

UBS Investment Research
The Morning Adviser
Canadian Employment Data Due

10 August 2012

www.ubs.com/fx

- Risk traded on a relatively soft tone overnight after some disappointing data from China. The trade balance came in at \$25.15 bn vs \$35.0 bn cons, with exports growing just 1.0% y/y vs 8.0% expected. Further, new yuan loans in July were just CNY540.1 bn vs CNY700 bn expected. AUD came under pressure with the data releases, though the RBA gave a more hawkish assessment than market expectations, revising their end-2012 GDP to 3.5% from 3.0%. Underlying inflation by end-2012 has also been lifted to 2.5% from 2.25% which UBS economics views as a hawkish move, assuming they haven't changed their assessment of carbon impact. The policy statement also said that "it is possible that the persistently high level of the exchange rate may be more contractionary for the economy than historical relationships suggest." Our read-through of this is that they are beginning to build in a structurally higher AUD into their estimates (indeed their working forecast was raised to 1.06 versus the dollar), so they may allow this to do some of the modest tightening work for them. That is not to say the RBA needs to start hiking rates by any sense, but UBS economics views this statement as a signal that the RBA now sees underlying inflation as having troughed. Norway's oil fund, which oversees close to \$600 bn in assets, says it has trimmed Eurozone exposure in Q2 to 14% of its fixed income portfolio, from 14.5% in Q1 and has lifted exposure to US Treasuries to 20% of fixed income (from 18.8%). The fund has also cut government bond exposure to France, UK, Spain. While these are only modest adjustments away from European equities and fixed income, the sheer size of assets under management makes it a notable shift. Domestic data showed that July consumer prices fell 0.5% m/m, a development which will likely keep UK construction sector data for Q2 showed that output fell by 3.9%, less than the preliminary estimate of 5.1%. UBS economics notes that this upward revision should cause a 0.1 point upward revision to Q2 GDP growth data, which was -0.7% preliminary. An upward revision to IP data earlier this week should similarly lift Q2 GDP by around 0.07 point. Taking both together, UBS expect a GDP revision to -0.5%

Key Events

10 August 2012				Source: UBS Global Economics			
Country	GMT	Release/Event	Frequency	UBS	Prev/Revised	Consensus	Actual
Canada	12:30	Unemployment Rate (Jul)	%	7.20%	7.20%	7.20%	
Canada	12:30	Net Change in Employment (Jul)	lvl	12.0K	7.3K	5.5K	
United States	18:00	Monthly Budget Statement (Jul)	USD bn	-110.0	-129.4	-93.0	

Research Spotlight
Reading Germany's Mind
UBS Global Economics

- Germans have benefited enormously from the euro - so why do they seem unwilling to save it? The German electorate is not yet ready for a referendum on sovereignty transfer: they don't want to sink more money into saving the euro, they think inflation is always bad, and many really believe their country would be better off without the euro. Many want to

save the euro as much as anyone else does, but insist on a corresponding commitment, and pooling of sovereignty, from other countries as well. Please see <http://www.ubs.com/fx> for details.

EUR	Targets: EURUSD 1m 1.20, 3m 1.20
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- ECB's Noyer comments that the markets should not doubt the ECB's determination and capacity to act within the terms of its mandate. He said the ECB must be ready to act quickly and should prioritise the short-term bond market. Further, he said intervention must be of sufficient size to have a strong impact on the market.
- Greece's Deputy Finance Minister Staikouras commented that the government would present its budget plan - to reduce deficits by EUR11.5 bn - to the EU by September 14 and hoped that the next tranche of bailout funds would come "right after" a positive review by the Troika. Reuters reported that a bulk of the savings will come from salary, benefits and pension cuts and by reviving the 'labour reserve plan' that includes laying off 40K public servants.
- In its August monthly report, the ECB expected inflation to further decline in 2012 and remain below 2.0% in 2013.

GBP	Targets: GBPUSD 1m 1.55, 3m 1.55
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- UK June trade deficit widened to GBP10.1bn after GBP8.4 bn previously. The details show that exports and imports fell in June, but exports fell by more.

AUD, NZD	Targets: AUDUSD 1m 1.00, 3m 0.97; NZDUSD 1m 0.78, 3m 0.76
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- AUDUSD gained following a strong July employment report but the gains faded after Tier-1 data from China showed that industrial production slowed to 9.2% y/y (9.7% cons.), while retail sales also slowed to 13.1% y/y (13.5% cons.).
- The RBNZ Governor Bollard commented that carry trade-related capital flows "can be distortionary" making it more difficult to set policy. The Governor also noted that elevated levels of household debt is still a problem for the economy. Earlier, the REINZ house sales grew 19.9% y/y in July (prior: 17.3%).

FX Technicals

EURGBP 0.7963 resistance

EURUSD	NEUTRAL	Initial support is at 1.2252, a break below this level would open the way to 1.2134. Resistance is at 1.2444 ahead of 1.2489.
USDJPY	BEARISH	A break under 77.91 would trigger weakness to 77.66. Resistance is at 78.82.
GBPUSD	NEUTRAL	Near-term resistance is at 1.5730, a break above would expose 1.5768/86. Support lies at 1.5547 ahead of 1.5491.
USDCHF	NEUTRAL	Resistance is at 0.9807, a breach of this would expose 0.9899. Key support lies at 0.9633 ahead of 0.9513.
AUDUSD	BULLISH	Resistance is at 1.0637, a break above this would open 1.0691. Support lies at 1.0531 ahead of 1.0436.
USDCAD	BEARISH	Bearish trend conditions persist. There is scope for further downside to 0.9862 ahead of 0.9800. Resistance is at 0.9989 ahead of 1.0026.
EURCHF	NEUTRAL	Resistance is at 1.2076, while support lies at 1.2000.
EURGBP	NEUTRAL	Support lies at 0.7835, a break under this level would trigger weakness to 0.7791/55. Resistance is at 0.7963 ahead of 0.8011.
EURJPY	NEUTRAL	A break below 94.93 would resume weakness opening the door to 94.12. Resistance is at 97.88.

***NOTE:** The trend for each currency pair as defined in the table is determined by our proprietary model and is independent of our discretionary interpretation of price action

Source: UBS FX Strategy