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Weekly FX Focus

04-08 January 2010

Although stocks on Wall Street had ended the final trading session of 2009 in negative territory, the three major indices closed not far away from their highest levels of the year. Indeed, equities have performed impressively since the 2009-March lows. In FX land, the greenback ended the year mostly higher against the major currencies. We are careful about reading too much into the recent dollar strength and expect that 2010 promises a fair bit of volatility. Whilst the Euro and Sterling could be lacking in direction, we could see the higher-yielding currencies – Aussie and Kiwi – coming back.

This week, a raft of data is expected from the US, but the key release will be Friday's December non-farm payroll, where it would be important to reaffirm that November's numbers were not a one-off and the trajectory is in a more positive direction. Another key event for the week would be the FOMC minutes from the December 16 meeting – due on Wednesday. Even though the Fed has seen the economy improve, it has not really changed the language in its statement which says it will keep rates on hold for an extended period. Hence, it will definitely be interesting to keep watch on how long the Fed thinks "extended" might be.

	Direction	View
EUR/USD	↔	Much has been spoken about the recent behaviour of the Euro – whether this is a real shift in the trend or just a correction. We feel that this is highly debatable given that thin liquidity in the market during year-end tends to exaggerate fluctuations. Besides Friday's US non-farm payroll numbers, a slew of data releases from the Eurozone due in the latter part of the week should set tone for the EUR/USD. The final release of Eurozone Q3 GDP is expected on Friday (consensus: 0.4% q/q and -4.1% y/y) while a whole lot of other surveys of confidence and retail sales will be rolled out as well. We see EUR/USD extending its consolidating trend. Major support sits at 1.4150; strong resistance seen at 1.4400.
GBP/USD	↔	Apart from the heavy UK data this week, the Bank of England will be in focus. We are predicting no change in the policy, though support may be seen for the GBP/USD should policymakers highlight further signs of an imminent recovery in the UK. Slip below the 1.6000-level will expose deeper pullback and target deeper support at 1.5830. Lift above 1.6230 will see bulls raging higher towards 1.6410.
AUD/USD	↔	Support was evident for the AUD/USD in the last two weeks. The pair attained highs of 0.9009 on Wednesday last week before settling at 0.8975 on the final trading day of 2009. With no major domestic data this week to influence the AUD/USD, the pair will likely take cues from the external environment and on commodities. We are looking for range-bound trades in the pair this week with support at 0.8850 and rallies above 0.9100 being capped.

	Direction	View
NZD/USD	↔	The New Zealand data calendar is looking relatively light this week. We expect trades in the NZD/USD to move in line with the AUD/USD. A sustained move above the 0.7291-highs (captured last week) will revive the bigger upmove though that seems pretty unlikely for now. Major support for the currency pair seen at 0.7080.
USD/SGD	↔	This morning's GDP data did little to shift the SGD NEER. Singapore's 4Q and full year GDP advance estimates were largely expected, but no less disappointing, with a reversal in q/q saar growth. Singapore's 4Q GDP grew 3.5% y/y, but contracted 6.8%, following the growth spurt of 14.9% q/q saar in the 3Q and 21.6% in the 2Q. SGD NEER hovered at around 2% above the mid-point, corresponding to a range of about 1.399-1.405. This week should see the USD/SGD trading in range with relatively few external cues to guide direction.

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