

Weekly FX Focus

30 November - 04 December 2009

US financial markets had wrapped up early on Friday after being closed on Thursday for the Thanksgiving Day holiday. Unfortunately, markets were rattled by a fresh round of panic in the latter part of the week, as a combination of the lightened post-US holiday trade and news that Dubai is seeking a six-month standstill on its debt, weighed on sentiment.

The week ahead promises a fair bit of volatility, for both FX and equity markets. Markets are certainly waiting for further details on Dubai's restructuring program, which blew a chill across riskier assets globally and sent markets into the safe haven of the US dollar and bonds. Besides, the week is also busy with economic data from the US. Central banks are also in focus this week with RBA's monetary policy decision on Tuesday and the ECB's on Thursday.

Week Ahead at a Glance		
	Direction	View
EUR/USD	↔	The Dubai debt problem saw risk aversion dominating markets on Friday, sending the EUR/USD down to lows of 1.4828 on Friday, before picking up some of its losses to settle at 1.4987. Whist markets are waiting for more details on the Dubai crisis, Luxembourg Prime Minister Jean-Claude Juncker (who chairs a group of euro-area finance ministers) had over the weekend said that the Euro area does not face a default problem connected with the situation in Dubai. In the coming week, of interest to markets will be the ECB's monetary policy meeting on Thursday. What will be more important, besides the interest rate decision (which is widely expected to show no changes) will be Trichet's monetary policy press conference. Not only do we expect policymakers to unveil a blueprint of the ECB's exit strategy, but also the governing council decision in terms of the upcoming December 12-month repo operation. On the data side, the first estimates of Eurozone Q3 GDP will be rolled out on Thursday; but for now, the focus will be on Monday's HICP estimate for November, expected to see a move up to 0.4%/y/y from October's -0.1%/y/y. Elsewhere, the Eurogroup Finance Ministers will meet together on Tuesday. Range of 1.4850-1.5150 eyed for the EUR/USD.
GBP/USD	↔	GBP/USD captured highs of 1.6746 on Wednesday but tumbled to as low as 1.6273 on Friday on Dubai's move to reschedule its debt. Some support was seen for the GBP in the earlier part of last week after numbers showed that the UK economy contracted less than initially estimated in the third quarter. The British economy shrank by 0.3% in the third quarter, less than a previous estimate of a 0.4% contraction. Still, it has been reported that Chancellor of the Exchequer Alistair Darling will lower his forecast for economic output this year when he presents his pre-budget report on December 9, according to a government official. The official said that Darling's report will show GDP falling 4.75% in 2009, compared with the 3.5% drop forecast seven months ago. Meanwhile, Bank of England Governor, early last week, told lawmakers that the UK faces "profound challenges", and the Bank may consider buying greater quantities of assets other than gilts, policymaker Adam Posen said on the same day. We look for further volatility in the GBP ahead of the next mpc meeting (scheduled for December 10). This week, Tuesday's Nationwide house price index for November is expected to remain unchanged at 0.4% m/m while November's manufacturing PMI is expected to show further expansion with a rise to 54.0 from 53.7 previously.
AUD/USD	↔	The focus will clearly be on the RBA's rate decision on Tuesday. While there are expectations that the RBA might move rates upwards by 25bps for the third consecutive time, we are, expecting rates to stay on hold at 3.50%. A rate hold in December and no monthly policy meeting in January should provide sufficient time for the RBA to assess the impact of the two rate hikes on the economy. Consequently, we expect the RBA to begin hiking again in February. Apart from that, retail sales and building approvals are the key data this week. More risk aversion would see the risk of the AUD heading south after the pair slipped to lows of 0.8947 last Friday. Good support sits at the 0.9000-figure.

NZD/USD	↔	It is going to be another quiet week for New Zealand. We look for trades in the NZD/USD to move in line with the AUD/USD, though we bear in mind that trades may be subjected to risk aversion and ongoing concerns about the NZD's strength could see gains in the pair a tad hesitant. Strong support at 0.7050.
USD/SGD	↑	USD/SGD surged to a high of 1.3933 on Friday from a low of 1.3780 on Wednesday as news of Dubai's debt crisis unfolded. The pair looks likely to continue trading within a broad range, as incoming news about the issue weigh on sentiment. We might likely see some pullback on the SGD as markets turn jittery and pile into the USD. On the trade-weighted basis, SGD is just slightly lower, at 1.1% above the mid-point this morning, compared to around 1.2% in the prior week. This implies a range of around 1.3790-1.3900, based on current currency levels.

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