

Wednesday, March 17, 2010

Highlights

- **US: No surprises from the FOMC or the language in its statement.**
- **US: New currency manipulation bill presented in Congress.**
- **US:** Feb import prices at < expec -0.3% mom from downwardly revised 1.3% prev.
- **US:** Feb housing starts at < expec -5.9% mom from upwardly revised 6.6% prev, Feb building permits at stronger than expec -1.6% mom from upwardly revised -4.7% prev.
- **EZ: S&P affirms Greece's BBB+ rating but warns of any future deviation from austerity plans. Greece moved from "negative watch" to "negative outlook".**
- **EZ:** Feb CPI at expec 0.3%mo from -0.8% prev.
- **GE: Mar ZEW at > expec44.5 from 45.1 prev.**
- **GB:** Feb DCLG housing prices at > expec 6.2% from 2.9% prev.
- **AU: No upside surprise from RBA minutes, normalization of rate to continue.**
- **AU:** Jan Westpac leading index at 0.2% mom from upwardly revised 0.6% prev.
- **AU:** 4Q dwelling starts at 15.1% from upwardly revised 11.0% prev.
- **JP:** Jan tertiary industry index at > expec 2.9% from -0.9% prev, Feb machine tool orders at 217.4% yoy from 217.3% prev.
- **SK:** Feb department store sales at 15.2% yoy from 4.8% prev.
- **PH:** Jan unemployment rate at 7.3% from 7.1% prev.
- **DOW +0.41%, NASDAQ +0.67%, S&P +0.78%, Philly Semicon +2.69%.**
- **UST 2y -3.3bp to 0.91%, UST 10y -5.3bp to 3.65%, Fed Funds, Eurodollars firmer, Treasury futures higher post FOMC.**
- **VIX -1.72%, Baltic Dry -2.13%, CRB +1.02%, Apr crude +USD2.27 to USD82.07, May copper +5 cents to USD3.3650, Apr gold +1.6% to USD1,122.50.**

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Today

- **US:** Feb producer prices.
- **EZ:** Jan construction output, 4Q labor costs.
- **JP: BOJ MPC** rate decision (0630 GMT press conference), 1Q MOF business conditions survey (late Wed).
- **GB: BOE minutes**, Feb jobless claims, Jan earnings.
- **SK:** Feb unemployment rate
- **SI:** Feb non-oil domestic exports.
- **PH:** Feb balance of payments.

Major Themes

- The Fed did not shift its language towards a more hawkish tone as some had expected and kept unchanged its statement that it “continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to **warrant exceptionally low levels of the federal funds rate for an extended period**”. Thomas Hoenig meanwhile remained the sole dissenter to keeping rates unchanged.
- There were however some subtle changes in the FOMC statement, with “deterioration in the labor market” replaced by “the labor market is stabilizing”. Meanwhile, business spending on equipment and software “has risen significantly”, replacing “appears to be picking up”. On a more dovish note, the Fed noted that “housing starts have been flat at a depressed level”.
- On inflation, the Fed kept unchanged the view that “With substantial resource slack continuing to restrain cost pressures and with longer-term inflation expectations stable, inflation is likely to be subdued for some time”.
- Finally the statement also noted the gradual phasing out of its asset purchase programs and the special liquidity facilities and omitted the sentence from the previous FOMC statement which stated “The Federal Reserve is prepared to modify these plans if necessary to support financial stability and economic growth”. On our part, we think that this is a vote of confidence that financial market liquidity and stress levels have abated sufficiently from the Fed’s perspective, and is also in line with its recent discount rate hike.
- Elsewhere, the situation surrounding **Greece** (and the fiscal concerns in the EZ periphery) is brightening somewhat with S&P’s affirmation of its sovereign rating, although the rating agency warned that if there are any deviations from the fiscal austerity plan, “that would clearly put downward pressure on the rating”. Note that Greece has been removed from “negative watch” and moved to “negative outlook”.
- **US-Sino foreign exchange tensions** meanwhile are expected to continue to figure on investors map with a bipartisan effort in introducing the **Schumer-Stabenow-Graham Currency Exchange Rate Oversight Act of 2010**. This act effectively merges previous legislation and is set to have more teeth in the event of a currency misalignment. Note that **US Treasury Secretary Geithner** also noted late Tue that “Its an important issue for China, for all China’s trading partners, and I’ll say as I’ve said before. I think China will decide ultimately its in their interest to move”. An unnamed Treasury official also stated late Tue that “...China should resume appreciation of the RMB”.

Trade ideas/views

- Near term, the dollar is expected to feel the heat from the absence of a more hawkish tone in the FOMC statement. With equities and commodities on a positive gradient and the risk environment looking slightly friendlier, expect

the commodity/growth linked currencies to remain underpinned against the greenback.

- Our prior call to be **short the EUR-AUD** from 17 Feb (at 1.5263) was closed yesterday at 1.5050 with a 1.4% profit (excluding carry). We remain structurally bearish on the pair given the contrasting growth dynamics between the two regions.

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- **EUR-USD** The majors gained against the USD on Tue as the Fed disappointed hawks and kept unchanged its “exceptionally low levels of the federal funds rate for an extended period” statement after the FOMC kept rates unchanged as expected at 0.00-0.25%. Supported further by S&P’s moves on Greece, the EUR-USD also managed to rise above 1.3750 to near 1.3768 by the NY close. Ahead, we maintain a neutral stance on the pair, watching the 1.3800 resistance.
- **USD-JPY** USD-JPY had a choppy session and ended the day lower near 90.26 on a softer dollar tone. Expect the pair to remain underpinned ahead of the BOJ, with the 55-day MA at 90.55 while support is seen at 90.00
- **AUD-USD** AUD-USD stepped over 0.9180 to end NY around 0.9185 (briefly above 0.9200 early Wed) while the NZD-USD also firmed to around 0.7093 (0.7120 in early Asia Wed). In the near term, we remain looking for further potential upside in the AUD-USD, given the contrasting central bank dynamics between the RBA and the Fed. The 0.9200 resistance is seen as pivotal.
- The RBA’s Mar MPC (when it hiked by another 25bp to 4.00%) minutes did not offer any positive surprises with the central bank board members concluding that it remained appropriate for interest rates to move gradually towards normal levels. The minutes also indicated that some recent indicators suggested that growth might already have been running at or close to trend for a few months, adding that the labor market continued to firm, consumption resilient, and home building was on an upswing.
- **GBP-USD** GBP-USD led the pack higher on Tue with the GBP-USD recovering above 1.5200 to end around 1.5247. The pair leaving 1.5000 behind convincingly is encouraging from a technical perspective although fundamentals remain a bugbear in the interim. We look to a more neutral stance in the GBP pending further price action.

Asian FX

- USD-Asia was generally flat to firmer ahead of the Fed FOMC on Tue but global and emerging market sentiment overnight was boosted as the Fed largely kept its language unchanged in its FOMC statement. We look for a heavier tone for USD-SGD, which is expected in a 1.3900-1.3980 range, while USD-MYR is seen in a 3.3000-3.3150 band. Meanwhile, look for USD-IDR to drive below 9,150.

- **China:** Commerce Ministry spokesman Yao Jian stated that “If the exchange rate issue is politicized then in coping with the global financial crisis this will be of no help in coordination between parties involved”. He added that “The trade surplus is not caused by the renminbi exchange rate. The trade surplus is an outcome and phenomenon of globalization. It exist for a time”. The spokesman also said that China has been conducting foreign exchange rate stress tests for exporters and will look to expand its trial program of using the yuan for settlement. Meanwhile, foreign direct investment this year is expected to total USD90bn or slightly higher this year, in line with previous years.
- **South Korea:** The government picked Kim Ching-soo (former Presidential secretary) as the next Bank of Korea governor with markets now looking for the BOK to work more closely (termed dovish by participants) with the government to maintain an accommodative monetary policy.
- **Taiwan:** The Financial Supervisory Commission on Tue announced guidelines on investments between local and Chinese banks and financial institutions. Meanwhile, the central bank noted that its recent comments in a report to Parliament was not a hint for future movements in the currency.
- **Thailand:** The Bank of Thailand cautioned that the mass anti-government protests are starting to hurt tourism and domestic spending but this should recover if the protests are not prolonged. The central bank also added that the political situation at its next interest rate review. Meanwhile, the mass demonstration against the administration remained in a deadlock by Tue evening.

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