

# FX Morning Adviser

## AUD & Verbal Non-Interventions

**FX**

Global

### RBA talking down the currency has limited longer term implications

Tuesday's release of minutes of the Reserve Bank of Australia (RBA) June 3 meeting should shed additional light on the central bank's view of AUD levels. In the June press release, RBA Governor Stevens maintained the view of the past three meetings that the Australian dollar "exchange rate remains high by historical standards," while adding "particularly given the further decline in commodity prices," which the market viewed as slight escalation in dovish rhetoric. Stevens continues to refrain from using stronger language of AUD being "uncomfortably high." This stronger rhetoric has not been used since the November and December policy statements.

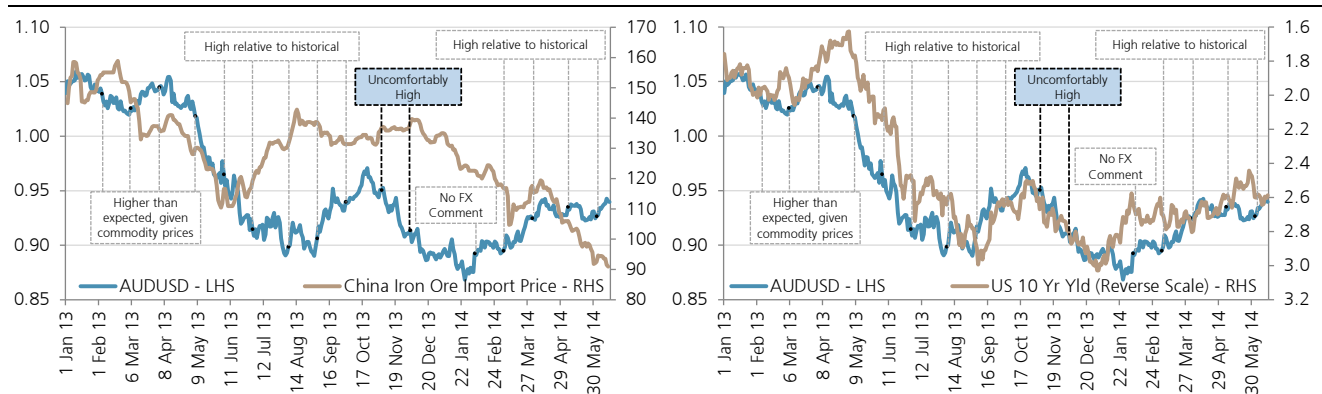
### RBA warns the market, but does not signal intervention intention

The RBA's choice of rhetoric can at times appear somewhat counterintuitive. Since warning that the currency was "uncomfortably high" in December, AUDUSD has now risen back above 0.9000 levels while the China Iron Ore import price (iron ore accounts for 60% of exports to China) has fallen further. Despite these movements in AUD and iron ore prices, RBA rhetoric on AUD strength has remained relatively mild for now (see Figure 1).

The RBA's less dovish rhetoric could be due in part to less urgency, since economic data remains relatively robust. For example, recent data suggests the Australian economy has begun a tentative rebalancing away from dependence on the mining sector. The capital expenditures survey data for the non-mining sector has been somewhat encouraging. However, continued mild rhetoric could also be a signal that the RBA has resigned itself to FX movements from non-domestic factors. Recent data suggests that the movement in AUDUSD has more to do with persistently low US yields than from iron ore and commodities demand (Figure 2).

The market will likely continue to see short-term AUDUSD reaction in response to RBA rhetoric, but we would caution investors from taking a long-term view based on rhetoric alone. There are no signs the RBA will intervene anytime soon. We view the RBA's comments simply as a warning of how AUD could potentially fall if future data disappoints and commodities demand remains soft. Since we see little further downside in US yields from current levels, we remain bearish AUDUSD.

**Figure 1: AUD, China Iron Ore and RBA Comments on FX**     **Figure 2: AUD, US 10 Yr Yield and RBA Comments on FX**



Source: Bloomberg, UBS Calculations

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## Technical FX

EURUSD	BEARISH	With the trending and momentum indicators pointing lower, there's risk for a break through support at 1.3477 and then onto test critical 1.3248. Resistance is at 1.3600 ahead of 1.3690.
USDJPY	NEUTRAL	The pair has been consolidating under resistance at 103.02. Any further downside should find supports at 101.43 and then 100.76.
GBPUSD	BULLISH	The recent strength reinforces the broader bullish trend as it has seen MACD settle above its zero line. Resistance focus is at 1.6996 ahead of 1.7043. Support is at 1.6738.
USDCHF	BULLISH	With the trending indicators bullish, there's potential for more upside to resistance at 0.9082 and then 0.9156. Support is at 0.8908.
AUDUSD	NEUTRAL	Strong resistance focus is at 0.9461. A close above this level will be an outright bullish event, opening the way to 0.9543. Support is at 0.9351 ahead of 0.9296.
USDCAD	NEUTRAL	The pair developed selling pressure from resistance at 1.0962, bringing our focus on support at 1.0814, a break below this will be negative, extending the downtrend to 1.0731.
EURCHF	BULLISH	As long as support holds at 1.2163, there's scope for the cross to resume upside. Resistance is at 1.2200 ahead of 1.2250.
EURGBP	BEARISH	With bearish trend firmly in place, reflected by the MACD below its zero line and pattern of lower highs/lows, the potential remains for extension of weakness to important support at 0.7960. Resistance is at 0.8065.
EURJPY	BEARISH	The recent decline suggests scope for more downside as bearish conditions are in place reflected by the MACD below its zero line to test critical support at 136.23 and then 135.33. Resistance is at 140.09.

**\*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

## Key Events

Country	GMT	Release/Event	Freq.	UBS	Prev/Rev	Cons.	Actual
New Zealand	22:00	Westpac Consumer Confidence (Q2)	index	n/a	121.7	n/a	121.2
New Zealand	22:30	Performance Services Index (May)	index	n/a	58.5	n/a	54.2
New Zealand	22:45	REINZ House Price Index (May)	m-o-m	n/a	0.10%	n/a	-1.20%
New Zealand	22:45	REINZ House Sales (May)	y-o-y	n/a	-20.20%	n/a	-14.80%
UK	23:01	Rightmove House Prices (Jun)	m-o-m	n/a	3.60%	n/a	0.10%
UK	23:01	Rightmove House Prices (Jun)	y-o-y	n/a	8.90%	n/a	7.70%
Australia	03:20	RBA's Kent Speaks					
Euro Area	08:00	ECB Publishes Monthly Report					
Norway	08:00	Trade Balance (May)	NOK bn	n/a	31.6	n/a	
<b>Euro Area</b>	<b>09:00</b>	<b>CPI (May)</b>	<b>m-o-m</b>	<b>-0.10%</b>	<b>0.20%</b>	<b>-0.10%</b>	
Euro Area	09:00	CPI (May F)	y-o-y	0.50%	0.50%	0.50%	
Euro Area	09:00	CPI Core (May F)	y-o-y	0.70%	0.70%	0.70%	
Canada	12:30	Int'l Securities Transactions (Apr)	CAD bn	n/a	-1.23	n/a	
United States	12:30	Empire Manufacturing (Jun)	index	20	19	15	
Canada	13:00	Existing Home Sales (May)	m-o-m	n/a	2.70%	n/a	
<b>United States</b>	<b>13:00</b>	<b>Net Long-term TIC Flows (Apr)</b>	<b>USD bn</b>	<b>n/a</b>	<b>4.0</b>	<b>37.5</b>	
United States	13:00	Total Net TIC Flows (Apr)	USD bn	n/a	-126.1	n/a	
<b>United States</b>	<b>13:15</b>	<b>Industrial Production (May)</b>	<b>m-o-m</b>	<b>0.60%</b>	<b>-0.60%</b>	<b>0.50%</b>	
United States	13:15	Capacity Utilization (May)	m-o-m	78.90%	78.60%	78.90%	

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China	FDI (May)	y-o-y	n/a	3.40%	3.20%
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Source: UBS Global Economics, Bloomberg LP, Reuters LP, Reuters, Market News International