

Weekly FX Market Outlook (16 May 2012)

Currency Pair	Market Outlook
EUR/USD	<ul style="list-style-type: none"> A break of the key 1.30 level may see further downside risks to the euro. Given the implementation risks around austerity programs, euro zone nations' funding problems and growth concerns, the common currency is likely to remain under pressure, and a sustained break below a critical support level \$1.2825 (76.4% retracement) could open the way down to \$1.2500/\$1.2600.
GBP/USD	<ul style="list-style-type: none"> Some indicators of U.K. growth have improved, but the evidence is partial (e.g. PMI data), and currency strength may be hard to sustain during economic stagnation. (GDP growth of below 1.0%) Lingering concerns about negative ripple effects spreading from Europe's debt crisis may provide a reality check for GBP, despite the U.K. currency was a surprisingly strong performer over the past month.
USD/JPY	<ul style="list-style-type: none"> Given the persistent weakness in economic performance, further expansion of asset-buying program by the Bank of Japan may be inevitable, providing a downside support for the dollar-yen pair. Meanwhile, a decisive break of 85.57 is required to indicate a long-term trend reversal and the relatively low U.S. interest rates level may cap the upside of the currency pair.
AUD/USD	<ul style="list-style-type: none"> The high-beta currency is vulnerable to the downside, if there are more signs of deterioration in Chinese activity, though expectations for more China's policy easing may have served to arrest the downward momentum in AUD/USD. Successive interest rate cuts in the face of moderate inflationary pressures make carry less attractive for global investors, capping the upside of the currency pair. Downside retracement may still be underway if the pair continues to fail to break through a key resistance zone.
NZD/USD	<ul style="list-style-type: none"> A lower inflation print and weaker domestic outlook reinforce the fact the RBNZ will leave rates unchanged at a very low 2.5% until later this year where rate hike expectations have been the main driver of kiwi's strength. Looming downside risks, which may be exacerbated by a Greek sovereign default, the exit of some EU members, Spain's debt problems or associated contagion risks, should keep a lid on the currency, with the tone skewing towards the downside.
USD/CAD	<ul style="list-style-type: none"> The shift in the BoC's policy bias is more constructive for CAD in the medium term, though it may not be likely that the central bank will start to normalize monetary policy later this year. The near-term risks are skewed towards a period of consolidation, (range between 0.9800 and 1.0050/60) as USD/CAD is unlikely to move materially lower absent a sharp rally in global equity markets and a significant improvement in economic fundamentals within the region.
USD/CHF	<ul style="list-style-type: none"> Despite the Swiss National Bank reiterated its determination to purchase unlimited quantities of foreign currency to defend the exchange rate cap of 1.20 franc per euro, the FX policy may have entered more unstable phase as the passive method of intervention may result in an unwinding of some of the large speculative longs in the EUR/CHF pair, testing the 1.20 limit consistently.
USD/CNY	<ul style="list-style-type: none"> The People's Bank of China widened the trading band for yuan against the dollar from 0.5% to 1.0%, one step closer to allow the currency to trade more freely. China's yuan may trade in range between 6.28 and 6.33, with expectations of future gains cooling to 1-2% this year amid concern over China's economic growth and speculation that the yuan is near equilibrium.

Weekly FX Summary (7 May 2012 – 11 May 2012)					
Currency Pair	Weekly Open	Weekly High	Weekly Low	Weekly Close	Medium-Term Comment
EUR/USD	1.3028	1.3065	1.2903	1.2915	EUR Underperform
GBP/USD	1.6153	1.6198	1.6060	1.6070	GBP Underperform
USD/JPY	79.75	80.07	79.41	79.92	JPY Neutral
AUD/USD	1.0152	1.0219	1.0014	1.0018	AUD Neutral
NZD/USD	0.7931	0.7973	0.7806	0.7820	NZD Neutral
USD/CAD	0.9947	1.0062	0.9920	1.0006	CAD Outperform
USD/CHF	0.9216	0.9306	0.9191	0.9293	CHF Neutral
USD/CNY	6.3150	6.3188	6.3050	6.3106	CNY Neutral

Interest Rate Views (16 May 2012)

Interest Rates	Market Views
US Federal Fund Rate	Implementation of QE3 will be highly data dependant and the Fed may continue to adopt a wait-and-see approach in providing further monetary stimulus. Regarding its interest rate policy, the Fed is likely to leave the fund rate to be near zero for extended periods. (possibly even longer than its 2014 rate pledge if data disappoints)
EZ Refinancing Tender Rate	The ECB left interest rates on hold and saw signs of stabilization in the economy despite growth risks were again seen on the downside. Markets now see the central bank remaining on hold for the foreseeable future, and a rate cut is only required if the economy and financial market conditions deteriorate sharply.
CA Target Overnight Rate	The more hawkish policy statement by the Bank of Canada reflects a more upbeat assessment of both the global and Canadian economies, stickier domestic inflation than previously forecast, though the central bank is likely to leave its main interest rate at 1% this year, extending an interest-rate pause further.
CH 3-Month LIBOR Target Range	Normalization of interest rates is not expected as a strengthening franc could exert dampening effects on domestic economic activity where growth remains sluggish within the euro zone.
JP Uncollateralized O/N Call Rate	Given that the sovereign debt problem in Europe could result in weaker growth in the global economy particularly through its effects on global financial markets and a decline in inflation expectations, the Bank of Japan is committed to continuing the virtually zero interest rate policy and more asset buying is widely anticipated.
UK Repo Rate	Given the weak global growth outlook this year, the Bank of England will stay on the interest rate sidelines for longer. The shift in the outlook for inflation may raise the bar for further quantitative easing by the BoE, while the chance of more QE later this year can't be ruled out if the global backdrop turned even weaker.
AU Cash Rate	The RBA surprised the market by announcing a more-aggressive-than-expected 50 basis point cut in its official cash rate, reflecting a benign inflation outlook and weaker domestic growth prospects. The central bank's accompanying statement was quite neutral and revealed little in terms of the outlook for the OCR and any further policy adjustment is highly conditional on some of the lingering risks, i.e. a material deterioration in conditions triggered by euro zone debt crisis.
NZ Official Cash Rate	New Zealand's central bank signaled it may keep official cash rate at a record low for much of 2012 as sustained strength in local currency keeps a lid on inflation, and creates drag on the economy. (The strong kiwi is detrimental to the tradable sector, undermining the nation's economic recovery.)
CN Benchmark interest rates	Weaker-than-expected economic data including industrial output, retail sales, new loans prompted markets to add bets that policy stance will shift more quickly toward monetary easing in the coming months to ensure stable growth. The People's Bank of China will mainly rely on RRR cuts (two to three RRR cuts are expected this year), while an interest rate cut is still unlikely in the near term.

Upcoming Central Bank Meetings						
Central Banks		Meeting	Forecast	Previous	Last Change Date	Last Move
US, FOMC	Federal Funds Rate	19-20 Jun, 12	0 – 0.25%	0 – 0.25%	16 Dec, 08	-0.75%
Eurozone, ECB	Refinancing Tender Rate	6 Jun, 12	1.00%	1.00%	8 Dec, 11	-0.25%
Canada, BoC	Target Overnight Rate	5 Jun, 12	1.00%	1.00%	8 Sep, 10	+0.25%
Swiss, SNB	3-Month LIBOR Target Range	14 Jun, 12	0 – 0.25%	0 – 0.25%	3 Aug, 11	-0.50%
Japan, BoJ	Uncollateralized O/N Call Rate	22 May, 12	0 – 0.10%	0 – 0.10%	5 Oct, 10	-0.05%
United Kingdom, BoE	Repo Rate	6-7 Jun, 12	0.50%	0.50%	05 Mar, 09	-0.50%
Australia, RBA	Cash Rate	5 Jun, 12	3.75%	3.75%	1 May, 12	-0.50%
New Zealand, RBNZ	Official Cash Rate	14 Jun, 12	2.50%	2.50%	10 Mar, 11	-0.50%

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Last Economic Indicators (7 May 2012 – 11 May 2012)

HKT	Ctry	For	Economic Indicator & Events	Actual	Forecast	Previous
7 May 2012 Monday						
1345	CH	Apr	Jobless NSA/SA	3.1%/3.1%	3.1%/3.1%	3.2%/3.1%
1515	CH	Apr	CPI MM/YY	0.1%/-1.0%	0.2%/-0.9%	0.6%/-1.0%
1800	GER	Mar	Industrial Orders MM	2.2%	0.5%	0.3%
2030	CA	Mar	Build Permits	4.7%	-2.8%	7.5%
8 May 2012 Tuesday						
0701	UK	Apr	RICS House Survey	-19	-10	-10
0930	AU	Mar	Trade Balance G&S (A\$)	-1587M	-1400M	-480M
1800	GER	Mar	Total Industrial Productions MM	2.8%	0.8%	-1.3%
2015	CA	Apr	House Starts	244.9K	202K	215.6K
9 May 2012 Wednesday						
0701	UK	Apr	BRC Retail YY	-3.3%	0.5%	1.3%
1400	GER	Mar	Exports/Imports MM	0.9%/1.2%	-0.8%/0.5%	1.6%/3.9%
2200	US	Mar	Wholesale Inventory/Sale	0.3%/0.5%	0.6%/0.7%	0.9%/1.2%
10 May 2012 Thursday						
	CN	Apr	Exports/Imports	4.9%/0.3%	-/-	8.9%/5.3%
	CN	Apr	Trade Balance	18.4B	-	5.35B
0750	JP	Mar	Current Account NSA/NSA Total	-8.6%/1589B	-/-	-30.7%/1177.8B
0930	AU	Apr	Unemployment	4.9%	5.3%	5.2%
1630	UK	Mar	Industrial Production MM/YY	-0.3%/-2.6%	-0.3%/-2.6%	0.4%/-2.3%
1630	UK	Mar	Manufacturing Production MM/YY	0.9%/-0.9%	0.5%/-1.3%	-1.0%/-1.4%
2030	CA	Mar	New Housing	0.3%	0.2%	0.3%
2030	US	Apr	Export/Import Price	0.4%/-0.5%	0.2%/-0.1%	0.8%/1.3%
2030	US	Mar	International Trade	-51.83B	-50.0B	-46.0B
2030	US	w/e	Initial Jobless Claims	367K	370K	365K
2030	US	w/e	Continued Jobless Claims	3.229M	3.278M	3.276M
2030	CA	Mar	Exports/Imports	39.49B/39.14B	-/-	39.61B/39.31B
11 May 2012 Friday						
0930	CN	Apr	PPI YY	-0.7%	-0.5%	-0.3%
0930	CN	Apr	CPI MM/YY	-0.1%/3.4%	-0.2%/3.3%	0.2%/3.6%
1330	CN	Apr	Industrial Output YY	9.3%	12.0%	11.9%
1330	CN	Apr	Retail Sales YY	14.1%	15.2%	15.2%
1400	GER	Apr	CPI Final MM/YY	0.2%/2.1%	0.1%/2.0%	0.1%/2.0%
1630	UK	Apr	PPI Core MM/YY	0.6%/2.3%	0.2%/1.9%	0.1%/2.5%
2030	CA	Apr	Unemployment	7.3%	7.3%	7.2%
2030	CA	Apr	Jobs-change	58.2K	7.0K	82.3K
2030	US	Apr	PPI MM/YY	-0.2%/1.9%	0.0%/2.1%	0.0%/2.8%
2030	US	Apr	PPX X MM/YY	0.2%/2.7%	0.2%/2.8%	0.3%/2.9%
2155	US	May	Michigan Sentiment	77.8	76.4	76.4

***Economic Terms:**

CPI	Consumer Price Index	RPI	Retail Price Index
GDP	Gross Domestic Product	MM	Month to month
HPI	House Price Index	QQ	Quarter to quarter
PCE	Personal Consumption Expenditures	YY	Year to year
PMI	Purchasing Manager Index	NSA	Non-Seasonal Adjustment
PPI	Producer Price Index	SA	Seasonal Adjustment

Upcoming Economic Indicators (14 May 2012 – 18 May 2012)

HKT	Ctry	For	Economic Indicator & Events	Actual	Forecast	Previous
14 May 2012 Monday						
0645	NZ	Q1	Retail	-1.5%/4.4%	-1.4%/4.8%	2.2%/8.0%
0750	JP	Apr	CGPI MM/YY	0.3%/-0.2%	0.1%/-0.3%	0.6%/0.6%
0930	AU	Mar	Housing Finance	0.3%	-2.0%	-2.5%
1400	GER	Apr	Wholesale Price Index	0.5%/2.4%	0.4%/2.3%	0.9%/2.2%
1515	CH	Apr	PPI MM/YY	-0.1%/-2.3%	0.3%/-1.9%	0.3%/-2.0%
1700	EZ	Mar	Industrial Production MM/YY	-0.3%/-2.2%	0.5%/-1.3%	0.5%/-1.8%
15 May 2012 Tuesday						
1400	GER	Q1	GDP Flash QQ/YY	0.5%/1.7%	0.1%/0.9%	-0.2%/1.5%
1630	UK	Mar	Trade	-8.56B	-8.40B	-8.77B
1700	EZ	Q1	GDP Flash QQ/YY	0.0%/0.0%	-0.2%/-0.2%	-0.3%/0.7%
2030	US	Apr	CPI MM/YY	0.0%/2.3%	0.2%/2.3%	0.3%/2.7%
2030	US	Apr	CPI X MM/YY	0.2%/2.3%	0.2%/2.3%	0.2%/2.3%
2030	US	Apr	Retail Sales MM / X MM	0.1%/0.1%	0.3%/0.3%	0.8%/0.8%
2030	US	May	New York Fed Manufacturing	0.3%	8.0	6.56
2200	US	Mar	Business Inventory	0.3%	0.5%	0.6%
2200	US	May	NAHB	29	26	25
16 May 2012 Wednesday						
0930	AU	Q1	WPI QQ/YY	0.9%/3.6%	0.8%/-	1.0%/3.6%
1630	UK	Mar	ILO Unemployment	-	8.3%	8.3%
1630	UK	Apr	Claim Count	-	5.0K	3.6K
1700	EZ	Apr	HICP Final MM/YY	-/-	0.5%/2.6%	1.3%/2.6%
1700	CH	May	ZEW	-	-8.0	2.1
2030	US	Apr	House Starts / MM	-/-	0.673M/-	0.654M/-5.8%
2030	US	Apr	Permits Units / MM	-/-	0.728M/-	0.764M/6.9%
2030	US	Mar	Manufacturing Sales	-	0.3%	-0.3%
2115	US	Apr	Industrial Production MM	-	0.4%	0.0%
17 May 2012 Thursday						
0645	NZ	Q1	PPI Inputs/Outputs	-/-	-/-	0.5%/0.1%
0750	JP	Q1	GDP QQ / QQ Annualized	-/-	0.9%/3.5%	-0.2%/-0.7%
2030	US	w/e	Initial Jobless Claims	-	365K	367K
2030	US	w/e	Continued Jobless Claims	-	3.235M	3.229M
2030	CA	Mar	Wholesale trade MM	-	0.3%	1.6%
2030	US	May	Philly Fed Business	-	9.7	8.5
2030	US	Apr	Lead Indicators	-	0.2%	0.3%
18 May 2012 Friday						
1400	GER	Apr	PPI MM/YY	-/-	0.3%/2.6%	0.6%/3.3%
2030	CA	Apr	CPI MM/YY	-/-	0.3%/1.9%	0.4%/1.9%
2030	CA	Apr	CPI X MM/YY	-/-	0.2%/1.9%	0.3%/1.9%

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