

Friday, 03 September 2010

# Global Markets

## Foreign Exchange Rates (as at 02 Sep 2010)

	As at 03 Sep	Asian High	Asian Low	NY High	NY Low
JPY	84.34	84.55	84.07	84.46	84.00
EUR	1.2810	1.2822	1.2776	1.2848	1.2789
GBP	1.5394	1.5450	1.5374	1.5417	1.5350
CHF	1.0132	1.0185	1.0109	1.0159	1.0097
AUD	0.9100	0.9093	0.9055	0.9122	0.9071
NZD	0.7143	0.7154	0.7099	0.7179	0.7131
CAD	1.0533	1.0547	1.0513	1.0556	1.0471

## Interest Rates

	Current	Next CB Meet	UOB's Forecast
USD Fed Funds Rate	0.25%	21 Sep	0.00-0.25%
EUR Refinancing Rate	1.00%	07 Oct	1.00%
GBP Repo Rate	0.50%	09 Sep	0.50%
AUD Official Cash Rate	4.50%	07 Sep	4.50%
NZD Official Cash Rate	3.00%	16 Sep	3.00%
CAD Overnight Rate	0.75%	08 Sep	1.00%
JPY Official Cash Rate	0.10%	07 Sep	0.10%

## Stock Indices (as at 02 Sep 2010)

	Closing	% chg
Dow Jones Industrial Average	10320.10	+0.49
S&P 500	1090.10	+0.91
NASDAQ Composite	2200.01	+1.06
Tokyo Nikkei 225	9062.84	+1.52
London FTSE 100	5371.04	+0.09
Frankfurt DAX	6083.85	+0.00
All Ordinaries	4563.00	+0.80

## Commodities (as at 02 Sep 2010)

	Closing	% chg
NYMEX Crude (October)	75.02	+1.50
Comex Gold (September)	1251.5	+0.42
Reuters CRB Index	271.15	+0.98

## Bond Yields (as at 02 Sep 2010)

	Closing	Net chg
US 2-Year Bond	0.50%	-1
US 10-Year Long Bond	2.63%	+5
JP 10-Year JGB	1.12%	+9
EU 10-Year Bund	2.28%	+6
UK 10-Year Long Gilt	2.96%	+3

## Key Events

Date	Event
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## News Highlights

- US equities rose yesterday following better-than-expected data releases from pending home sales, same-store retail sales and factory orders.** The DJIA climbed 50.63 points (0.49%), to 10320.10. The Nasdaq Composite advanced 23.17, or 1.06%, to 2200.01. The Standard & Poor's 500 index gained 9.81, or 0.91%, to 1090.10. The August retail monthly sales reports which rose 3.3% (consensus 2.5%) played a role in the equity rise.
- The USD lost ground yesterday as risk appetite continued to return to the market on the back of the upbeat assessment of the European economy by Trichet and an unexpected rise in pending homes sales.** The EUR/USD was up to 1.2825 from 1.2808 whilst the USD/JPY was down 84.27 from 84.45 ahead of the US employment report for August out today. Trichet's remarks initially pushed the EUR/USD to a session high of 1.2849 from the 1.2800 area prior to the press conference, before trading back to the 1.2800 area. A similarly pattern was seen in the EUR crosses, with EUR/GBP spiking to a session high of 0.8347 from 0.8320, before trading back to 0.8330. EUR/CHF rose as high as 1.2995 from 1.2960 at the start of the press conference, but had lost all of its gains by 10:15am. The euro was also boosted by the better than expected Spanish bond auction which managed to sell EUR3.3bn of 5yr bonds (1.63 times bid-to-cover) at average yield of 2.864% compared to 3.66% last auction. The GBP/USD fell to 1.5402 from 1.5452 and EUR/GBP was up 0.83260 from 0.82880 after worse-than-expected UK housing data. Separately, the Swedish krona hit a more-than two-year high against the euro after Sweden's central bank Thursday raised its key interest rate for the second time in a row.
- Key economic data releases:** EU PMI - Services (Aug F) (consensus 55.6; previous 55.6); EU PMI - Composite (Aug F) (consensus 56.1; previous 56.1); UK PMI - Services (Aug) (consensus 52.9; previous 53.1); EU Retail Sales (Jul) (consensus 0.2% m/m, 0.6% y/y; previous 0.2% m/m, 1.2% y/y); US Non-Farm Payrolls (Aug) (consensus -100K; previous -131K); **Private Non-Farm Payrolls (consensus: 46K, previous: 71K)**; US Unemployment Rate (Aug) (consensus 9.6%; previous 9.5%); US ISM Non-Manufacturing (Aug) (consensus 53.2; previous 54.3)
- US Treasuries declined as expected given the latest series of better-than-expected US housing and employment data eased worries.** The 10-yr yields rose 5bps to 2.63% whilst the 2-yr yields was relatively unchanged at 0.50%. The

10-year and 30-year maturities bore the brunt of the selling, a day ahead of today US nonfarm payroll report.

- **Oil prices rose to settle higher at \$75.02/bbl from \$73.91/bbl, following the positive US data which shows some signs of economic recovery.** Gold prices was also up yesterday as some level of risk aversion set in ahead of the US non-farm payrolls data. The Sep Comex gold futures contract closed at \$1251.5/oz from \$1246.3/oz.
- **The ECB left its benchmark interest rate unchanged today at 1.0%, in line with consensus expectations.** The interest rate corridor was also left unchanged, with the overnight deposit rate at 0.25% and the marginal lending rate at 1.75%. The decision was unanimous. In the accompanying press conference statement, ECB President Jean-Claude Trichet said that "recent economic data for the euro area have been stronger than expected, partly owing to temporary factors" and "the recovery should proceed at a moderate pace, with uncertainty still prevailing."
- **The September 2010 ECB staff projections revised GDP for 2010 to 1.4%-1.8% from a previous 0.7%-1.3% and 2011 to 0.5%-2.3% from a previous 0.2%-2.2%.** Trichet added that "the risks to this improved economic outlook are slightly tilted to the downside. In addition to the decision on interest rates, the ECB announced that it was continuing a set of non-standard measures. "The governing council has today also decided to continue to conduct its main refinancing operations (MROs) and its special-term refinancing operations with a maturity of one maintenance period as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of this year's twelfth maintenance period on 18 January 2011. Trichet warned against drawing any inferences about monetary policy. Specifically, he said that decisions on non-standard measures are independent of decisions on interest rates, "it is a separation principle." Moreover, "there is absolutely no signal of monetary policy in this technical decision" and "the governing council has no intention to signal a change in the current interest rate, which we deem appropriate." Based upon Trichet's comments today, which hinted at a more hawkish stance, the ECB is nonetheless expected to keep interest rates on hold into 2011.
- **Spain sold EUR3.3bn euros of five-year bonds at an average yield of 2.964%, compared with a yield of 3.657% at an auction on July 1 (yield on the secondary market of 3.045% yesterday).** Demand was 1.63 times the amount sold, compared with the bid-to-cover ratio of 1.7 times in July. The spread between Spanish 10-year bonds and German bunds narrowed to 177.1 bps compared with 180.9 bps
- **US initial jobless claims for the week ending August 28 eased to 473K from a revised 478K in the week prior, on consensus expectations of 475K.** Upward historical revisions offset the headline improvement, with the prior week revised to 478K from 473K. Continuing claims for the week ending August 21 fell to 4,456K from a revised 4,479K in the week prior. Upward historical revisions offset the headline improvement, with the prior week revised to 4,479K from 4,456K.
- **US pending home sales unexpectedly rose 5.2% m/m in July from a revised -2.8% m/m in June, on consensus expectations of -1.0%.** Downward historical revisions were modest and did little to offset the report's positive surprise, with June revised to -2.8% from -2.6%.
- **US factory orders rose 0.1% m/m in July from a revised -0.6% m/m in June, on consensus expectations of 0.2%.** Upwards historical revisions offset the headline disappointment, with June revised to -0.6% from -1.2%. Supporting the report was a 0.4% m/m rise in durable goods orders, from -0.2% m/m in June, taking the annual number to 9.3% y/y compared to July 2009. Orders to US factories managed a slight gain in July as a surge in demand for commercial aircraft helped offset widespread weakness in other areas. The US Commerce Department says factory orders edged up 0.1% in July, the first increase after two months of declines. But the strength came in the volatile transportation sector. Excluding transportation, orders were down 1.5%, the biggest drop in this category in 16 months. Manufacturing has been the standout performer so far in this recovery with American companies benefiting from stronger growth in China and other developing nations, which has helped offset sluggish US consumer demand.
- **US retailers turned in surprisingly strong monthly sales reports in August.** On average, retailers reported monthly same-store sales rose 3.3%, versus consensus of rise of 2.5%.
- **UK's average house prices fell by 0.9% in August — the second consecutive monthly dip after a 0.5 percent drop in July.** The Nationwide Building Society said that the 3-month rate of change fell from an increase of 1.2% in July to flat in August.
- **Spain's registered jobless total rose by 1.5% m/m in August to 3.97mn people, up from 3.91mn in July.** A total of 61,083 more people were jobless in August, down from 84,985 a year ago.
- **The Swedish central bank yesterday hiked its key interest rate by 25bps to 0.75 percent, citing a pickup in exports and an improved labor market.** The Riksbank said the rapid increase in world trade has boosted Swedish exports and investments, and that economic growth this year would be higher than previously expected — it is now predicting GDP growth of 4.1%, up from July's forecast of 3.8%.

**Economic Indicators**

<u>SG Time</u>	<u>Indicators</u>	<u>Mth</u>	<u>Actual</u>	<u>UOB Forecast</u>	<u>Mkt Forecast</u>	<u>Previous</u>
<b>02/09</b>						
0500	US Domestic Vehicle Sales	Aug	8.66	-	8.85	9.11m
0500	US Total vehicle Sales	Aug	11.46	-	11.55	11.56m
1400	UK Nat'wide Hse Pr sa m/m	Aug	-0.9	-	-0.3	-0.5%
1400	UK Nat'wide Hse Pr nsa y/y	Aug	3.9	-	4.9	6.6%
1700	EZ GDP sa q/q	2Q P	1.0	-	1.0	1.0%
1700	EZ GDP sa y/y	2Q P	1.9	-	1.7	1.7%
1700	EZ PPI m/m	Jul	0.2	-	0.3	0.3%
1700	EZ PPI y/y	Jul	4.0	-	4.0	3.0%
1945	EUR Refinancing Rate	Sep 2	1.00	1.00	1.00	1.00%
2030	US Nonfarm Productivity	2Q F	-1.8	-	-1.9	-0.9%
2030	US Unit Labor Costs	2Q F	1.1	-	1.2	0.2%
2030	US Initial Jobless Claims	Aug 28	472	-	475	478k
2030	US Continuing Claims	Aug 21	4456	-	4450	4479k
2200	US Factory Orders	Jul	0.1	-	0.2	-0.6%
2200	US Pending Home Sales m/m	Jul	5.2	-	-1.0	-2.8%
2200	US Pending Home Sales y/y	Jul	-20.1	-	-	-20.3%
<b>03/09</b>						
1700	EZ Retail Sales m/m	Jul	-	-	0.2	0.2%
1700	EZ Retail Sales y/y	Jul	-	-	0.6	1.2%
2030	US Change in Nonfarm Payrolls	Aug	-	-	-105	-131k
2030	US Unemployment rate	Aug	-	-	9.6	9.5%
2030	US Avg Hrly Earning m/m All Emp	Aug	-	-	0.1	0.2%
2030	US Avg Hrly Earning y/y All Emp	Aug	-	-	1.6	1.8%
2030	US Avg Wkly Hrs All Emp	Aug	-	-	34.2	34.2
2200	US ISM Non-Manf. Composite	Aug	-	-	53.2	54.3

**Jimmy Koh**

(65) 6539 3545

Jimmy.KohCT@UOBgroup.com

**Lee Sue Ann**

(65) 6539 3549

Lee.SueAnn@UOBgroup.com

**Saktiandi Supaat**

(65) 6539 8930

Saktiandi.Supaat@UOBgroup.com

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