

Monday, 19 July 2010

The greenback's path is undoubtedly growing more difficult to decipher; and we think it will revert to its function as a safe-haven currency only when sentiment trends develop enough momentum. This Friday's release of the stress tests results within the European Union space will play an important role here (to see if the Euro will lose its footing once again). Apart from that, the earnings season kicks into high gear this week, with more than 125 S&P500 companies reporting. On the economic calendar, the focus in the US will be on a number of housing reports, starting today with the July NAHB homebuilders index, followed by June housing starts and permits on Tuesday, as well as existing home sales on Thursday. Fed Chairman Bernanke's semiannual testimony will also be a key event as markets attempt to discern any wavering in his confidence that the US economy will not double dip, and at the same time, look for any indications of further extraordinary moves by the Fed.

	<u>Direction</u>	<u>View</u>
EUR/USD	↔	The Euro finished the week considerably higher against the greenback, with the EUR/USD pair attaining highs of 1.3008 on Friday. The successful Portuguese and Spanish bond auctions proved that, at least for now, troubled borrowers could tap capital markets for funds. Nevertheless, given the empty week of economic events, any substantial shift will be a consequence of the results of European stress tests. Friday will be the day that the results on 91 European banks are to be revealed. Hence, it would certainly be interesting to watch if the Euro's recent rise may be reversed once the results are out. Lift above 1.2950 will set bulls on firmer footing towards 1.3010.
GBP/USD	↔	The flight to safety saw the GBP/USD ending at about 1.5298 on Friday after the pair hit highs of 1.5472 in the week. The main catalyst for support has been more solid economic fundamentals. The jobless rate fell to 7.8% in the three months to the end of May, and the number of Britons claiming benefits fell in June by 20,800 to 1.460 million people - the fifth successive monthly drop and the lowest level for 15 months. This week, the June retail sales report and the reading for second quarter GDP will be the key economic numbers to watch. Expectations for more positive fundamental signs and the results for the European bank stress test could see the same themes dictate direction. Some support sits at 1.5230 before major support at 1.5100. Major resistance seen at 1.5530.
AUD/USD	↓	Our short-term bias for the AUD/USD currency pair is unclear as mixed sentiment and intensely choppy price action makes it difficult to establish any short of conviction. Yet, we have seen pressure from the fact that China's level of activity has cooled more than expected; and the support for further interest rate hikes domestically continues to diminish. This week, given the relatively empty economic calendar, trades in the AUD/USD will likely tag along with broader financial market sentiment; and we think that the high-yielding currency may trend lower going into the end of the week as markets scale back their appetite for risk.

	<u>Direction</u>	<u>View</u>
NZD/USD	↔	NZD/USD ended the week little changed, printing a 0.7105 at the closing bell on Friday. In fact, expectations for a rate hike at next week's RBNZ meeting had pushed the pair to a two-month high, before prices witnessed a reversal amid the sharp downturn in risk sentiment. Whilst positive earnings could set the stage for a recovery in sentiment and place the currency pair back around recent-highs, we are also mindful that the upcoming results from the stress test on European banks on July could potentially see its strength being eroded. NZD/USD moving with support at 0.7000 and rallies above 0.7200 being capped; 0.6900 is seen as a stronger support.
USD/SGD	↔	Against a low of 1.3739 during the Asian session on Friday, USD/SGD surged as high as 1.3790 in the London/NY session and remained biased higher this morning following the weaker-than-expected earnings announcements in US last Fri. Asian currencies including SGD are likely to see less support from the RMB ahead as the economic data released last week confirmed a moderating growth momentum in China. That will remove some of the pressure on the PBoC to appreciate the currency by a sharper pace in the near-term. For this week, a heavier earnings reports schedule will likely contribute to more choppiness in USD/SGD. Strong support for the pair is expected at 1.3700 whereas the upside is likely capped at 1.3900.

Disclaimer: This analysis is based on information available to the public. Although the information contained herein is believed to be reliable, UOB Group makes no representation as to the accuracy or completeness. Also, opinions and predictions contained herein reflect our opinion as of date of the analysis and are subject to change without notice. UOB Group may have positions in, and may effect transactions in, currencies and financial products mentioned herein. Prior to entering into any proposed transaction, without reliance upon UOB Group or its affiliates, the reader should determine, the economic risks and merits, as well as the legal, tax and accounting characterizations and consequences, of the transaction and that able to assume these risks. This document and its contents are proprietary information and products of UOB Group and may not be reproduced or otherwise.