

Weekly FX Focus

18 - 22 April 2011

The coming week is shortened by the Good Friday holiday. In the US, the economic docket is focused on the housing market, including the NAHB homebuilders index today, expected to come in unchanged at 17.0. Housing starts and permits will be out on Tuesday and existing home sales on Wednesday. Markets are looking for existing sales to rise 2.5% to 5.00m after a steep fall in February. Thursday's releases will round off the week. Weekly jobless claims will be the key release, although markets are looking for most of the increase to be taken back with a 19k decline to 393k. Continuing claims should ease slightly to 3.678m. Separately, the April Philly Fed is expected see a print of 38, whilst March leading indicators should rise 0.3%, slowing from February's 0.8% increase. Finally, yet more housing data with February FHFA house prices to remain under pressure with a 0.2% decline. On the earnings front, about 110 S&P500 companies are due to report the results (including 10 Dow components) this week. As far as speakers are concerned, Monday will see Fed's Fisher speak on the economic outlook and Bullard comment on banking rules. There are no other Fed speakers scheduled for the rest of the week.

Week Ahead at a Glance		
	Direction	View
EUR/USD	↓	The Euro succumbed to sovereign debt fears following another Irish downgrade (by Moody's to Baa3) and continued Greek restructuring, which saw the EUR/USD pair falling to lows of 1.4390 on Friday. Whilst the 1.4500-level will be tested yet again, with interest rate expectations falling back, we should see a bias to the downside this week. Prices should tuck well below the 1.3500-handle, with 1.3300 the more immediate comfort level. As far as economic data is concerned, the week is dominated by surveys. First up, the flash estimate of the EU Commission's consumer confidence indicator for April will be published on Monday. Meanwhile, flash estimates of the aggregate Eurozone sectoral PMIs for April are due on Tuesday. Markets will also pay attention to the German Ifo business climate survey slated for release on Thursday.
GBP/USD	↓	This week, the spotlight will be on the publication of minutes from the BoE's April policy meeting, which should provide further insight on the BoE's thinking. Interestingly, inflation figures showed price growth slowed for the first time in six months in March. Hence, it would be interesting to note the voting pattern of the rate-setting MPC committee along with comments from the various camps. It is unlikely the pair will gain significant traction, especially if the minutes reveal a 6-3 vote accompanied by no change in underlying rhetoric.

Week Ahead at a Glance		
	Direction	View
AUD/USD	↔	The minutes of the April's monetary policy meeting will be rolled out on Tuesday, and that should receive some attention. Despite the RRR hike from the PBoC over the weekend, the AUD/USD continues to hold well above the 1.05 level. Whilst the Aussie continues to benefit from the highest short-term interest rate of any G10 currency, RBA officials have shown little urgency in raising interest rates further and are likely to cite an exchange rate at record-highs as sufficient to contain price pressures. With little data on the Australian calendar this week, the AUD/USD will continue to be driven by external factors, with temporary concerns in the Eurozone periphery potentially a downside risk for the pair.
NZD/USD	↔	New Zealand sees a light flow of data this week as well. This morning, we saw the release of 1Q11 CPI, which showed inflation rising 0.8% in the first quarter from the previous three months, when they advanced 2.3%, less than estimated. The latest numbers do back Finance Minister Bill English's view that price gains are not a problem and thus allowing the RBNZ more room to keep interest rates low. Expect the NZD/USD to track the AUD/USD; any surprises in either direction could force substantive volatility in the pair.
USD/SGD	↔	SGD continued to strengthen against the USD on Friday, post MAS' tightening move, but given the recent run-up, gains in the local currency could be limited. The USD/SGD continues to hover below 1.25, and the SGD NEER has gone up to 1.9% above the new midpoint of the policy band, compared to 1.5% on Fri. The range for USD/SGD is expected at 1.2414-1.2475, corresponding to 1.5-2.0% above the midpoint of the new policy band.
USD/CNY	↔	China's data releases last week show that monetary policy tightening efforts over the past year have yet to lead to any meaningful dampening effect. Headline GDP growth in 1Q11, March CPI/PPI data, and new loans granted all came in faster/higher than expected. In addition, foreign exchange reserves in 1Q11 rose a total US\$197bn, largely similar to the pace seen in both 3Q10 and 4Q10. As a result, PBoC responded with a 50bps hike to the reserve requirement ratio (RRR) on Sunday, although the timing and quantum are within our expectations. However, ongoing tightening measures do not necessarily translate to faster RMB appreciation pace in response, partly due to competing interests within China in policy setting. With IMF/WB Spring Meetings out of the way last weekend and after two tightenings in just two weeks, USD/RMB is likely to stay listless this week. The next main event to watch out for would be the third round of US-China Strategic and Economic Dialogue, which will be held in May in Washington. We maintain our forecast for USD/RMB at 6.47 by end-2Q11, and 6.35 at end-2011, vs. the 6.5310 fixing this morning (central parity was fixed at 6.5301 on Friday).

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