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Weekly FX Focus
18-22 January 2010

The dollar rose against the major currencies on Friday on concerns over Greece's budget deficit and weak US economic data (indicating that the recovery in the US may not be as robust as earlier thought). These factors triggered some flight from riskier assets to the safety of the dollar. Equities were also seen posting its first weekly loss of the year.

In the week ahead, earnings will be a challenge for equities, as major banks and tech firms report, along with hundreds of other companies. This earnings season is a critical turning point since it is the first quarter in 2010 where it is widely expected to show positive profit growth on a year-over-year basis. Of course, the question, though, is whether these earnings news will be strong enough to keep the rally going or markets will see it as an excuse to take profits temporarily. Some bellwether companies reporting in the week ahead include General Electric, Citigroup, Goldman Sachs, Bank of America, Google and IBM.

Week Ahead at a Glance		
	Direction	View
EUR/USD	↔	After the ECB's decision last week to hold its benchmark lending rate unchanged and ECB president Jean-Claude Trichet's suggestion that there was no threat of medium-term inflation, interest rate considerations have been pushed into the background. We think trades in the EUR/USD will likely continue being trapped in a tight range. Apart from the January monthly report which will be released by the ECB on Thursday, the other focus for the EUR/USD this week will be PMI data for the Eurozone, released on Friday. Slip of 1.4300 will expose deeper pullback and target 1.4220 strong support. Lift above 1.4550 will set bulls back on footing towards 1.4450.
GBP/USD	↔	GBP was one of the better performing currencies last week, touching highs of 1.6355 on Friday. Trades were supported by hawkish comments from the BoE. MPC member Andrew Sentence commented that the Bank has taken sufficient measures to stimulate the economy and that an end should be brought to the current asset purchase program. This week, besides the slew of economic data releases, the major event – which may result in some volatility for the GBP – would be the BoE minutes from its January policy meeting (due for release on Wednesday). We see support still intact for the GBP/USD. The pair to test 1.6360-resistance before major resistance at 1.6500. Major support sits at 1.6030.
AUD/USD	↔	Sentiment for the Australian economy is riding high following the recent economic data releases, one of which was the employment numbers released last week (showing that payrolls grew by 35.2k workers with the unemployment rate falling to 8-month lows of 5.5%). But Friday's pullback is a clear reminder that the AUD/USD remains quite sensitive to risk appetite. Breakout risks are to the downside for the AUD/USD though we look for trades to be supported above the 0.9180-handle. Next resistance level seen at 0.9330.
NZD/USD	↔	There are quite a few economic indicators on the docket this week. At the top of the list is the CPI data for 4Q09. Central bank Governor Alan Bollard has already signaled for a rate hike from the latter part of 2010 to mid-2010. The bank's target is between 2 to 3 percent; and although the forecast for a 2.1% reading is at the lower-bound, any surprise to the upside could put a more definitive time frame on this outlook. The other two major releases are home sales and consumer spending. Besides, we may see the NZD/USD finding its own path with the help of the AUD. Trades expected to move within the 0.7280-0.7380 range; though break above opens the way to the 0.7450 figure next.
USD/SGD	↓	The SGD received a slight lift from today's encouraging domestic non-oil domestic export data, with Dec NODX up 26.1% y/y. The S$NEER moved up a tad to around 1.9% above the mid-point from 1.8% this morning, on our model. This corresponds to USD/SGD at around 1.3889, based on current levels. Our estimation is that 2.0% will be capped for now, which translates to 1.3870, based on current USD/majors levels. The focus is on the slew of Chinese data on Thursday (such as GDP, retail sales, and industrial production) which are likely to continue showing strength and that should provide support to the Asian currencies. We continue to expect range of 1.3800-1.3950 for the next few days.

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