

Thursday, 15 December 2011

Global Markets

Foreign Exchange Rates (as at 14 Dec 2011)

	As at 15 Dec	Asian High	Asian Low	NY High	NY Low
JPY	78.07	78.05	77.93	78.16	77.93
EUR	1.2991	1.3055	1.3016	1.3064	1.2945
GBP	1.5472	1.5496	1.5471	1.5532	1.5408
CHF	0.9529	0.9468	0.9430	0.9538	0.9440
AUD	0.9904	1.0033	0.9984	1.0045	0.9885
NZD	0.7497	0.7577	0.7542	0.7568	0.7488
CAD	1.0384	1.0350	1.0327	1.0423	1.0331

Interest Rates

	Current	Next CB Meet	UOB's Forecast
USD Fed Funds Rate	0.25%	14 Dec	0.00-0.25%
EUR Refinancing Rate	1.00%	12 Jan	1.00%
GBP Repo Rate	0.50%	12 Jan	0.50%
AUD Official Cash Rate	4.25%	07 Feb	4.00%
NZD Official Cash Rate	2.50%	26 Jan	2.50%
CAD Overnight Rate	1.00%	17 Jan	1.00%
JPY Official Cash Rate	0.10%	21 Dec	0.00-0.10%

Stock Indices (as at 14 Dec 2011)

	Closing	% chg
Dow Jones Industrial Average	11823.48	-1.10
S&P 500	1211.82	-1.13
NASDAQ Composite	2539.31	-1.55
Tokyo Nikkei 225	8519.13	-0.39
London FTSE 100	5366.80	-2.25
Frankfurt DAX	5675.14	-1.72
All Ordinaries	4249.76	-0.05

Commodities (as at 14 Dec 2011)

	Closing	% chg
NYMEX Crude (January)	94.95	-5.18
Comex Gold (December)	1584.30	-4.55
Reuters CRB Index	295.29	-3.43

Bond Yields (as at 14 Dec 2011)

	Closing	Net chg
US 2-Year Bond	0.24%	+1
US 10-Year Long Bond	1.90%	-7
JP 10-Year JGB	1.00%	-1
EU 10-Year Bund	1.92%	-11
UK 10-Year Long Gilt	2.09%	-4

Key Events

Date	Event
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News Highlights

- Today will be a pretty busy day.** Starting off in the earlier part of the European session would be the release of the Swiss National Bank's Monetary Policy Statement. No change in the Libor target is expected, but there are speculation has been rife that the Bank will lift its lower tolerance level for EUR/CHF to at least 1.2500 from the current 1.2000. On the data front, we get flash PMIs due. More importantly, Spain will be offering debt maturing in 2016, 2020 and 2021 later today. France will also be issuing bonds. In the US, we are looking out for November PPI, December Empire State, and the weekly initial claims. October TICS data will also be due, before the December Philly Fed index finishes the day off. By and large, fears about Europe continued to dominate, as markets await for S&P's decision on Eurozone sovereign ratings.
- Fitch downgraded its credit ratings on five major European commercial banks and banking groups as part of a broader review of its ratings on the largest banks in the world.** In a press release, the rating firm said it downgraded Banque Federative du Credit Mutuel, Credit Agricole, Danske Bank, OP Pohjola Group and Rabobank Group. Meanwhile, apart from risks that the EFSF may be downgraded amid large funding required in 2012; Japan, the UK, US and Canada have reportedly questioned participation in bilateral loans to the IMF, alongside the promised Eurozone EUR150bln.
- Risk aversion remains a feature for markets, as funding fears continued to resurface.** Whilst the coordinated central bank liquidity move a few weeks ago appeared to have stemmed some short-term funding fears, the approach of year-end is exacerbating funding worries further, especially when data from the Fed reveals ongoing cash draw-downs by foreign banks. This suggests that cash is being pulled out of the US as other dollar funding channels are likely to be stressed or unavailable. The major US equity indexes soaking in the red, with the Dow Jones Industrial Average sank 131.46 points (1.10%) to close at 11,823.48; the broad market S&P 500 index was down by 13.91 points (1.13%) to 1,211.82, while the tech-rich Nasdaq retreated 39.96 points (1.55%) to close at 2,579.27. The CBOE volatility index rose 2.8% to 26.13 after tumbling 17% over the previous three sessions.
- EUR/USD finally broke below the 1.3000 as hopes continued to fade.** The pair weakened as much as to a low of 1.2945 as markets sought refuge in the greenback. The US dollar also found support after the Fed refrained from boosting its easing measures this month. AUD/USD snapped

below parity as commodity prices took a tumble along with equities and risk appetite as a whole. Whilst GBP/USD moved in line lower, support resurfaced ahead of the 1.5400 level as EUR/GBP continued its descent and as the GBP is seen as a better alternative to the Euro. Furthermore, the DBRS rating agency confirmed the UK's AAA rating, citing its fiscal and monetary policy flexibility, historical track record of fiscal consolidation, and flexible markets.

- **US Treasuries were modestly softer initially after German and Italian auctions came through smoothly.** Germany's 2-year auction drew a bid-to-cover ratio of 1.4. Bids amounted to EUR5.98bln versus 5bln on offer, with the Bbk retaining 0.8bln of the security. Hence, EUR4.2bln was sold at an average yield of 0.29%. Italy's 5-year BTP auction saw a bid-to-cover ratio of 1.4 and a lower-than-expected yield of 6.47%. However, USTs climbed into the US session, despite inbound supply as equities took a tumble. The

\$13bln long bond reopening came through deadline levels at 2.925% (98.64% award at high) with a bid-to-cover of 3.05, and indirect bid of 32.4%, and a large direct bid of 21.1%. The US Treasury will auction \$12bln of 5-year Treasury Inflation Protected Securities later today, when it also will announce the sizes of three note offerings next week.

- **Commodities were hit hard in their biggest drop in almost 11 weeks as concerns continue that Europe's debt problems will erode demand for energy, metal and crops.** Gold alone fell almost 5% overnight, with the Comex gold December contract falling below the \$1600/oz mark to settle at \$1584.30/oz. Oil tumbled as well, after OPEC agreed a high output target without a clear mechanism to reduce production to defend prices. The prompt-month NYMEX crude futures contract ended more than 5% lower at \$94.95/bbl.

Economic Indicators

SG Time	Indicators	Mth	Actual	UOB Forecast	Mkt Forecast	Previous
<u>14/12</u>						
0315	FOMC rate decision	Dec 13	0.25	0.25	0.25	0.25%
1800	EZ Ind Prod wda y/y	Oct	1.3	-	2.1	2.2%
1800	EZ Ind Prod sa m/m	Oct	-0.1	-	0.0	-2.0%
2130	US Import Pr Ind m/m	Nov	0.7	-	1.0	-0.5%
2130	US Import Pr Ind y/y	Nov	9.9	-	10.2	10.9%
<u>15/12</u>						
1600	FR PMI Manufacturing	Dec P	-	-	47.0	47.3
1630	GE PMI Manufacturing	Dec A	-	-	47.5	47.9
1700	EU PMI Composite	Dec A	-	-	46.5	47.0
1700	EU PMI Manufacturing	Dec A	-	-	46.0	46.4
1800	EZ CPI m/m	Nov	-	-	0.1	0.3%
1800	EZ CPI y/y	Nov	-	-	3.0	3.0%
2130	US PPI ex Food & Energy m/m	Nov	-	-	0.2	0.0%
2130	US PPI ex Food & Energy y/y	Nov	-	-	2.9	2.8%
2130	US PPI m/m	Nov	-	-	0.2	-0.3%
2130	US PPI y/y	Nov	-	-	5.9	5.9%
2130	US Empire Manufacturing	Dec	-	-	3.0	0.6
2130	US Intial Jobless Claims	Dec 10	-	-	390	381K
2130	US Continuing Claims	Dec 3	-	-	3630	3583K
2200	US Net Long-term TIC Flows	Oct	-	-	62.5	68.6b
2200	US TotalNet TIC Flows	Oct	-	-	-	57.4b
2215	US Industrial Production	Nov	-	-	0.1	0.7%
2215	US Capacity Utilization	Nov	-	-	77.8	77.8%
2300	US Phil Fed	Dec	-	-	5.0	3.6

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