace and extent of further OCR increases is likely to be more moderate than was projected in the June monetary policy statement." This week, the economic data releases are wage and LCI growth on Tuesday, as well as employment on Thursday. Given the RBNZ's less hawkish stance, we think that risks are to the downside for NZD/USD, especially if data comes in disappointing in conjuncture with any risk aversion. Failure to make a clear break above 0.7320 may see prices hovering around the current levels.
USD/SGD	↓	On continuing USD weakness, and a rise in risk taking, SGD looks likely to continue firming for the week. The absence of any negative news-flows from the Eurozone will add to the positive sentiment for the local currency. For the month, the SGD is up a hefty 2.8%, as recent data releases out of Singapore have been very bullish. But whether the robust GDP is likely to continue will be some cause for concern. PMI data out on Tue should continue to give some indications on the strength of the manufacturing sector and continuing growth. This morning, the trade-weighted SGD has edged up to 1.9% above midpoint vs. 1.6% last Fri. For now the trade-weighted SGD should remain at the upper end of the policy band, at around 1.5-2.0% above midpoint, which suggests USD/SGD range of 1.3525-1.3592.

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