



Monday 5 October 2009

Key Releases for the week

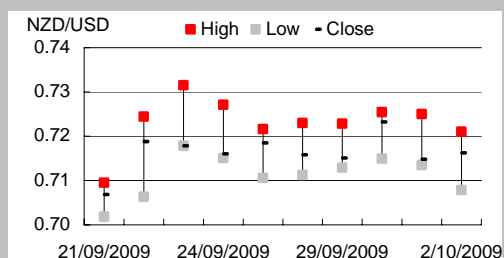
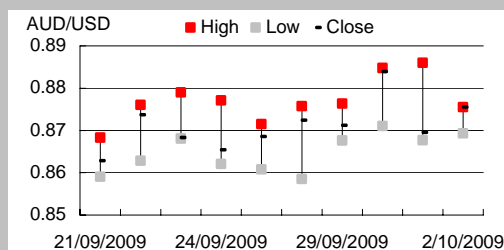
- RBA Monetary Policy Announcement (Tue)
- BoE Monetary Policy Announcement (Thu)
- ECB Monetary Policy Announcement (Thu)
- US Non-Manufacturing ISM (Mon)
- AU Employment for Sep (Thu)
- EZ Retail Sales for Aug
- UK Services PMI for Aug (Mon)
- German Factory Order and Industrial Production for Aug (Wed & Thu)
- National Day in China until Friday

Weekly Currency Ranges

	Open	High	Low	Close
AUD/USD	0.8683	0.8860	0.8585	0.8655
NZD/USD	0.7185	0.7254	0.7078	0.7162
AUD/NZD	1.2170	1.2235	1.1985	1.2080
EUR/USD	1.4700	1.4721	1.4480	1.4580
GBP/USD	1.5981	1.6127	1.5770	1.5945
USD/JPY	89.68	90.42	88.23	89.80
AUD/JPY	77.58	79.55	76.27	77.72

Source: Reuters, Macquarie FX, October 2009

Fortnightly Price Action



Source: Datastream, Macquarie FX, October 2009

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AUD and NZD Weekly

Recap – US data disappoints, USD firmer

- Strong local data pushed AUD/USD to 14 month highs of 0.8860.
- AUD crosses to new highs. AUD/GBP to 0.5536 (new 24 year highs) and AUD/EUR through 0.6000 to 0.6056 (new 14 months highs).
- Later in the week, the USD gained favour, as global investor sentiment soured, on the back of weak US economic data. Disappointing non-farm payrolls on Friday continued to weigh on sentiment.
- Currencies heavy into the end of the week with AUD/USD and NZD/USD hitting their weekly lows of just under 0.8570 and under 0.7080, after payroll though recovered somewhat into the close.

Economics – IMF more optimistic on the global outlook

- IMF released an update to the World Economic Outlook and Global Stability Reports last week.
- The IMF upgraded global growth to 3.1% (from 2.5%) in 2010. But continue to forecast a 1% contraction in 2009.
- The IMF believes that the risks to the global financial system have “subsided” but warns that the road to financial rehabilitation is unlikely to be straight and that there will be significant policy issues ahead.

Key Considerations for the week ahead

- An ordinary payrolls release has punctuated a run of more circumspect data releases from the US that have begun to make investors question the durability of the economic recovery, and how excited they should become if economic activity has merely stopped going down rather than started to go back up again.
- The RBA Board meets this week. While there is a risk of a rate rise this week, most are forecasting the central bank to wait until November. Local employment data (economists are forecasting -10k), released this week, could alter interest rate expectations.
- The ECB and the BoE meet this week. Should they decide to ease monetary conditions further (not expected), markets could interpret this as an “all is not well in that part of the world” signal.

Expectations for the week – Support 0.8530/40, resistance near 0.8800

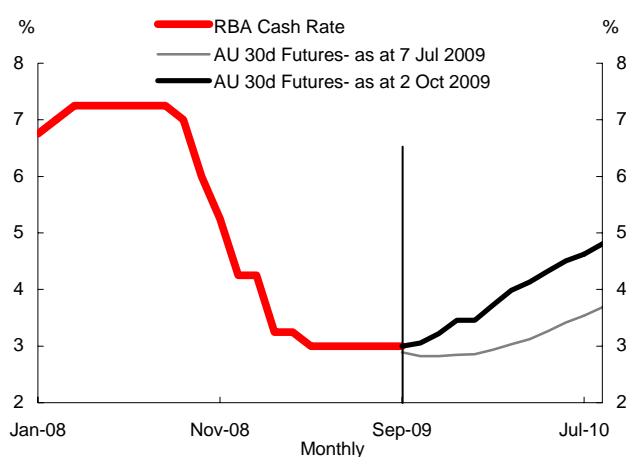
- Friday night's ordinary payrolls release and the generally softer tone of data that preceded it is becoming a habit that has started to unnerve markets, and is making them question the more bullish assumptions that have been priced into commodities, stocks and "risky" currencies.
- With a tapering off in the data calendar this week, and China still celebrating its 60th "birthday" for much of this week, markets may continue to treat the global economic recovery as innocent until proven guilty, and thus continue to buy dips in risk appetite. Expect support down at 0.8530/40 should hold if tested this week, with rallies to find the going tougher towards 0.8800.



Recap – US data disappoints, USD firmer

- Although off the fresh highs of the previous week, currencies continued to trade at elevated levels earlier in the week with buying interest evident into month-end and quarter-end, as stocks continued to print gains. EUR/USD near 1.4700 and AUD/USD pushing through 0.8700 and NZD/USD through 0.7200.
- On Monday morning, RBA Governor Stevens fuelled expectations of rate hikes before year-end (possibly even more than one). In his testimony to the Senate Economics References Committee he noted that "In due course, both fiscal and monetary support will need to be unwound as private demand increases... in the case of monetary policy, the Bank has already signalled that interest rates can be expected, at some point, to move off their current unusually low levels, as recovery proceeds." This allowed AUD/USD to trade above 0.8750.
- Strong local data pushed AUD/USD above 0.8800 on Wednesday. In particular, Retail Sales for August rose by 0.9% (greater than the +0.5% forecast), allaying fears to some degree that consumer spending will slow sharply over the 2H09 as the fiscal stimulus effect wanes.
- Not surprisingly, assuming that the RBA starts raising rates post October, yield players flooded into AUD. This helped AUD crosses to new highs. AUD/GBP to 0.5536 (new 24 year highs) and AUD/EUR through 0.6000 to 0.6056 (new 14 months highs).

Rate hikes in Australia are expected before X-mas



Source: Datastream, Reuters, Macquarie FX, October 2009

- Chinese PMI (to 54.3 from 54.0) on Thursday saw AUD/USD to its 0.8860 highs for the week and the highest level since August 2008.

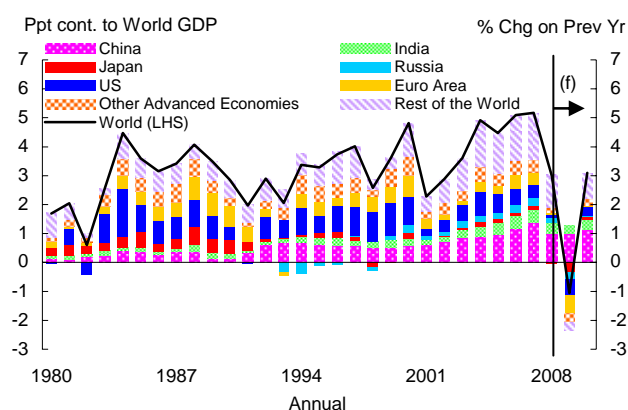
- The gains against EUR were further exemplified by ECB's Trichet and EU Commissioner Almunia expressing concern over the Euro's recent appreciation. This meant EUR was on the backfoot throughout most of the week, falling as low as 1.4500 on Thursday, then to 1.4480 as the week wore on. But the Europeans weren't the only ones (see Currency Perspective titled "Does jawboning actually work?" published last week). Japanese Finance Minister, Fujii, also sought to correct market perception that the Government favours a strong Yen by saying that he had never said he would leave a strong yen as it is. But this did not stop USD/JPY trading back below 90.
- Later in the week, the USD gained favour, as global investor sentiment soured. Not helped by weak US economic data. US Consumer Confidence for September came in at 53.1 vs 57.0 forecasts; Chicago PMI slumped nearly 4 pts to 46.1; US ADP employment showed loss of 254k private sector jobs and the ISM Manufacturing index disappointed at 52.6 vs expectations of 54.
- On Thursday alone, the S&P500 fell 2.6%, the sharpest decline in 3 months. This coincided with the release of the IMF's WEO and GSFR.
- The IMF recognised the improvement in financial markets and the nascent economic recovery but warned there could well be a few skeletons in the closet (see Economics section titled "IMF Optimism Builds". Accordingly, policymakers are advised to continue implementing policies that promote a global rebalancing of sorts (see Currency Perspectives titled "RMB: Too low for too long" and "USD: Let the Music Play" also published last week).
- The global equity market weakness meant that the USD gained favour later in the week, thanks to its safe-haven appeal. Currencies therefore, heavy into the end of the week with AUD/USD trading back under 0.8700 and NZD/USD below 0.7100.
- Currencies whippy, though ultimately directionless after payrolls disappointed (263k jobs lost, unemployment to new 26 year highs of 9.8%). US factory orders also fell 0.8% m/m in Aug, defying forecasts for a 0.3% m/m rise. AUD/USD briefly to 0.8568 lows, back to 0.8709, before settling near 0.8650. NZD/USD to 0.7078 lows and settling near 0.7150. EUR/USD dipped below 1.4500 before closing at 1.4580. GBP/USD back under 1.6000.
- Over the weekend, the G7 noted its sees signs of global recovery, continued improvement in financial markets, intends to keep the stimulus in place until recovery assured and that there is no room for complacency given the recovery is fragile. Held the usual mantra on disorderly FX moves being undesirable. Also implored China to keep working towards a more flexible and stronger RMB.



Economics – IMF Optimism Builds

- The International Monetary Fund (IMF) released an update to the World Economic Outlook (WEO) and Global Financial Stability Reports (GFSR).
- As leaked earlier last week, the IMF upgraded its global growth forecasts for 2010 to 3.1% from 2.5% on Thursday. But they continue to forecast a 1% contraction in 2009. They expect growth in Advanced Economies to be sluggish in 2010 (i.e. 1.25% following a contraction of 3.5%) while Emerging and Developing Economies are forecast to grow a robust 5% in 2010 (mainly driven by China, India and emerging Asia).

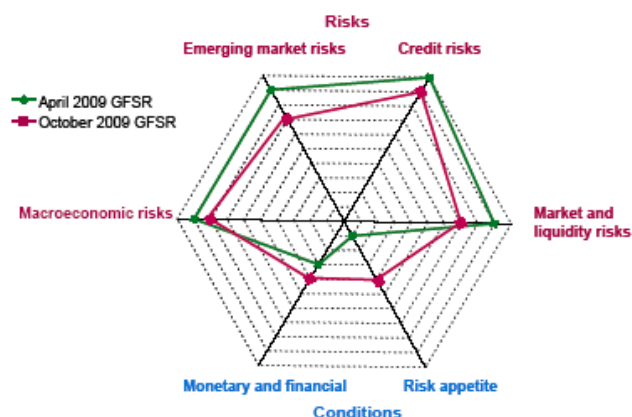
IMF revises its 2010 global growth forecast higher



Source: IMF, Macquarie Research, October 2009

- For the US, they are forecasting growth to contract by 2.7% in 2009 but expand 1.5% in 2010. But given all the stimulus that is currently in place, for this economy in particular, it will be interesting to observe if these forecasts will be revised higher in coming months.
- Following the release of the WEO, IMF Chief Economist Olivier Blanchard noted that “In most countries, growth will be positive for the rest of the year, as well as in 2010,” but stressed that to sustain the recovery, private consumption and investment will have to strengthen as high public spending and large fiscal deficits are unwound.
- Blanchard also said that the current numbers should not fool governments into thinking that the crisis is over and urges countries around the world to coordinate policies to achieve a global rebalancing and sustain the recovery.
- In regards, to the health of the overall global financial system, the international body highlights that risks to the global financial system have “subsided” thanks to the unprecedented policy actions undertaken by policymakers, pointing to the nascent economic recovery. Still the IMF warns that there will be significant policy issues ahead.

IMF Global Stability Map



Source: IMF staff estimates.
Note: Closer to center signifies less risk, tighter monetary and financial conditions, or reduced risk appetite.

Source: IMF, Macquarie Research, October 2009

- According to the IMF’s Global Financial Stability Map, over the past three months the risks to the global economy have fallen but remain heavily skewed towards macroeconomic risk (i.e. Can economies grow at a sustainable once the fiscal and monetary stimulus is removed? How will Governments manage the very high debt ratios), emerging markets (Financial stresses may have eased in emerging Europe, but vulnerabilities remain high!) and credit and market risks (Can the financial system provide sufficient credit to sustain an economic recovery?). The IMF is, however, less concerned with Monetary and Financial Conditions and Risk Appetite, although the two largely go hand in hand.
- Of note, the IMF sees the supply of bank credit falling for the remainder of 2009 and into 2010 both in the US and Europe.

Key Considerations for the week ahead

- An ordinary payrolls release has punctuated a run of more circumspect data releases from the US that have begun to make investors question the durability of the economic recovery, and how excited they should become if economic activity has merely stopped going down rather than started to go back up again. More fare on that front tonight, with non-manufacturing ISM’s/PMI’s from both sides of the Atlantic.
- Apart from trade data though, there is very little in terms of hard economic data out of the US and Europe over the remainder of the week.
- While murmurs about a local October rate hike exist, the majority of economists believe that the central bank will wait until November to raise the cash rate, after Q3 inflation data is released on 28 October.



- Indeed, the RBA Governor recently warned in his testimony on 28 September that “the inflation targeting framework the Reserve Bank has been following for a decade-and-a-half will guide adjustments to interest rates.” Still, given the strength in the demand indicators, some believe they could decide to hike rates this week.
- The key local data release will be Employment for September. Last month, employment fell by a sharper-than-expected 27,100 jobs while the unemployment remained steady at 5.8%. Further monthly job losses of similar magnitude could see the market participants pare back their current interest rate expectations.
- Not much out in New Zealand apart from the NZIER Business Opinion Survey for Q3
- The Bank of England and the European Central Bank policymakers have recently expressed discomfort over their appreciating currencies. While both central banks are resorting to non-conventional monetary policy tools to facilitate lending and support economic activity, markets are not expecting them to ease monetary conditions further. This is not to say they won't. But if they do, markets could interpret this as an “all is not well in that part of the world” signal.
- The widening of interest rate differentials will be tested by tomorrow's RBA meeting, where there has been a slight re-firming towards a hike, even if the majority of market participants still expect the first move to just beat the horses to the Melbourne Cup gate.
- With a tapering off in the data calendar this week, and China still celebrating its 60th "birthday" for much of this week, markets may continue to treat the global economic recovery as innocent until proven guilty, and thus continue to buy dips in risk appetite. Expect support down at 0.8530/40 should hold if tested this week, with rallies to find the going tougher towards 0.8800.

Expectations

- Friday night's ordinary payrolls release and the generally softer tone of data that preceded it is becoming a habit that has started to unnerve markets, and is making them question the more bullish assumptions that have been priced into commodities, stocks and "risky" currencies.

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