

Weekly FX Insight

May 14, 2012 P.1



Weekly FX Review Dollar rose on Greek political uncertainty

Key Highlights

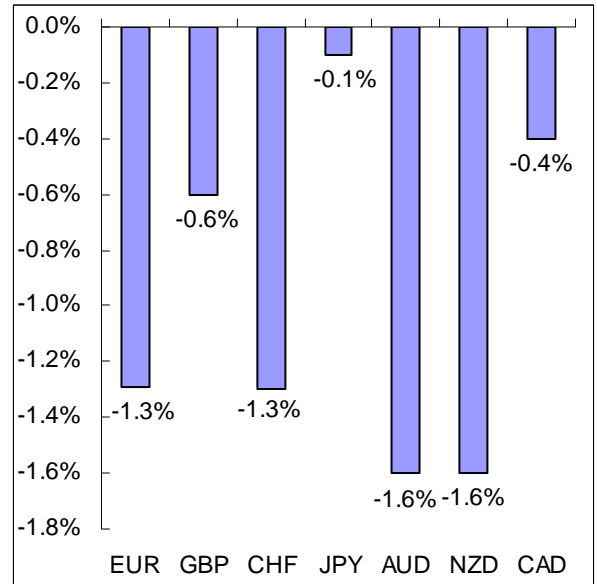
- Worsening European debt crisis and soft China data heightened market risk, lending support to the dollar
- AUD's downside was limited amid upbeat employment data from Australia and as China announced to cut the required reserve ratio for banks over the weekend
 - ◆ EUR/USD closed at 1.2917 last week, down 1.3%
 - ◆ AUD/USD closed at 1.0020 last week, down 1.6%

Source: Bloomberg L.P., as of May 11, 2012

Focus of the Week

- On Tuesday, the Reserve Bank of Australia will release the minutes of its last policy meeting. Should they signal a rate reduction, AUD would be pressured
- On Thursday, the U.S. Federal Reserve will release its last rate minutes. If they give no hint of any further easing, the dollar may be supported
- On Friday, Canada will announce the CPI figures for April. Higher inflation will likely underpin the loonie

Chart 1: Weekly changes versus US dollar



Source: Bloomberg L.P., as of May 11, 2012

Weekly Analysis Deepening EU debt crisis to weigh on EUR

Key Highlights

- As the European debt problems intensified and EUR net short positions increased significantly, EUR may weaken
- Technically, EUR/USD may test lower to 1.2624(9.80), and resistance may exist at 1.3080(10.15)

Worsening euro-zone debt crisis and weak China economic data triggered market risk. EUR may be suppressed

EUR weakness would remain during the week. As Greece failed to form a coalition government, the country may have to enter a second round of election next month. Political uncertainty will likely drag on the euro

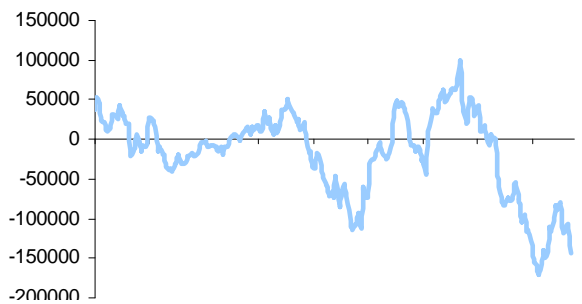
In addition, EUR net short positions have increased to 140K (chart 2). This would be euro-negative, according to past experience

Technically (chart 3), EUR/USD may test lower to 1.2624(9.80), and resistance may exist at 1.3080(10.15)

NOTE: The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.76 exchange rate for reference.

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Chart 2: Net short positions(non-commercial) on EUR (contract)



Source: Bloomberg L.P., as of May 7, 2012

Chart 3: EUR/USD Daily Chart



Source: Bloomberg L.P., as of May 11, 2012

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Weekly FX Focus (as of May 11, 2012)

AUD/USD				
Last Week Performance	Close	High	Low	Change (%)
AUD/USD	1.0020	1.0279	1.0018	-1.59%
Forecast	Support	Technical	0-3Mths	6-12Mths
ST Neutral ← → (AUD/HKD)	0.9861 (7.6521)	1.0241 (7.9470)	1.03 (7.9928)	1.00 (7.7600)

Weekly Market Focus

- AUD depreciated as equities and oil prices fell and China posted weaker-than-expected data last week. But the currency pared losses amid upbeat employment data and as China announced to cut the required reserve ratio for banks

Technical Analysis

- AUD/USD may test higher to 1.0241 (7.9470)
- The pair may find support at 0.9861 (7.6521)

NZD/USD				
Last Week Performance	Close	High	Low	Change (%)
NZD/USD	0.7827	0.8020	0.7811	-1.61%
Forecast	Support	Technical	0-3Mths	6-12Mths
ST Bearish ↓ (NZD/HKD)	0.7790 (6.0450)	0.7920 (6.1459)	0.82 (6.3632)	0.78 (6.0528)

Weekly Market Focus

- NZD was undermined as lower U.S. equities and oil prices last week heightened risk aversion

Technical Analysis

- NZD/USD may test lower to 0.7790 (6.0450)
- The pair may face resistance at 0.7920 (6.1459)

USD/JPY				
Last Week Performance	Close	High	Low	Change (%)
USD/JPY	79.93	80.39	79.43	0.10%
Forecast	Support	Technical	0-3Mths	6-12Mths
ST Bearish ↓ (JPY/HKD)	78.30 (99.1060)	82.67 (93.8672)	81.00 (95.8025)	80.00 (97.0000)

Weekly Market Focus

- Yen was supported as risk aversion picked-up amid U.S. stocks and oil retreated last week

Technical Analysis

- USD/JPY may test lower to 78.30 (99.1060)
- Resistance may exist at 82.67 (93.8672)

AUD/USD – 1 Year



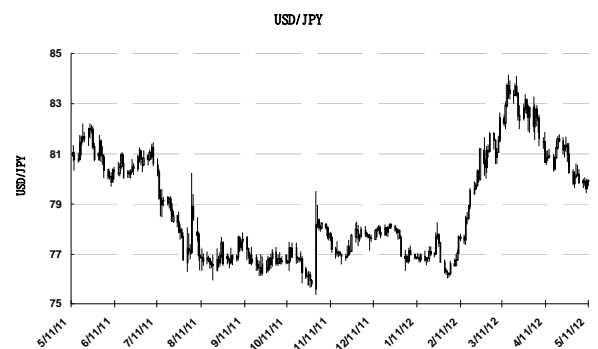
Source: Bloomberg L.P., as of May 11, 2012

NZD/USD – 1 Year



Source: Bloomberg L.P., as of May 11, 2012

USD/JPY – 1 Year



Source: Bloomberg L.P., as of May 11, 2012

NOTE: The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.76 exchange rate for reference, and 1,000 yen per unit for JPY/HKD.

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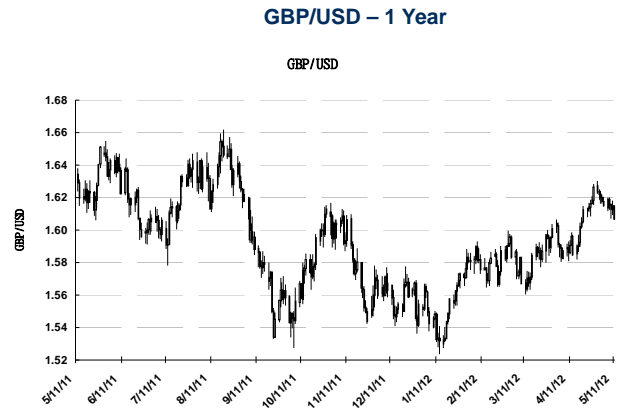
GBP/USD				
Last Week Performance	Close	High	Low	Change (%)
GBP/USD	1.6069	1.6203	1.6062	-0.51%
Forecast	Support	Technical	0-3Mths	6-12Mths
ST Neutral ← → (GBP/HKD)	1.5926 (12.3586)	1.6292 (12.6426)	1.57 (12.1832)	1.53 (11.8728)

Weekly Market Focus

- Sterling trimmed losses as the Bank of England kept interest rate and QE program unchanged last week

Technical Analysis

- GBP/USD may test higher to 1.6292 (12.6426)
- The pair may find support at 1.5926 (12.3586)



Source: Bloomberg L.P., as of May 11, 2012

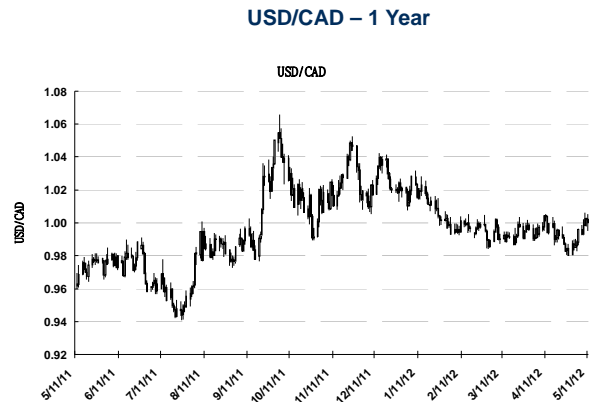
USD / CAD				
Last Week Performance	Close	High	Low	Change (%)
USD/CAD	1.0005	1.0063	0.9862	0.44%
Forecast	Support	Technical	0-3Mths	6-12Mths
ST Neutral ← → (HKD/CAD)	0.9800 (7.9184)	1.0052 (7.7199)	0.99 (7.8384)	0.98 (7.9184)

Weekly Market Focus

- CAD was weakened as U.S. stocks and oil prices declined last week. But the downside was limited on increases in employment

Technical Analysis

- USD/CAD may test lower to 0.9800 (7.9184)
- The pair may face resistance at 1.0052 (7.7199)



Source: Bloomberg L.P., as of May 11, 2012

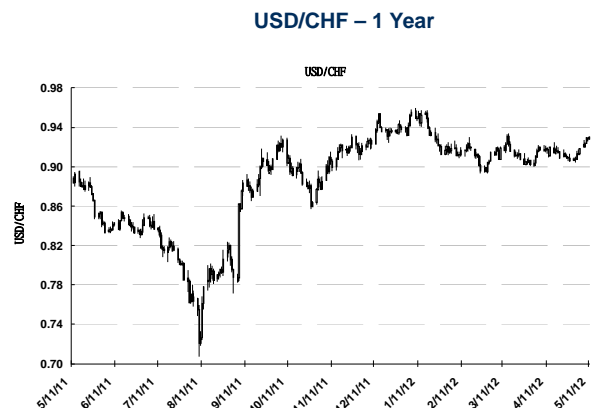
USD/CHF				
Last Week Performance	Close	High	Low	Change (%)
USD/CHF	0.9299	0.9307	0.9115	1.27%
Forecast	Support	Technical	0-3Mths	6-12Mths
ST Neutral ← → (CHF/HKD)	0.9000 (8.6222)	0.9463 (8.2004)	0.92 (8.4348)	0.97 (8.0000)

Weekly Market Focus

- Swiss franc sank as the dollar rallied last week

Technical Analysis

- EUR/USD may test higher to 0.9463 (8.2004)
- The pair may find support at 0.9000 (8.6222)



Source: Bloomberg L.P., as of May 11, 2012

NOTE: The brackets are the exchange rates in terms of Hong Kong dollar, with HKD \$7.76 exchange rate for reference, and 1,000 yen per unit for JPY/HKD.

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Important economic figures (May 14, 2012 – May 18, 2012)

Date Time		Event		Actual	Survey	Prior
05/14/2012 06:45	NZ	Retail Sales Ex Inflation(QoQ)	1Q	--	-0.50%	2.20%
05/15/2012 09:30	AU	Reserve Bank Board May Minutes				
05/15/2012 15:00	EC	EU Finance Ministers Meet in Brussels				
05/15/2012 16:30	UK	Total Trade Balance (GBP/Mln)	MAR	--	-£2950	-£3396
05/15/2012 17:00	EC	Euro-Zone GDP s.a. (YoY)	1Q	--	-0.20%	0.70%
05/15/2012 17:00	GE	ZEW Survey (Econ. Sentiment)	MAY	--	20.1	23.4
05/15/2012 20:30	US	Consumer Price Index (YoY)	APR	--	2.40%	2.70%
05/15/2012 20:30	US	CPI Ex Food & Energy (YoY)	APR	--	2.30%	2.30%
05/15/2012 20:30	US	Advance Retail Sales	APR	--	0.20%	0.80%
05/15/2012 20:30	US	Retail Sales Less Autos	APR	--	0.20%	0.80%
05/15/2012 21:00	US	Total Net TIC Flows	MAR	--	--	\$107.7B
05/16/2012 09:30	AU	Wage Cost Index YoY	1Q	--	--	3.60%
05/16/2012 16:30	UK	Jobless Claims Change	APR	--	5.0K	3.6K
05/16/2012 16:30	UK	ILO Unemployment Rate (3mths)	MAR	--	8.40%	8.30%
05/16/2012 17:00	EC	Euro-Zone CPI (YoY)	APR	--	2.60%	--
05/16/2012 17:30	UK	Bank of England Inflation Report				
05/16/2012 20:30	US	Housing Starts MOM%	APR	--	4.00%	-5.80%
05/16/2012 20:30	US	Building Permits MOM%	APR	--	-4.50%	4.50%
05/17/2012 02:00	US	Minutes of FOMC Meeting				
05/17/2012 07:50	JN	GDP Annualized	1Q	--	3.50%	-0.70%
05/17/2012 20:30	CA	Int'l Securities Transactions	MAR	--	--	12.49B
05/17/2012 20:30	US	Initial Jobless Claims	MAY	--	--	367K
05/17/2012 22:00	US	Leading Indicators	APR	--	0.10%	0.30%
05/18/2012 20:30	CA	Consumer Price Index YoY	APR	--	1.90%	1.90%
05/18/2012 20:30	CA	Bank Canada CPI Core YoY	APR	--	1.90%	1.90%
18-20 MAY	CA	G-8 Summit, Camp David				

Source: Bloomberg L.P.
(K = Thousand, M = Million, B = Billion)

Appendix 1

Indicative range for the previous trading day

Market Index	Open	High	Low	Close	FX Rate	Open	High	Low	Close
DOW JONES	12851.79	12918.01	12779.28	12820.60	EUR/USD	1.2936	1.2958	1.2905	1.2917
S&P 500	1358.11	1365.66	1348.89	1353.39	USD/CHF	0.9285	0.9307	0.9272	0.9299
NASDAQ	2919.35	2960.38	2918.74	2933.82	GBP/USD	1.6146	1.6154	1.6062	1.6069
DAX	6465.19	6589.01	6454.21	6579.93	USD/JPY	79.93	79.99	79.73	79.93
CAC	3107.60	3134.62	3077.41	3129.77	AUD/USD	1.0081	1.0085	1.0018	1.0020
NIKKEI	9019.40	9050.61	8944.63	8953.31	NZD/USD	0.7853	0.7879	0.7811	0.7827
TWSE	7472.56	7473.55	7382.95	7401.37	USD/CAD	1.0021	1.0054	0.9954	1.0005
HSI	20083.27	20083.27	19901.41	19964.63	GOLD	1594.07	1595.18	1573.83	1579.40

Data Source: Bloomberg L.P., as of May 11, 2012

Data Source: Bloomberg L.P., as of May 11, 2012

Appendix 2

Citi Interest Rate Forecast

	As of 5/11/2012	2Q' 2012	3Q' 2012	4Q' 2012	1Q' 2013
USD	0-0.25%	0.25%	0.25%	0.25%	0.25%
EUR / USD	1.00%	1.00%	1.00%	1.00%	0.75%
GBP / USD	0.50%	0.50%	0.50%	0.50%	0.50%
USD / JPY	0-0.10%	0.10%	0.10%	0.10%	0.10%
USD / CHF	0.00%	0.00%	0.00%	0.00%	0.00%
AUD / USD	3.75%	3.75%	3.50%	3.50%	3.50%
NZD / USD	2.50%	2.50%	2.50%	2.50%	3.00%
USD / CAD	1.00%	1.00%	1.00%	1.00%	1.25%

Source: Citi

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