



DAILY CURRENCY UPDATES

5 July 2013

Market Wrap

- **Overnight, thanks to dovish statements from the Bank of England (BoE) and European Central Bank (ECB),** the session proves far livelier than most people would expect given that it is a US holiday.
- **The BoE announces it leaves its repo rate on hold at 0.50%** and also signals that it is not going to do any further quantitative easing (QE). Unusually, the BoE accompanies the no-change decision with a statement – This says that the recent rise in market rates is not warranted by the state of the UK economy, which will weigh on the outlook.
- **New BoE Governor Mark Carney** also seems to stamp his mark on the Monetary Policy Committee (MPC) by giving a fairly strong pointer that the August meeting will not just present a framework for forward guidance, but may actually launch it.
- **A little later, the ECB leaves its key interest rates unchanged, as expected.** However, in the subsequent press conference it also springs a major surprise by announcing a forward guidance framework. The introductory statement says the ECB's governing council expects key interest rates to remain at present or lower levels for an 'extended period of time'.
- **Looking ahead, the key event is the release of the US June employment report.** The non-farm number assumes even greater importance given the potential divergence of US and European rates.

	Price Action			1 Year Forward (Bid)	
	Spot	1M High	1M Low	Onshore	Offshore
EUR/USD	1.2895	1.3417	1.2838		
USD/JPY	100.25	102.59	93.79		
GBP/USD	1.5044	1.5752	1.5009		
USD/CHF	0.9577	0.9791	0.9130		
USD/CAD	1.0522	1.0578	1.0137		
AUD/USD	0.9149	0.9792	0.9037		
AUD/JPY	91.72	99.49	88.94		
NZD/USD	0.7830	0.8163	0.7684		
USD/SGD	1.2747	1.2814	1.2406		
USD/TWD	30.04	30.23	29.62	29.88	30.02
USD/KRW	1138	1163	1108	1147	1150
USD/CNY	6.1254	6.1519	6.1203	6.2440	6.2700
USD/INR	60.13	60.77	55.45	63.68	63.85
USD/IDR	9943	10174	9773	10536	10975
USD/PHP	43.43	44.18	41.56	43.62	43.68

Source: Bloomberg/Reuters/Citi. As at 5 July 2013

USD | JPY

USDJPY Pokes Its Nose Back Above 100.00

- USDJPY sits mainly on the sidelines yesterday. Turnover for USDJPY on CitiFX Platform is low (around 50% of average). While EURJPY is obviously heavy, trading down below 129.00, USDJPY does manage to poke its nose back above 100.00. The general improvement in sentiment towards equities likely helps.

News and Data Highlights in the past 24 hours

- **JPY: Japan portfolio investments** – Japan investors sell net JPY965.9bn in foreign bonds last week (this is the seventh straight week of net selling) versus sold net JPY1.19tn prior week. They also sell net JPY38.9bn in foreign stocks last week vs. bought JPY13.9bn the previous week. Foreign investors buy net JPY479.7bn in Japan stocks last week versus bought net JPY171.2bn in prior week. Foreign Investors buy net JPY261.8bn in Japan bonds last week versus sold net JPY1.05tn the prior.

What's happening in the next 24 hours

	Indicator	Citi	Consensus	Prior
US	Non-farm Payrolls (thous), Jun	160	165	175
US	Unemployment Rate (%)	7.4	7.5	7.6

EUR | GBP | CHF

'Carney-aged' and 'Draghi-ed'

- On the BoE announcement (see below), cable pops to 1.5250, but you would have to be as fast as Quick Draw Ally McGraw to get any pounds away not only at that level, but even on a 1.52 handle. Unusually, the BoE accompanies the no-change decision with a statement (see below). The market reaction is quite severe. **COMMENT:** The BoE perhaps does not say anything that anybody does not know, particularly that the UK is not the US. But the strong suggestion that UK rates are not going up anytime soon, which the BoE is likely to make clear from August, sees cable plunge to a session low of 1.5056.
- EURGBP spikes sharply, rallying to a high of 0.8633. The short sterling strip goes off on a real tear, with the back end up one time around 18 basis points, and the FTSE (London's benchmark index) surges to close up by more than 3%. Turnover, which has been extremely low, picks up substantially. In the European session, even with nothing going on in New York, CitiFX Platform's GBP volume is running at 130% of the recent average; net selling of GBP is seen in both cable (52%) and EURGBP (54%).
- A little later, following the ECB announcement and subsequent press conference (see below), EURUSD promptly falls out of bed, tumbling from around 1.3000 to a low of 1.2883. CitiFX Traders see massive selling, which results in a huge skew in CitiFX Platform's flow of 57% in favor of the downside. When this starts to unwind, EURUSD manages to push up to a high of 1.2933. Perhaps coincidentally, the 38.2% Fibonacci of the short-term drop from 1.3017 to 1.2883 comes in at 1.2934.

- For some unknown reason, EURCHF goes bid. Is someone giving the nod and the wink that the Swiss National Bank (SNB) is going to do something? That is heavily rumored, but in this era of transparency, it is heresy to consider such thoughts. In any case, EURCHF manages to rally to 1.2375, despite the general EUR weakness.

News and Data Highlights in the past 24 hours

- GBP: The BoE announces it leaves its repo rate on hold at 0.50% and also signals that it is not going to do any further QE. Unusually, the BoE accompanies the no-change decision with a statement – This says that the recent rise in market rates is not warranted by the state of the UK economy, which will weigh on the outlook. New BoE Governor Carney also seems to stamp his mark on the MPC by giving a fairly strong pointer that the August meeting will not just present a framework for forward guidance, but may actually launch it. COMMENT:** The BoE policy statement makes no explicit mention of other policy measures like rate cuts and more asset purchases. CitiFX Strategists think that is where the BoE minutes to be released July 17 could prove very informative and would attract considerable attention. In particular, CitiFX Strategists note that the June minutes indicate that a growing majority at the MPC would consider additional quantitative easing if the surge in gilt yields is to continue. In addition, the minutes signal that the MPC has noticed the increase in short-term yields which bring the first implied rate hike forward by nine months compared to May. While this may seem like the ideal environment to introduce forward guidance, one could also argue that the BoE may consider lowering policy rates as well.
- EUR: The ECB leaves its key interest rates unchanged, as expected. However, in the subsequent press conference it also springs a major surprise by announcing a forward guidance framework. The introductory statement says the ECB’s governing council expects key interest rates to remain at present or lower levels for an ‘extended period of time’. COMMENT:** President Draghi surprises markets by signalling a move away from its “we never pre-commit” stance to forward guidance on rates. During the press conference, President Draghi further highlights that the extended period is determined by three drivers – the medium term outlook for inflation, growth and credit conditions. This may suggest that the ECB is willing to maintain its easy policy for even longer than implied by its mandate, which focuses on annual delivering inflation of close to 2%. Also, Mr Draghi highlights the scope for lower rates and reiterates that negative deposit rates are among the policy options considered by the Governing Council. President Draghi is quite explicit that the latest tightening in monetary conditions reflects in higher Eurozone rates and bond yields warrant the change in policy. This could indicate that the ECB will continue to lean aggressively against any future premature backup in yields. In turn, this could keep the bank’s policy accommodative especially if the Fed announces more concrete plans to taper and ultimately exit quantitative easing.
- EUR: In Portugal**, it is reported that Paulo Portas, who resigns earlier this week as foreign affairs minister, reaches an agreement with Prime Minister Pedro Passos Coelho on the terms that will keep his Democratic and Social Centre (CDS) party to remain in the coalition government. **COMMENT:** This is apparently positive, and by the close 2-year Portuguese bonds paper is ‘only’ trading at 77 basis points over German 2-year.
- EUR: Spanish auction** – Investors do not appear to be unduly perturbed by the political crisis in neighboring Portugal, with Spain successfully selling the maximum EUR4bn in 3-year and 5-year bonds at its latest auction. The view in the market is that the 3-year result is solid, with a strong bid-to-cover at 3.46, while the 5-year is a bit weak at 1.71. Average yields on both tranches are higher than the previous sale.

What’s happening in the next 24 hours

	Indicator	Citi	Consensus	Prior
Germany	Incoming Orders (%MoM), May	1.6	1.2	-2.3



Cable

- CitiFX Technicals point out a good case of “a picture paints a thousand words” – bearish cable.

AUD | NZD | CAD

USDCAD Hits A Session Low Of 1.0472

- The CAD finds itself in favor. CitiFX Traders see decent USDCAD selling after the ECB press conference, which is most likely triggered by aggressive bashing of EURCAD. USDCAD goes off on a stop-loss run through 1.0480, but it then manages to bounce back above 1.0500. The area around 1.0470 is still seen as strong support.

News and Data Highlights in the past 24 hours

- AUD: Australia May building approvals** – Apartment volatility dominates the headline building approval numbers result. Headline residential building approvals for May are largely in-line with expectations. Down by 1.1%, the fall is driven by a 9.7% decline in apartments, which is almost entirely in New South Wales. **COMMENT:** However, this comes after an 18% increase in April. Looking through the volatility, private apartment approvals are actually increasing on a trend basis.

What’s happening in the next 24 hours

	Indicator	Citi	Consensus	Prior
Canada	Net Change in Employment (thous), Jun	-10	-7.5	95
Canada	Unemployment Rate (%)	7.1	7.1	7.1
Canada	Participation Rate (%)	66.7	66.7	66.7
Canada	Ivey PMI, Jun	--	58.3	63.1

General Disclosure

"Citi analysts" refers to investment professionals within Citi Research ("CR"), Citi Global Markets Inc. ("CGMI") and voting members of the Citi Global Investment Committee.

Citibank N.A. and its affiliates / subsidiaries provide no independent research or analysis in the substance or preparation of this document. The information in this document has been obtained from reports issued by CGMI. Such information is based on sources CGMI believes to be reliable. CGMI, however, does not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute CGMI's judgment as of the date of the report and are subject to change without notice. This document is for general information purposes only and is not intended as a recommendation or an offer or solicitation for the purchase or sale of any security or currency. No part of this document may be reproduced in any manner without the written consent of Citibank N.A. Information in this document has been prepared without taking account of the objectives, financial situation, or needs of any particular investor. Any person considering an investment should consider the appropriateness of the investment having regard to their objectives, financial situation, or needs, and should seek independent advice on the suitability or otherwise of a particular investment. Investments are not deposits, are not obligations of, or guaranteed or insured by Citibank N.A., Citigroup Inc., or any of their affiliates or subsidiaries, or by any local government or insurance agency, and are subject to investment risk, including the possible loss of the principal amount invested. Investors investing in funds denominated in non-local currency should be aware of the risk of exchange rate fluctuations that may cause a loss of principal. Past performance is not indicative of future performance, prices can go up or down. Some investment products (including mutual funds) are not available to US persons and may not be available in all jurisdictions. Investors should be aware that it is his/her responsibility to seek legal and/or tax advice regarding the legal and tax consequences of his/her investment transactions. If an investor changes residence, citizenship, nationality, or place of work, it is his/her responsibility to understand how his/her investment transactions are affected by such change and comply with all applicable laws and regulations as and when such becomes applicable. Citibank does not provide legal and/or tax advice and is not responsible for advising an investor on the laws pertaining to his/her transaction.

Country-specific Disclosures:

Australia: This document is distributed in Australia by Citigroup Pty Limited ABN 88 004 325 080, AFSL 238098. For a full explanation of the risks of investing in any investment, please ensure that you fully read and understand the relevant Product Disclosure Statement prior to investing.

Hong Kong: This document is distributed in Hong Kong by Citibank (Hong Kong) Limited ("CHKL"). Prices and availability of financial instruments can be subject to change without notice. Certain high-volatility investments can be subject to sudden and large falls in value that could equal the amount invested.

India: This document is distributed in India by Citibank N.A. Investment are subject to market risk including that of loss of principal amounts invested. Products so distributed are not obligations of, or guaranteed by, Citibank and are not bank deposits. Past performance does not guarantee future performance. Investment products cannot be offered to US and Canada Persons. Investors are advised to read and understand the Offer Documents carefully before investing.

Indonesia: This report is made available in Indonesia through Citibank, N.A. Indonesia Branch, Citibank Tower Lt 7, Jend. Sudirman Kav 54-55, Jakarta. Citibank, N.A. Indonesia Branch is regulated by the Bank of Indonesia.

Korea: This document is distributed in South Korea by Citibank Korea Inc. Investors should be aware that investment products are not guaranteed by the Korea Deposit Insurance Corporation and are subject to investment risk including the possible loss of the principal amount invested. Investment products are not available to US persons.

Malaysia: This document is distributed in Malaysia by Citibank Berhad.

People's Republic of China: This document is distributed by Citibank (China) Co., Ltd in the People's Republic of China (excluding the Special Administrative Regions of Hong Kong and Macau, and Taiwan)

Philippines: This document is made available in Philippines by Citicorp Financial Services and Insurance Brokerage Phils. Inc, Citibank N.A. Philippines, and/or Citibank Savings Inc. Investors should be aware that Investment products are not insured by the Philippine Deposit Insurance Corporation or Federal Deposit Insurance Corporation or any other government entity.

Singapore: The information in this report has been sourced from Citigroup Global Markets Inc. ("CGMI") which is a member of FINRA and registered with the US Securities and Exchange Commission. This report is distributed in Singapore by Citibank Singapore Ltd ("CSL"). CSL provides no independent research or analysis of the substance or in preparation of this report. Investment products are not insured under the provisions of the Deposit Insurance and Policy Owners' Protection Schemes Act 2011 of Singapore and are not eligible for deposit insurance coverage under the Deposit Insurance Scheme. CSL accepts legal responsibility for the content of this report. Please contact your CSL Relationship Manager if you have any queries on or any matters arising from or in connection with this report.

Thailand: This document is distributed in Thailand by Citibank N.A. and made available in English language only. Investment contains certain risk, please study prospectus before investing. Not an obligation of, or guaranteed by, Citibank. Not bank deposits. Subject to investment risks, including possible loss of the principal amount invested. Subject to price fluctuation. Past performance does not guarantee future performance. Not offered to US persons.

United Kingdom: This document is distributed in U.K. by Citibank International plc., it is registered in England with number 1088249. Registered office: Citigroup Centre, Canada Square, London E14 5LB. Authorised and regulated by the Financial Services Authority.