International Personal Bank

FX Market Headlines

Greece continues to dominate headlines

Risk sentiment positive despite ongoing issues

Commodities currencies post gains

Citi analysts announce bullish forecasts for the short term

Greek situation in focus this week

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The Japanese yen was overwhelmingly weak in an otherwise rather mixed week. Greece continued to dominate headlines as the approval of the second bailout was once again delayed. The common currency was notably weak against other major currencies except versus Yen. Meanwhile, risk markets ignored the situation in Greece and extended the recent rally with the Dow Jones heading closer to the 13,000 psychological level. Commodity currencies strengthened against the USD but it was basically kept in range to end the week. China's cutting of bank reserve requirements might give risk markets an initial boost this week but sustainability is questionable. Meanwhile, focus will also be on the anticipated approval of Greece's second bailout.

Our analysts have just released their latest forecasts. The USD has been broadly weaker over the last few weeks. Encouraging for this trend, risk appetite has markedly improved and the USD continues to tend towards weakness in these periods of asset market strength. Economic data around the industrialised world is coming in better than expected and general monetary policy easing by major Central Banks have all helped global investor sentiment and therefore hurt the USD. Over the past month, for example, the Fed has extended its zero interest rate policy (ZIRP) conditional commitment to 2014, the Bank of England and Bank of Japan have extended or increased QE and there has also been some monetary easing in major EMs including required reserve ratio (RRR) cuts from the People's Bank of China. We see little to reverse this Central Bank support to risk appetite in the immediate future and our forecasts therefore reflect this in a generally softer USD across the board over 0-3 months. In reality though, we find it hard to distinguish between the currencies of the developed countries at this point. Investors are likely to see USD, JPY, CHF and GBP as broadly interchangeable as funding currencies.

More generally, EM policymakers will have to decide how to respond to ex ante USD weakness. Last year, many were relaxed about FX appreciation given inflation concerns but these worries are receding fast given favourable base effects in food prices. As a result, some policymakers may step up interventions or rate cuts or both. This means ex post USD weakness may be reduced.

Longer term, there are both mainstream and tail risks. Amongst the former, the latest tranche of the Greek bailout will likely not be the last needed. Ongoing uncertainty around the stability of EMU is likely. As for tail risks, we worry about: (i) US economic weakness in 2013 if fiscal policy agreement is not reached after the Presidential Elections; (ii) China's credit, money and real estate boom and bust cycle; and (iii) geopolitics in Iran and other Middle East countries. Our forecasts build in some probability of volatility from these factors and USD performance is mixed over 6-12 months with some appreciation vs. G10 and CEEMEA but downside elsewhere.

The most significant shift in positioning is seen in net JPY longs, pared back by $4.3bn up to Tuesday in response to BOJ easing, bringing the currency out of extreme net long territory to its shortest position since the last week of December 2011. Positioning in USD and EUR return to extreme net long and net short, respectively - Net USD longs increase by $5.7bn to a net position of $16.8bn while EUR net short positioning rises by $1.1bn to $25.0bn.

The Greek PSI deal/extra EUR130bn bailout remains the central issue again this week, with Monday's Eurogroup now the next planned meeting to focus on. This is followed by the G20 meeting in Mexico on February 25/26. Data wise in Europe, Wednesday is (advance) PMI day and the German Ifo is released on Thursday. The main auction is Friday's Italian bond auction.

In the US data are light, with Friday's Michigan confidence number the most important. Existing home sales (Wednesday) and new home sales (Friday) are also worth looking out for.

In the UK, the Bank of England minutes (Wednesday) will give an indication of whether the "marginal" voter wanted more or less than GBP50bn in extra QE. UK GDP revision (and detail) is out Friday.

In Australia we have the RBA minutes on Tuesday as well as a speech by Governor Stevens the same day. Wages data are released Wednesday and Stevens appears before parliament on Friday. Elsewhere, Swiss trade data and Canadian retail sales (both Tuesday) are due.

FX Forecasts

		Market data			Forecasts		
		spot	3m Fwd	12m Fwd	0-3 mos	6-12 mos	long-term
G10							
Euro	EURUSD	1.33	1.33	1.33	1.34	1.25	1.30
Japanese yen	USDJPY	79	79	79	81	78	78
British Pound	GBPUSD	1.59	1.58	1.58	1.60	1.56	1.65
Swiss Franc	USDCHF	0.91	0.91	0.90	0.90	0.98	0.96
Australian Dollar	AUDUSD	1.08	1.07	1.04	1.09	1.00	0.90
New Zealand Dollar	NZDUSD	0.84	0.84	0.82	0.86	0.75	0.63
Canadian Dollar	USDCAD	0.99	0.99	1.00	0.98	1.00	0.97
Dollar Index*	DXY	78.87	78.88	78.80	78.41	82.01	79.27
G10 Crosses							
Japanese yen	EURJPY	105	105	105	109	98	101
Swiss Franc	EURCHF	1.21	1.21	1.20	1.21	1.22	1.25
British Pound	EURGBP	0.84	0.84	0.84	0.84	0.80	0.79
Swedish Krona	EURSEK	8.82	8.85	8.96	8.80	8.80	8.75
Norwegian Krone	EURNOK	7.50	7.53	7.64	7.50	7.50	7.50
Norwegian Krone	NOKSEK	1.18	1.18	1.17	1.17	1.17	1.17
Australian Dollar	AUDNZD	1.28	1.28	1.26	1.27	1.33	1.43
Australian Dollar	AUDJPY	86	85	82	88	78	70
Asia							
Chinese Renminbi	USDCNY	6.30	6.29	6.28	6.28	6.17	6.01
Hong Kong Dollar	USDHKD	7.75	7.75	7.75	7.75	7.76	7.75
Indonesian Rupiah	USDIDR	9011	9116	9412	9100	9074	8900
Indian Rupee	USDINR	49.3	50.3	52.2	50.3	49.8	48.5
Korean Won	USDKRW	1123	1129	1142	1135	1090	1020
Malaysian Ringgit	USDMYR	3.02	3.04	3.08	3.10	2.99	2.89
Philippine Peso	USDPHP	42.6	42.7	42.9	43.0	42.0	41.5
Singapore Dollar	USDSGD	1.25	1.25	1.25	1.28	1.23	1.19
Thai Baht	USDTHB	30.8	30.9	31.2	31.0	30.3	30.0
Taiwan Dollar	USDTWD	29.5	29.5	29.2	29.9	29.0	28.2
EMEA							
Czech Koruna	EURCZK	24.9	24.9	25.0	24.9	25.4	24.0
Hungarian Forint	EURHUF	288	291	301	285	275	285
Polish Zloty	EURPLN	4.17	4.21	4.33	4.10	4.20	3.90
Israeli Shekel	USDILS	3.73	3.74	3.78	3.85	3.95	3.90
Russian Ruble	USDRUB	29.8	30.1	31.3	29.5	33.3	32.2
Russian Ruble Baske	RUB	34.1	34.5	35.9	34.0	37.0	36.5
Turkish Lira	USDTRY	1.74	1.77	1.87	1.74	1.82	1.80
South African Rand	USDZAR	7.66	7.76	8.09	7.55	8.10	8.80
LATAM							
Brazilian Real	USDBRL	1.71	1.75	1.84	1.71	1.70	1.65
Chilean Peso	USDCLP	482	487	500	480	500	490
Mexican Peso	USDMXN	12.7	12.8	13.1	12.6	12.8	12.2
Colombian Peso	USDCOP	1779	1796	1836	1787	1800	1850

* The DXY forecasts are implied from the forecasts of the constituent crosses.

The Week Ahead

USD:

- ***Feb. 24, Philadelphia Fed President Plosser to speak to the Main Line Chamber of Commerce in PA.***
- ***Feb. 24, Regional Fed Presidents Bullard, Williams, Dudley and Plosser all speak at the U.S. Monetary Policy Forum in New York.***
- ***Jan. 22, January Existing Home Sales (Millions of Homes): Citi. 4.65, Dec. 4.61, Nov. 4.39, Oct. 4.25, Sept. 4.19 -*** *Existing home sales likely edged up in January after a sharp increase totaling about 10% in the fourth quarter. Pending home sales remain well above current actual sales, suggesting further gains. However, pending sales in the latest reading reversed a portion of the huge autumn increase, muddying the picture of the trend.* ***Note:*** *The number of homes for sale probably continued to decline in January reaching the lowest level since early 2005. This trend has driven the months' supply down as well. These levels appear consistent with pre-bubble norms, but still mask a large shadow inventory.*
- ***Jan. 24, February Consumer Sentiment Index (Final): Citi. 73.0, Feb. (Prelim.) 72.5, Jan. 75.0, Dec. 69.9*** *- Consumer sentiment likely edged higher in the second half of February after the surprise fall in the early part of the month.* ***Note:*** *Citi analysts will be watching the details of this report, as they were much stronger than the decline in the headline would have suggested. Notably, Citi analysts will look to see if the high number of consumers hearing favorable news about employment is confirmed. This index started February at the highest level in more than half a century.*
- ***Jan. 24, January New Home Sales (Thousands): Citi. 305, Dec. 307, Nov. 314, Oct. 307, Sept. 302, August 290 -*** *New home sales were likely little changed in January despite a large jump in housing starts. Hidden below the rise in headline starts was a small decline in single family units.* ***Note:*** *The market for new single family homes remains moribund, while the rental market and thus construction of multi-unit homes is heating up. Rental vacancies are flirting with ten-year lows, but this is a symptom of the substitution of rentals for single family homes, and does not offer any immediate impulse for new sales.*

EUR:

- ***Feb 21, Euro area Consumer Confidence, Feb Flash Forecast: -21.0 Prior: -20.7 -*** *Following the surprisingly small increase in January, Citi analysts expect consumer confidence to edge down again in February. Citi analysts expect that there will be improving sentiment in the core countries and – with further austerity measures on the way – a deterioration in sentiment in the periphery countries.*
- ***Feb 22, Manufacturing PMI, Feb Flash Forecast: 48.0 Prior: 48.8; Services PMI, Feb Flash Forecast: 49.5 Prior: 50.5;*** *London Time* ***Composite PMI, Feb Flash Forecast: 49.4 Prior: 50.4 -*** *While the unusually mild weather conditions in December and March probably distorted PMIs on the upside, unusually harsh winter conditions which undermined business activity in large parts of the euro area are likely to affect the PMIs on the downside in February. However, the declines in February are unlikely to fully offset the January gains.*
- ***Feb 22, Industrial New Orders, Dec Forecast: +0.5% MM, -2.9% YY Prior: -1.2% MM, -2.5% YY -*** *Available data from some member countries suggest a modest rebound in orders in December. However, mainly due to September's 7.9% plunge, orders in 4Q on average are probably down by 4.0% QQ, after falling by 2.8% QQ in 3Q.*
- ***Feb 23, German Ifo Business Climate, Feb Forecast: 108 Prior:108.3 -*** *Partly due to the late start of winter, which probably affected the assessment of current business on the downside (Citi analysts expect a decline in this sub-component of 1.3 points MM to 115.0), Citi analysts expect a small decline in the ifo business climate after three months of consecutive – positively surprising – gains. However, a fourth consecutive increase in business expectations, by 0.6 points to 101.5 in January, probably will limit the fall in the overall sentiment reading. With an expected reading of 108, the ifo business climate would be 1.1 standard deviations above its long-term average.*

GBP:

- ***Feb 21, Public Sector Net Borrowing, Jan Forecast: £5.5 Billion Surplus, £97.8 Billion Deficit Fiscal Year To Date (Figures Exclude Costs of Financial Intervention) Year Ago: £5.1 Billion Surplus, £109.4 Billion Deficit Fiscal Year To Date -*** *Citi analysts expect the January fiscal balance will record a surplus similar to that of a year earlier, at £5-£6 billion. January is a key month for tax receipts and since the PSNB data are not seasonally adjusted, the seasonal surge in receipts usually produces a surplus. One key uncertainty is that the usual windfall in revenues may be partly delayed into February because of the one-day strike by civil servants in late-January.*
- ***Feb 23, CBI Industrial Trends Survey, Feb; Monthly Output Expectations Net Balance, Feb Forecast: +8% Prior: +15%; Monthly Order Books Net Balance, Feb Forecast: -20% Prior: -16%; Monthly Selling Prices Net Balance, Feb Forecast: +5% Prior: +13% -*** *Citi analysts expect this survey to show renewed weakness after the improvements seen in January. Other manufacturing surveys remain weak and we suspect the January CBI survey – which often shows sizeable seasonal swings – will not be followed by other gains.*
- ***Feb 24, GDP, 4Q 2nd Estimate Preliminary: -0.2% QQ, 0.8% YY Prior (3Q): 0.6% QQ, 0.5% YY -*** *Citi analysts do not anticipate any significant revisions to these data. Recent figures suggest that industrial production fell a bit less sharply than the ONS had expected but, unless the December services output data are very strong (released at the same time as GDP) then services output in 4Q may be a little weaker than the ONS expected. The split is likely to show that consumer spending rose slightly, offset by a sharp drop in investment.*

- ***Feb 24, Service Sector Output, Dec Forecast: 0.3% MM, 2.2% YY Prior: 0.6% MM, 1.5% YY -*** *Citi analysts expect a further small gain in services output MM, although this would only take it roughly back to the September level and leave overall 4Q output down 0.1% QQ.*

AUD:

- ***21 Feb, RBA Board Minutes, February - Last week's labor force report has lowered the probability of a further RBA rate cut.*** *But the jury is still out on the outlook for the labor market and hence the RBA for this year as the cost cutting spurred by the strong AUD is still in its early stages. Nevertheless, with an unemployment rate at close to 5%, a pick up in productivity and labor force growth will be needed to head off inflation pressures over the medium term. The February Board Minutes will provide a more detailed view of the information that lead to the decision to keep interest rates on hold. However, considerable detail was provided in the quarterly Statement on Monetary Policy last Friday¸ rendering the Minutes somewhat less important than is usually the case.*
- ***22 Feb, Wage Cost Index,Q4 Forecast: 0.8%, Previous: 0.7% -*** *Citi analysts forecast a 0.8% increase in this measure of wage costs in Q4. Although slightly above the Q3 result, it produces a slight moderation in the pace of yearly wages growth from 3.6% to 3.4%. This would be the slowest yearly growth in wage costs in eighteen months.*

CAD:

- ***Feb. 21, Retail Sales (Dec): Citi Forecast -0.3%, Median -0.2%, Last 0.3%; Retail Sales Ex Autos (Dec): Citi Forecast 0.3%, Median 0.2%, Last 0.3% - Cars Drive Down Sales*** *– Nominal retail sales likely fell by 0.3% in December, reflecting a projected 2.5% drop in new car sales in the month. Unit auto sales fell by 3.0% during the reference period, and Citi analysts believe that this weighed materially on dealers receipts. The end-of- year decline in auto sales likely will be more than offset by a forecast 16% leap in unit purchases in January. Despite the projected drop in overall sales, receipts were up 3.3% y/y from 3.1% y/y.* ***Healthy Non-Auto Receipts*** *– Excluding autos (new, used and other cars, and parts) retails sales probably rose by 0.3%, matching the prior month's increase. A portion of the rise was due to a 0.8% pickup in gasoline station receipts. Even away from autos and petrol, sales were healthy, increasing by 0.2%. Proprietors of clothing, home furnishings, general merchandise, and hobbyist items likely benefited the most during the holiday season. If Citi analysts estimates are on the mark, ex-auto sales held at 3.0% y/y, and non-auto and –gasoline receipts picked up to 2.2% y/y, the fastest pace in a year.* ***Volume Swell*** *– After adjusting for a forecast 0.7% tumble in the deflator, real sales likely rose by 0.4% in the month. If correct, volume over the October- December span jumped 6.0% annualized following three quarters of uninspiring activity. This bodes particularly well for 4Q goods PCE. Folding in Citi analysts estimates for other sectors, real industry based output is tracking at +0.6% in December. This reflects strong gains in manufacturing, and wholesale and retail sales, along with a rebound in oil production after a series of temporary shutdowns.*

JPY:

- ***Feb. 20, Customs-Clearance Trade Balance (Jan) Forecast: -¥1248.0bn NSA; -¥670.3bn SA, Previous: -¥479.4bn NSA; -¥567.6bn SA -*** *Citi analysts expect the customs clearance trade balance to show a deficit of ¥1.2480trn before seasonal adjustment (-¥479.4bn in Jan. 2011) and a deficit of ¥670.3bn (-¥567.6bn) after adjustment in January. The latter would be the tenth consecutive monthly deficit. Citi analysts note that January data tend to be volatile because of a changing timing of Chinese New Year.Citi analysts estimate that the export value in yen terms dropped 9.4% YoY in January after an 8.0% YoY fall in December (-11.9% YoY in the first twenty days in January). If Citi analysts are on the mark, real exports likely decreased 1.2% MoM in January after a 0.8% MoM gain in December. Citi analysts estimate that the import value increased 5.6% YoY in January after an 8.1% YoY rise in December (+12.6% YoY in the first twenty days in January). Based on this projection, real imports are expected to have advanced 2.0% MoM in January after a 0.3% MoM gain in December. The January level would be 1.2% above the fourth quarter average.*