

Sterling Strategy Weekly

July 7th 2014

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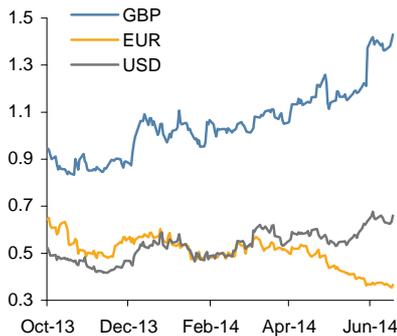
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All data is accurate as of the report date, unless otherwise specified.

2y Generic Swap Rates

Source: RBS Trading Strategy, Ecowin



A Lonely Place... For Now

Monthly Euro Conference Call | Hot Air or Hot Stuff - Paul Robson, Senior FX Desk Strategist and Richard Barwell, Senior European Economist will be hosting a call Tuesday, 8 July 2014, 14:00 (London). Please pre-register [here](#).

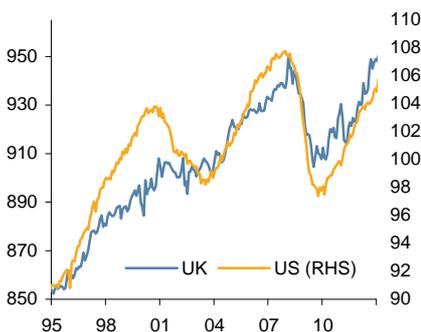
It's become a very lonely place for the BoE as it prepares the market for a 2014 first interest rate increase as many other central banks are in easing mode. Last week the Riksbank cut by a greater-than-expected 50bp and ruled out any tightening until the end of 2015. In doing so, it followed quickly after the ECB and Norges Bank. Even the RBA struck a more dovish tone last week. While a still dovish Fed is coming under ever more scrutiny, Fed Chair Yellen continues to strike a dovish tone, stating that macro prudential policy remains the first line of defence in her last major speech on financial stability.

The change of tone of Bank of England policymakers is supported by the pace of improvement in the UK economy and the rapid pace of house price gains. RBS UK Economist Ross Walker believes that last week's survey data are consistent with a +3% rate of annual growth. Growth in the second quarter may have been a 4-year high of 0.9% qoq. While we suspect the housing recovery is driven by a lack of supply and money inflows from abroad, the recovery in the London property market is flowing into all regions. Near zero policy rates will be having an impact. The MPC is coming around to the idea that macro prudential policy isn't a sufficient condition to ensure financial stability and that earlier tightening of conventional policy is likely to lead to a lower terminal rate. But that is a progressively lonely policy place for the BoE to find itself. Hence the nominal GBP Trade Weighted Index is at its highest since October 2008 and 12% higher than year ago levels. Weaker external demand, evidenced by softer Euro area survey data, raises concern on the exchange rate.

For this week, official manufacturing data will be watched to see if the sector is recovering in line with buoyant surveys. International data will also inform on medium-term negative GBP risks. But for now the focus is yield and rate expectations play GBP supportive against a wide range of currencies. UK CPI and labour market data mid-month will be important in determining whether GBP's rise continues into the summer. But this is unlikely to be a story for this week. GBP/USD may find it a little more of a struggle after last Thursday's robust US payroll report, as markets may again wonder whether this is the time to *Fade the Fed*. We suspect it isn't, but this doesn't mean that financial markets don't at least test the water. Momentum studies (RSIs) also suggest that GBP/USD's rally may have happened a little too quickly and that a pull back may be on the cards. Fed policy looks to remain a focus, with June FOMC meeting minutes (July 9th), July FOMC decision (July 30th), Chair Yellen's Semi-annual Testimony (likely in mid-to-late July) ahead of the September FOMC decision potentially the key dates to watch.

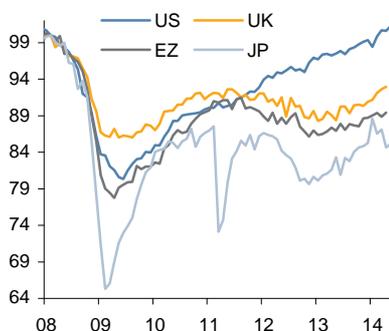
Hours Worked

Source: RBS Trading Strategy, Ecowin



Manufacturing Output (Level)

Source: RBS Trading Strategy, Ecowin



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RBS Trading Strategy Forecasts

Forecast summary table, eop							
		07/07/14	Q3:14	Q4:14	Q1:15	Q2:15	% change by Q2:15
Rates per GBP	EUR	1.259	1.25	1.26	1.25	1.25	-0.74
	USD	1.712	1.65	1.60	1.56	1.56	-8.74
	AUD	1.829	1.79	1.78	1.84	1.84	0.51
	CAD	1.823	1.91	1.92	1.88	1.88	2.85
	CHF	1.531	1.54	1.56	1.55	1.55	1.24
	JPY	174.5	178	179	175	175	0.26
	NOK	10.596	9.69	9.69	9.63	9.63	-9.16
	NZD	1.959	1.95	1.92	2.00	2.00	1.88
	SEK	11.73	11.3	11.1	10.8	10.8	-8.34
CEEMEA rates per GBP	HUF	391.1	385	387	389	389	-0.59
	CZK	34.5	34.4	34.1	33.9	33.9	-1.94
	PLN	5.220	5.25	5.28	5.31	5.31	1.78
	RUB	59.176	62.1	61.2	57.3	57.3	-3.10
	ZAR	18.50	18.1	17.9	17.8	17.8	-3.72
Asia rates per GBP	CNY	10.62	9.7	9.4	9.2	9.2	-13.81
	INR	102.77	88.9	84.7	82.8	82.8	-19.42
	KRW	1731	1713	1601	1563	1563	-9.75
	SGD	2.134	1.96	1.89	1.84	1.84	-13.61
	THB	55.48	52.7	51.1	50.0	50.0	-9.87
	TWD	51.25	47.9	46.3	45.3	45.3	-11.59
LatAm rates per GBP	BRL	3.790	4.12	3.99	3.59	3.59	-5.17
	MXN	22.24	22.1	21.6	21.1	21.1	-5.13
EURUSD		1.360	1.32	1.27	1.25	1.25	-8.06
EURGBP		0.794	0.80	0.79	0.80	0.80	0.74
USDJPY		101.94	108.0	112.0	112.0	112.0	9.87

Source: RBS Trading Strategy

FX Technical Strategy

EUR/GBP

Spot is in an overall downtrend. Until a reversal/base formation takes place, the bigger picture risk is a move down to 0.7750/0.7800. Risk/reward changes back above 0.8160.

Short term levels are initial support at 0.7878 and stronger support at 0.7808. Resistance is seen at 0.7950, 0.8505 and 0.8105. On the shorter term charts, the RSI is not confirming a push lower.

EUR/GBP

Source: Trademade



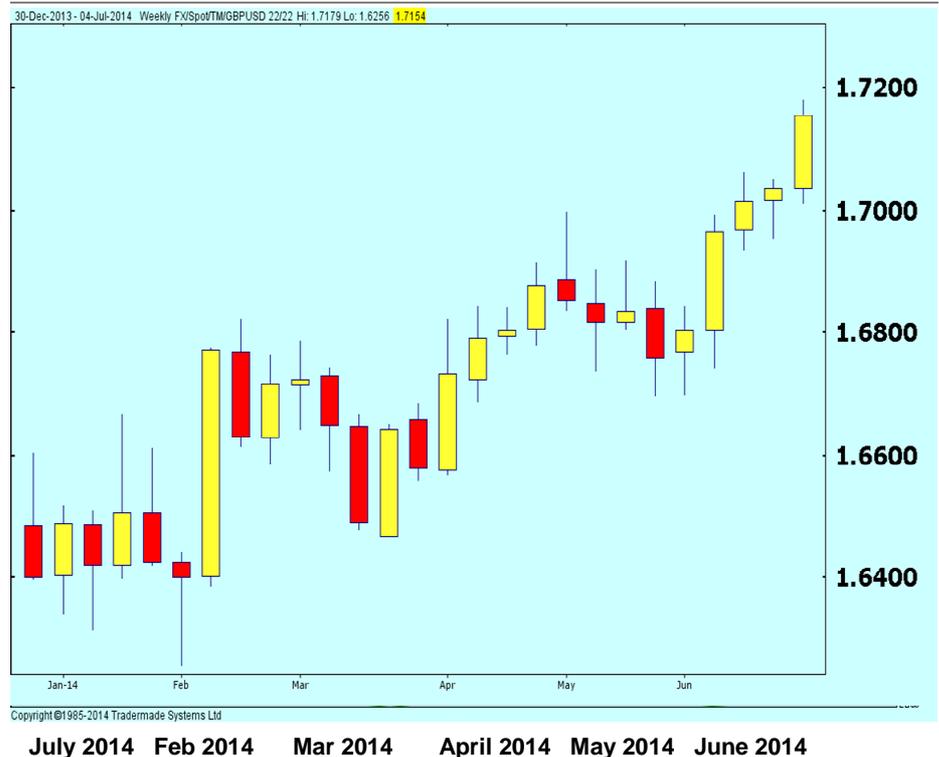
GBP/USD

Technically, the move/uptrend higher is intact, and spot has gone up to the mid resistance level that we previously noted at 1.7155. Final resistance is seen at 1.73 in this run-up.

Support now at 1.7100 initially, then at 1.7040. Resistance at 1.7155 and above that on a weekly close there is a chance of 1.7300

GBP/USD

Source: Trademade



Central Bank Policy Rates

Policy Rate Changes and RBS Trading Strategy Forecasts										
	Current	Last meeting	Ytd	Date of last change	+1m	+3m	+6m	+9m	+12m	Date of next meeting
BoE	0.50	Unchg	Unchg	05/03/2009	0.50	0.50	0.75	1.00	1.25	10/07/2014
Fed	0.0-0.25	Unchg	Unchg	16/12/2008	0.0-0.25	0.0-0.25	0.0-0.25	0.0-0.25	0.50	30/07/2014
ECB	0.15	Unchg	- 0.10	05/06/2014	0.15	0.15	0.15	0.15	0.15	07/08/2014
RBA	2.50	Unchg	Unchg	06/08/2013	2.50	2.50	2.50	2.50	2.50	05/08/2014
RBNZ	3.25	+ 0.25	+0.75	12/06/2014	3.00	3.25	3.50	3.50	3.50	24/07/2014
BoC	1.00	Unchg	Unchg	08/09/2010	1.00	1.00	1.00	1.00	1.00	16/07/2014
BoJ	0.0-0.10	Unchg	Unchg	19/12/2008	0.0-0.10	0.0-0.10	0.0-0.10	0.0-0.10	0.0-0.10	15/07/2014
Riksbank	0.25	- 50	- 0.50	3/7/2013	0.25	0.25	0.25	0.25	0.25	04/09/2014
Norges Bank	1.50	Unchg	Unchg	14/03/2012	1.50	1.50	1.50	1.25	1.25	18/09/2014
SNB	0-0.25	Unchg	Unchg	03/08/2011	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	18/09/2014
National Bank of Hungary	2.30	-0.10	-0.70	24/06/2014	2.30	2.30	2.30	2.30	2.30	22/07/2014
National Bank of Poland	2.50	Unchg	Unchg	03/07/2013	2.50	2.50	2.50	2.50	2.50	03/09/2014
Czech National Bank	0.05	Unchg	Unchg	01/11/2012	0.05	0.05	0.05	0.05	0.05	31/07/2014
Reserve Bank of South Africa	5.50	+0.50	+0.50	29/01/2014	5.50	5.50	6.00	6.00	6.00	17/07/2014
Banco de Mexico	3.00	- 0.50	- 0.50	25/10/2013	3.00	3.00	3.00	3.00	3.00	11/07/2014
People's Bank of China	6.00	-0.31	Unchg	05/07/2012	6.00	6.00	6.00	6.00	6.00	
Reserve Bank of India	8.00	Unchg	+0.25	28/1/2014	8.00	8.00	8.00	7.75	7.75	05/08/2014

Source: RBS Trading Strategy

Weekly Calendar of Events

Time BST	Country	Release	Month	RBS Forecast	Median forecast	Previous
Monday 07 July						
*	UK	Halifax house price, 3m, % yoy	Jun		8.9	8.7
*	UK	Halifax house price, % mom	Jun		-0.3	3.9
06:00	GE	Industrial Production, % yoy	May		3.6	1.8
06:00	GE	Industrial Production, % mom	May	-0.3	0.0	0.2
08:00	NO	Industrial Production, % mom, sa	May			0.0
08:00	NO	Industrial Production, % yoy, nsa	May			1.8
08:00	NO	Industrial Production Overall, % yoy, nsa	May			3.2
08:00	NO	Industrial Production Overall, % mom, sa	May			-0.1
08:30	EA	Sentix Investor Confidence	Jul		7.75	8.5
Tuesday 08 July						
00:50	JP	Balance of payment, JPY bn	May	227.5	417.5	187.4
06:00	JP	Eco watcher survey, Current DI	Jun		48.9	45.1
06:00	GE	Trade Balance, EUR bn, nsa	May		16.3	17.4
06:30	FR	Bank of France Business Sentiment	Jun		96.5	97.01
08:30	UK	Industrial Production, % mom	May	0.3	0.3	0.4
08:30	UK	Industrial Production, % yoy	May	3.2	3.2	3.0
08:30	UK	Manufacturing Production, % mom	May	0.4	0.4	0.4
08:30	UK	Manufacturing Production, % yoy	May	5.6	5.6	4.4
14:00	UK	NIESR GDP est, %	Jun			0.9
19:00	US	Consumer Credit, USD bn	May		19.10	26.84
Wednesday 09 July						
*	UK	RICS House Price Balance, %	Jun		55	57
00:50	JP	Money stock, M2, % yoy	Jun		2.5	2.6
00:50	JP	Money stock, M3, % yoy	Jun		3.0	3.3
06:00	SE	AMS Unemployment Rate, %	Jun			3.9
09:00	GR	Greece HICP, % yoy	Jun			-2.1
18:00	US	Fed Releases Minutes from Jun 17-18 FOMC Meeting				
Thursday 10 July						
00:50	JP	CGPI, % mom	Jun	0.2	0.1	0.3
00:50	JP	CGPI, % yoy	Jun	4.6	4.5	4.4
00:50	JP	Machinery orders, % mom	May	4.0	0.7	-9.1
00:50	JP	Machinery orders, % yoy	May	12.0	10.1	17.6
06:45	FR	HICP, % mom	Jun		0.2	0.0
06:45	FR	HICP, % yoy	Jun		0.8	0.8
06:45	FR	CPI, % mom	Jun		0.2	0.0
06:45	FR	CPI, % yoy	Jun		0.7	0.7
06:45	FR	Industrial Production, % mom	May		0.2	0.3
06:45	FR	Industrial Production, % yoy	May		-1.0	-2.0
06:45	FR	Manufacturing Prod., % mom	May		0.0	0.3
06:45	FR	Manufacturing Prod., % yoy	May		0.8	0.0
07:30	SE	CPI Headline Rate, % mom	Jun		0.0	0.05
07:30	SE	CPI Headline Rate, % yoy	Jun		0.0	-0.16
08:00	IT	Industrial Production, % mom	May		0.2	0.7
08:00	IT	Industrial Production, % yoy	May			1.6
08:00	NO	CPI, % mom	Jun		-0.2	0.1
08:00	NO	CPI, % yoy	Jun		2.0	1.8
08:30	UK	Trade balance (total), GBP bn	May		-8750	-8920
08:30	UK	Trade balance (non-EU), GBP bn	May		-3500	-3783
09:00	IR	Ireland HICP, % yoy	Jun			0.4
10:00	PO	Portugal HICP, % yoy	Jun		-0.3	-0.3
11:00	UK	BoE Rate Announcement, %	Jul	0.5	0.5	0.5
12:30	US	Initial Jobless Claims, thousands	5-Jul	330	315	315
14:00	JP	Consumer confidence survey, Consumer confidence	Jun		40.5	39.3
14:00	US	Wholesale Inventories, % mom	May			1.10
Friday 11 July						
06:00	GE	CPI, % mom	Jun		0.3	0.3
06:00	GE	CPI, % yoy	Jun		1.0	1.0
06:00	GE	HICP, % mom	Jun		0.4	0.4
06:00	GE	HICP, % yoy	Jun		1.0	1.0
07:00	ES	Spain HICP, %	Jun		0.0	0.0
19:00	US	Monthly Budget Statement, USD bn	Jun		79.0	-130.0

All times are GMT. \$ = no fixed date * = no fixed time p = provisional r = revised # = consensus forecast e = estimate

Source: RBS Research, Bloomberg

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