UOB Economic-Treasury Research
Company Reg No. 193500026Z

Lee Sue Ann Lee.SueAnn@UOBgroup.com

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Weekly FX Focus

31 October - 04 November 2011

The market euphoria seen on Thursday pretty much cooled off on Friday as investors took a closer look at the Eurozone debt crisis bailout plan and questioned if the Europe can really walk everything that they talked about. For this week, the focus will be on the policy decisions of the RBA (Tuesday), Fed (Wednesday) and the ECB (Thursday) but headlines from the European sovereign debt situation will continue to dictate market sentiment. The week ends with the three-day G20 Summit starting on Thursday and ending into the weekend.

Week Ahead at a Glance		
	Direction	View
EUR/USD	↔	Following the EU summit, a relief rally has been evident, with EUR/USD trading up to highs of 1.4247. For us, the package should be seen as a progress forward. Indeed, the enhancement of the EFSF by creating a EUR1tln firewall is aimed at preventing the spread of panic to vulnerable, bigger but still-solvent states; whilst the plan of recapitalizing the banks is aimed at restoring confidence and protecting European banks' balance sheets to ensure that they can get on with the business of lending. Hence, it would be true to say that whilst the latest measures may have only helped to temper some of the symptoms (and have certainly not cured Europe's illness on a whole), they are more enduring this time and have certainly bought European leaders some more time. Nonetheless, we do note that the "Comprehensive Plan" unveiled is still lacking a lot in details. Please refer to flash note entitled: Euro Summit – Taking a closer look at the "Comprehensive Plan". As we await for more details, key events to keep a close watch on is the G20 meeting (3 November) in Cannes, France; followed by the ECOFIN Council Meeting (8 November). This week, the ECB rate decision is also due. Thursday's meeting ushers in the era of the new ECB president, Mario Draghi. And while he is not expected to change the policy rate of 1.5%, markets are likely to follow closely his comments especially those relating to the European sovereign debt situation and the role of the ECB in this crisis. On EUR/USD, we think that the pair should consolidate within the 1.4020-1.4250 region. Next target in an optimistic market is the 1.4400-level. Strong support seen at 1.3900.
GBP/USD	↓	GBP/USD has fallen considerably, now trading around the 1.5990 levels. Not surprising, given that recent readings on the economic front were hardly encouraging. This week, the most important release will be third quarter growth readings, which will be rolled out on Tuesday. The British economy is expected to see slower economic growth at a pace of 0.4% yoy, down from 0.6% in the second quarter. Separately, September consumer credit figures and October housing data will also be due in the week. A rebound in the GBP/USD seems unconvincing, with risks still skewed to downside towards major support at 1.5895.
AUD/USD	↓	The most important event coming out of Australia would be the RBA meeting on Tuesday. It appears that the Bank is becoming increasingly dovish, with concerns about the pullback in Australian growth and on the labour market. Furthermore, inflation seems less of a concern than was the case a few months ago. Hence, although the Australian dollar was the best performing currency (climbing more than 3 percent against the US dollar in the past week), it still remains very much dependent on interest rate expectations, and continue to remain anchored to risk sentiment trends. We believe though that it may be premature for RBA to cut rates especially when Europe just released the plan to resolve their sovereign debt crisis and therefore we expect RBA to remain on hold for this week. Other key data this week include the September retail sales report, including quarterly ex-inflation numbers), as well as the RBA's Quarterly Statement of Monetary Policy. We see more short-term downside to come unless we see a rapid return to the 1.0765-handle. Major support sits at 1.0400.

Week Ahead at a Glance		
	Direction	View
NZD/USD	↔	The RBNZ kept the cash rate at 2.5% at its October meeting. However, in comments following the decision, Governor Alan Bollard suggested rate hikes could come sooner rather than later. He said the rebuilding efforts from the Christchurch earthquake is expected to provide significant impetus for demand, and added that the a gradual rise in domestic price pressures will require higher interest rates as price growth continues to hold above the 1 to 3 percent target range. That said, we see the central bank staying pat for now as global growth weakens and global uncertainties increase. As for the NZD/USD, the currency pair was seen advancing to a fresh monthly high of 0.8243 and it looks like there is scope for the high-yielding currency to appreciate on the back of expectations for higher rates. This week on the economic docket, focus will be on 3Q labour market data, expected to show a 0.6% rise in employment alongside an unemployment rate of 6.4%. Range of 0.7980-0.8345 seen as the region the NZD/USD should trade in the interim.
USD/SGD	↔	SGD strengthened 2.5% last week to 1.2426/USD, in a volatile week that saw the USD/SGD pair hitting high of 1.2777 on Monday, and then plunging to low of 1.2392 on Thursday. For the week ahead, USD/SGD movements are likely to be again dictated by developments in global markets, especially with Eurozone's latest plan dissected and digested over the weekend, as well as upcoming central bank meetings and key data releases from US. On domestic front, Singapore's PMI for Octiober will be out late Tuesday evening. This morning, SGD NEER has traded to marginally above the mid-point, having been skimming about the midpoint on Friday. We expect USD/SGD pair in a range of 1.2350-1.2650 this week.
USD/MYR	↔	USD/MYR has slipped below 3.05 this morning from Friday's close of 3.0663 as plans to contain the European debt crisis lifted risk appetite. MYR has appreciated 2.7% against USD over the past week, its biggest weekly gain since Dec 2008. For this week, we could see some paring back of the gains ahead of key data releases in the US. Interventions from Bank Negara were also reported this morning. That could see USD/MYR in a range of 3.09-3.04 for this week.
USD/CNY	↔	RMB last week rose along with other risky assets, in response to the EU-phoria from EU's latest rescue plan last Wed. In all, RMB gained 0.4% for the week to 6.3588/USD, helped along by the daily fixings at another record high by Fri at 6.3290/USD, or a gain of 0.5%. Political pressures on the RMB saw some relief last week, with the US House Ways and Means Committee hearing indicating that it would not pursue a punitive currency bill passed by the US Senate two weeks earlier. Nevertheless, tension remains as the Committee has highlighted trade issues while the semiannual US Treasury report on foreign exchange has passed its mid-Oct deadline. Aside from that, broad sentiment may turn cautious ahead of key data releases (US ISM, nonfarm payroll, PMI reports in Asia), while RBA, Fed, and ECB decisions await, with G20 summit wrapping the week. China's PMI (NBS version) is due Tue morning, and should continue to hover in the expansion zone vs. 51.2 in Sep, on the back of the surprise jump in prelim HSBC PMI for Oct back above the 50 mark. Both these data suggest risks of China's "hard landing" are still relatively low at this juncture. On the currency front, RMB has gained by about 4% YTD vs. the USD, and we do not expect significant deviations from the usual 3-5% annual appreciation for the currency. This is further reinforced by Premier Wen Jiabao's recent comments about "fine tuning" policy, which actually raises probability of loosening (i.e. interest rate, RRR, and may be even exchange rate) ahead. We are maintaining our forecasts for USD/CNY unchanged at 6.30 at end-2011 and 6.05 at end-2012.

URL: www.uobgroup.com/research
Email: EcoTreasury.Research@UOBgroup.com