


**Interest Rate & FX
Strategy**

Daily Currency Briefing

CHF to remain on the defensive – for now

- **BoE Governour King: BoE to give better guidance on rates**
- **NZ FinMin Cullen: not satisfied with a monetary policy framework which penalised export companies, referring to strong NZD**
- **BoC Dodge: may take stronger CAD in July into account, rise to 0.92 US cents (USD/CAD 1.09) not considered extraordinary**

The EUR view: Today's US data is likely to support the current consolidative mood of the market ahead of the more important US employment report Friday, which constitutes the last first tier release ahead of next week's FOMC meeting. While the employment component of the April manufacturing ISM index showed a healthy increase, yesterday's disappointing ADP number (+64k vs the 100k forecast) and today's anticipated rise in initial claims don't bode well for non-farm payrolls. Slowing productivity fits better into the picture of a gradual economic slowdown than a surprisingly strong ISM index from a market point of view, while more moderate unit labor costs – although still too strong for the Fed – may comfort those who expect Fed rate cuts sooner than later. On the other hand, the ISM non-manufacturing risks an upside surprise given its unexpected plunge last month. Bottom line: Amid evident market concern over a weak employment report on Friday, the dollar should continue to consolidate in a tight range today, with any dollar gains - which have so far proved unsustainable - limited to the 1.3520 area in EUR/USD. In the coming days and weeks, the USD will resume its gradual decline towards 1.38.

CHF: EUR/CHF has broken up through the 1.65-level in recent days. In an environment of high risk appetite, we don't exclude further CHF-losses towards 1.66/1.67. Since the last SNB meeting in mid-March, our Swiss Monetary Conditions Index (MCI) implies an effective 68bps easing under a 3:1 ratio. We, like the markets, have been sanguine on SNB verbal threats against CHF weakness, but the extent of the recent unwanted easing implied by the MCI has opened up the possibility of an unexpected 25 bp rate hike before the 14 June rate meeting. The SNB could also argue that this would help counteract the building carry bubble and one-way trade. Such a step would definitely remove some of the downward pressure from the CHF and make investors think twice before entering new carry trades. Until this happens, the CHF will remain on the defensive.

Today's events

Major Markets	Period	Market	CBCM	Previous	Impact
10:30 UK	PMI (services)	April	57.5	57.5	Neutral
14:30 USA	Initial jobless claims	28 April, Tsd	325	325	Neutral
14:30 USA	Non-farm productivity	Q1, qoq, AR	0.7%	1.5%	Negative
14:30 USA	Unit labour costs	Q1, qoq, AR	3.8%	3.8%	Negative
16:00 USA	ISM non-manufacturing index	April	54.7	52.0	Positive

USA: Treasury Secretary Paulson speaks on Chinese economy (19:00)

EUR: ECB member Tumpel-Gugerell speaks (19:35)

Local Markets	Period	Market	CBCM	Previous	Impact
15:30 TUR	Consumer prices	April, yoy	10.4%	10.9%	Neutral
15:30 TUR	Producer prices	April, yoy	9.7%	10.9%	Neutral

Local Markets Following Prime Minister Erdogan's announcement that early elections will be held on 24th June the Turkish lira has been able to gain some ground. As a consequence USD/TRY fell to 1.35. A continued showdown between government and military, which would have damaged Turkey's EU ambitions, seems to be off the agenda for the time being. A further recovery of the lira towards USD/TRY 1.34 and a closing of the gap of 30th April therefore seems possible. Further price gains are unlikely to be sustainable though as uncertainty might return to the markets depending on the outcome of the elections.

Currencies		Percent
EUR/USD	1.3610	0.19
EUR/CHF	1.6487	-0.11
EUR/GBP	0.6835	0.37
EUR/JPY	163.55	0.45
USD-Index	81.72	-0.03

10-year yields		Basis points
USA	4.64	0.6
Euroland	4.21	4.8
UK	5.10	3.7
Japan	1.68	4.4

Stock markets		Points
DOW	13211.88	75.74
EuSTOXX50	4415.48	23.14
FTSE 100	6484.50	64.90
Nikkei	17394.92	0.00

Commodities		Dollar
Crude oil, Brent in \$	65.62	-0.61
Gold, ounce in \$	673.20	-0.55

Event risk calendar

4 May	Riksbank interest rate meeting
4 May	US employment report
9 May	FOMC meeting
9/10 May	BoE interest rate meeting
10 May	ECB interest rate meeting
10 May	US trade balance
11 May	US retail sales
15 May	US CPI

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