



DAILY CURRENCY UPDATES

16 May 2012

Market Wrap

- It's official. Greeks are headed back to the polls as early as June 10 as President Papoulias fails to negotiate a technocratic government. Given the growing strength of the anti-bailout Syriza Party, the chances of Greece leaving the Euro zone have likely risen dramatically even as a poll on Monday shows that over 80% of Greeks want to stick with the EUR.
- Citi.'s Global Chief Economist Willem Buiter believes that any contagion related to the 'Grexit,' would likely be contained. In terms of the FX implications, Citi.'s G10 FX strategists see 4 scenarios for EUR -
 - Managed Greek exit, where certainty on currency values/legal treatment is provided
 - Managed core exit, certainty on currency values/legal treatment
 - GIIPS exit, some uncertainty over currency values/legal treatment
 - Euro zone breakup, no certainty over currency values/legal treatment
- In the interim, confirmation of the Greek election failure leads to a further sell-off in EUR and broad risk assets overnight with support for the USD index seeing it breaking through key resistance levels. The next upside target comes in at the January high of 81.784.
- Tonight's focus will be on bond auctions in both France and Germany as well as the FOMC minutes.

| | PRICE ACTION | | |
|---------|--------------|---------|--------|
| | Spot | 1M High | 1M Low |
| EUR/USD | 1.2729 | 1.3284 | 1.2722 |
| USD/JPY | 80.36 | 82.56 | 79.43 |
| GBP/USD | 1.5982 | 1.6302 | 1.5805 |
| USD/CHF | 0.9435 | 0.9441 | 0.9043 |
| USD/CAD | 1.0073 | 1.0074 | 0.9800 |
| AUD/USD | 0.9931 | 1.0474 | 0.9922 |
| AUD/JPY | 79.81 | 85.20 | 79.40 |
| NZD/USD | 0.7687 | 0.8320 | 0.7682 |

Source: Bloomberg/Reuters/Citi. As at 16 May 12.

USD | JPY

USDJPY On Hold As Greek Election Uncertainty Looms

- USDJPY rallies from 79.90 to 80.30 despite the elevated risk averse backdrop with the next major next level for stop-losses seen around 80.50/60, which last traded on May 3.

News and Data Highlights in the past 24 hours

- USD: Fed Governor Duke** - Sees some price equilibrium in home markets; demand for housing is still stubbornly low; there are tight lending standards; and uncertainty about mortgage rules, Fannie Mae and Freddie Mac hurting housing recovery.
- USD: April US CPI comes in unchanged m/m** (+2.3% y/y), vs +0.3% m/m (+2.7% y/y) in March, in line with market expectation. Core CPI comes in at +0.2% m/m (+2.3% y/y) in April, vs +0.2% m/m (+2.3% y/y) in March, also in line with market consensus.
- USD: April retail sales rise** +0.1% m/m in Apr as expected. March is revised lower to +0.7% from +0.8%. Ex-autos and gas, sales rise +0.1% vs. +0.3% expected and vs. revised +0.8% in March.
- USD: The NAHB housing market index comes in** at 29 in May, better than the expected at 26. This is the highest reading since May 2007. April is revised to 24 from 25.
- USD: TICs long term securities record an inflow** of \$36.2bil in March, more than the consensus \$32.5 billion. Foreigners buy \$20.5bil of Treasuries; \$1.5bil of US corporates; and \$7bil of US stocks while selling \$6.7bil of US agencies. American investors sell \$13.9bil in international securities.

What's happening in the next 24 hours

| | Indicator | Citi | Consensus | Prior |
|----|----------------------------------|------|-----------|-------|
| US | Housing Starts, thou, Apr | 675 | 685 | 654 |
| US | Permits, thou, Apr | 730 | 730 | 764 |
| US | Industrial Production, %MoM, Apr | 0.7 | 0.6 | 0 |
| US | Capacity Utilization, Apr | 79.1 | 79 | 78.6 |

EUR | GBP | CHF

Only One Way For The Euro Bloc Units Overnight

- Leveraged and real money names are the primary sellers of EURUSD overnight, which sees its sell-off intensify around 1.2840 on confirmation of new elections in Greece. The news results in a quick dip to 1.2780 and then a slow sniff for barriers at 1.2750 though eventually gives way to intensifying risk-off sentiment hitting new lows at 1.2722.



- GBP outperforms EUR once again, but fails to benefit from Greece's doom and gloom as it did on Monday. EURGBP closes just below its opening levels of 0.7970 and GBPUSD also fails to hold the upper 1.60s region. Meanwhile USDCHF races 100pips higher to 0.9440.

News and Data Highlights in the past 24 hours

- **EUR: Greece pays out its EUR430mn debt** maturing on Tuesday to the hold-outs that weren't part of the PSI deal, as the bonds are covered by UK law (Reuters). **Greece also manages to sell EUR1.3bn of 3-mo T-bills at 4.34%, versus 4.2% in April.** This exceeds the planned issuance of EUR1bn and will help cover EUR1.6bn of bills coming due on Friday.
- **EUR: The Greek President confirms new elections to be held.** (Bloomberg). Meanwhile, **German Finance Minister Schaeuble says** that Greece must implement the austerity program to stay in the Euro zone (Bloomberg) though this is to some extent offset by comments from **Eurogroup's Juncker** who says that if there were to be dramatic changes of circumstances in Greece, they would not preclude a discussion of extensions of deadlines. Juncker though adds that there can be no substantial change to the Greek program.
- **EUR: Euro Area 1Q GDP unchanged** - According to the flash estimate, GDP comes in unchanged in 1Q. This is above the consensus forecast of -0.2% QQ and Citi. forecast of -0.3% QQ. There are no details provided but the country split shows a mixed picture.
- **EUR: The German ZEW releases its survey results for May**, showing a large fall in business expectations from 23.4 in April to 10.8 in May, below the consensus view of 19 and Citi. forecast of 18. The assessment of the current business situation is better than expected, increasing from 40.7 in April to 44.1 in May. **COMMENT:** The 1Q GDP data is better than expected and the euro area for now manages to prevent a recession. However, the ZEW data suggests that the economy will deteriorate again, particularly given the escalation of the sovereign debt crisis.
- **GBP: March UK trade data** reveal the goods trade deficit holds steady at -GBP8.6bn, following a downwardly revised -GBP8.6bn gap in Feb (previous -GBP8.8bn). A 5.8% rise in exports counteracts a 4.2% m/m increase in imports, both attaining monthly records.

What's happening in the next 24 hours

| | Indicator | Citi | Consensus | Prior |
|----------|---|------|-----------|-------|
| UK | Claimant Count, thou, Apr | 4 | 5 | 4.9 |
| UK | Unemployment Rate, Apr | 4.9 | 5 | -35 |
| UK | LFS Unemployment, thou, Jan-Mar | -8 | -- | 8.3 |
| UK | LFS Unemployment Rate, Jan-Mar | 8.4 | 8.4 | 3.7 |
| UK | Bank of England Inflation Report | -- | -- | -- |
| Eurozone | Trade Surplus, EURbn, Mar | 5.2 | 3.8 | 3.7 |
| Eurozone | HICP, %YoY, Apr F | 2.6 | 2.6 | 2.7 |
| Germany | Germany to sell Add'l EUR10bn 10-year Notes | -- | -- | -- |
| France | France to sell 0.75% 2012 Notes, 3.5% 2012 Bonds, 1.75% 2017 Bonds, 1.1% I/L 2022 Bonds, 2.1% I/L 2023 Bonds and 1.85% I/L 2027 Bonds | -- | -- | -- |

AUD | NZD | CAD

News and Data Highlights in the past 24 hours

- **AUD: May RBA Board Minutes preserve the status quo, providing little new information with which to assess risks to policy.** Domestic growth remains on-track for a recovery but globally, the Board notes that conditions remain weak in the Euro Area and that "the risk of an escalation of sovereign debt problems remained". More importantly from a domestic perspective, the RBA highlights that the 50bp rate cut was taking back the increase in lending rates since the previous interest rate cuts of late 2011 but continues to highlight that funding stress (that led to higher lending rates) still persists.

VIX Index Daily chart



Source: Aspen Graphics / Bloomberg 15 May 2012.

VIX

- The VIX Index has now closed above the reverse head and shoulders neckline at 20.90%
- The pattern points towards a move to above 28%.

ASIA

News and Data Highlights in the past 24 hours

- **SGD: Rebound in Singapore March Retail Sales Reflects Resilient 1Q Consumption: March headline retail sales stronger than expected, rising sequentially...** — Retail sales in March moderate to 9.1%YoY on base effects, above consensus for 7.2% but closer to Citi. expectations for 9.9%. In real terms, retail sales growth eases to 7.2% (Feb: 18.2%). On a MoM SA basis however, March retail sales rise 1.6% (Feb: -1.4%) in nominal terms (Consensus: 0.2%), partly reflecting higher prices, but also a 0.8% in real terms (Feb: -0.5%). **COMMENT:** Higher wages driven by the tighter foreign worker policy will likely support retail sales growth even as consumer confidence is kept elevated by better employment prospects in a still tight labor market.

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