



UOB Economic-Treasury Research
Company Reg No. 193500026Z

Lee Sue Ann Lee.SueAnn@uobgroup.com

Weekly FX Focus

08-12 February 2010

Monday, 08 February 2010

Apart from the ongoing debt crisis in the Eurozone, the big news last week was, of course, the US jobs report which was released last Friday. It was clear that markets weighed on the mixed numbers – the unexpected loss of 20,000 non-farm jobs in January, instead of the 15,000 gain expected against the unemployment rate having eased to 9.7% from 10.0% in December. So, while some were discouraged by the negative revisions to past statistics, others cheered an unexpected decline in the unemployment rate.

This week, the US economic docket is pretty light; and so, the dollar's broader trend will be dictated by the direction of risk appetite. Among the few drivers that can have a meaningful effect are the Fed's testimony before congress on the Fed's plans to unwind stimulus (on Wednesday) and the first readings of 4Q GDP numbers for the European region (on Friday). Other indicators like retail sales, the University of Michigan consumer confidence survey and trade balance numbers coming out of the US are likely to play some role as well.

Week Ahead at a Glance		
	Direction	View
EUR/USD	↓	EUR/USD finished the week substantially lower against the dollar. The ongoing budget deficit crisis in Eurozone member Greece grew beyond its borders, causing a substantial widening in sovereign bond yield spreads for countries such as Portugal and Spain. Meanwhile, the ECB left its benchmark rate at a record low 1.0% and President Jean-Claude Trichet signaled the bank is in no rush to raise borrowing costs as the economy recovers gradually from its worst recession since World War II. Economic data releases this week will likely take a backseat to broader financial market activity, but it may be important to watch any surprises in upcoming Q409 GDP numbers due on Friday. Any upside surprises could give the EUR/USD a much-needed boost. Some support sits at 1.3550 before major support at 1.3400. Major resistance seen at 1.3880.
GBP/USD	↓	GBP/USD tumbled in the past week as markets are mindful that (apart from the Eurozone) the UK has debt problems on its own as well, along with political uncertainty ahead of the general election in June. The overall risk aversion backdrop shadowed the BoE's rate decision where policymakers left the benchmark interest rate at 0.50% and paused the asset purchase program at 200 billion pounds. Nevertheless, the BoE has made it clear that it has refused to rule out revisiting QE, leaving the option open to buy more as members gauge the health of the country's recovery. We think that the central bank will likely, for now, undertake a "wait and see" approach. The upcoming BoE quarterly inflation report will be the focus, along with trade balance and industrial production numbers. We see the GBP/USD moving with support at 1.5510 and rallies above 1.5755 being capped; 1.5380 is seen as a stronger support.
AUD/USD	↓	AUD/USD fell after the RBA unexpectedly left interest rates unchanged on Tuesday last week. RBA Governor Glenn Stevens said that "keeping borrowing costs unchanged at the central bank's first meeting since December 1 allows policy makers to judge the impact on consumers and businesses of previous increases". The pause at 3.75% also comes amid signs that global credit conditions "remain difficult in the major countries as banks continue to face loan losses associated with the period of economic weakness", he said. Indeed, concerns about the pace of the global recovery have also increased speculation that policymakers in the US and Europe are not likely to raise borrowing costs anytime soon. This week, the key Australian data to be watching out for would be January's labor market figures. Expectations are for the economy to gain 15,000 jobs with the unemployment rate to edge slightly higher to 5.6%. A worse-than-expected outcome may set off a considerable sell-off. AUD/USD to trade the trend but will need another big leg down to threaten the 0.8570-level.
NZD/USD	↓	The New Zealand dollar will be defined by underlying risk appetite. Just last week, markets' perception of the Kiwi economy and its currency was shaken by the latest unemployment rate, which soared to 7.3% in the fourth quarter from 6.5% previously – the highest level in more than 10 years. The surprise surge in the unemployment rate sent the NZD/USD to the doldrums and has also prompted markets to bet that the RBNZ will have to delay a planned mid-year rate increase. Earlier this morning, Reserve Bank Governor Alan Bollard said that last week's employment report was "not all bad news" because it showed there was only a small number of jobs lost and a big increase in people wanting to get into the workforce. Bollard said that this confirms that the economy is fragile but not in worse shape than expected. This week, the economic docket (4Q retail sales, credit health, home sales and business activity) should provide us with more clues on how the New Zealand economy is faring and fine tune the expectations for interest rate hikes in New Zealand. We expect bias to the downside still - lift above 0.6950 will set bulls on firmer footing, with major support sitting at 0.6730.
USD/SGD	↑	The softness in the SGD and the Asian currencies look likely to persist in the week ahead, with negative sentiment on Greece's debt woes and contagion risk weighing. The sharp pullback in risk appetite will see the USD gaining, unless the Eurozone manages to find a way to soothe investors before Apr when the country has to refinance EUR20 bn of debt. The S\$NEER has moved down to around 1.5% above the mid-point, corresponding to USD/SGD at around 1.42, based on current levels. With the sharply lower S\$ index level, the range for now is likely to have shifted lower, to 0.5%-1.5% for now, which implies a USD/SGD range of 1.4200-1.4340.

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 the reader is 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.