

# FX Weekly

## Review: 6<sup>th</sup> – 12<sup>th</sup> April 2009

### Recap

- Range bound week with low volatility and low volumes
- Trading activity kept in check during a shortened week as traders were awaiting US earnings results due the following week
- Yen and US Dollar benefited from economic recovery scepticism in view of surprising macro data and equity news
- EUR moderately down across the board as apprehensive ECB stoked speculative Euro selling
- Swiss Franc failed to lure safe-haven buyers as risk-averse connection broke down



### Market Research

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Currency pair	At Open on April 6 <sup>th</sup>	At Close on April 10 <sup>th</sup>	Nominal Change	% Change	Volatility
EUR/USD	1.3525	1.3187	-0.0338	-2.50%	3.65%
GBP/USD	1.4848	1.4665	-0.0183	-1.23%	2.55%
USD/JPY	100.27	100.23	-0.04	-0.04%	2.12%
USD/CHF	1.1294	1.1544	0.0250	2.21%	3.39%
EUR/GBP	0.9105	0.8976	-0.0129	-1.42%	1.78%
EUR/CHF	1.5267	1.5224	-0.0043	-0.28%	1.21%
GBP/CHF	1.6759	1.6938	0.0179	1.07%	2.14%
GBP/JPY	148.85	147.00	-1.85	-1.24%	3.89%
EUR/JPY	135.62	132.20	-3.42	-2.52%	4.77%
CHF/JPY	88.77	86.79	-1.98	-2.23%	4.04%
AUD/USD	0.7158	0.7193	0.0035	0.49%	2.71%
NZD/USD	0.5875	0.5826	-0.0049	-0.83%	4.90%
USD/CAD	1.2293	1.2257	-0.0036	-0.29%	2.22%

| Source: Alpari (UK)

A very mixed week where a risk-averse mentality took hold in the beginning - only to reverse mid-way through the week, allowing FX risk-appetite to recover going into the Easter weekend. Investors were buffeted by multiple events and developments although nothing significant to alter market trends significantly. Last week was a muted affair with low volatility and no clear direction for any major currencies as market participants anticipated Q1 earnings results from the largest US firms due to begin on April 13<sup>th</sup> (full earnings calendar for the next 2 weeks is included on page 10).

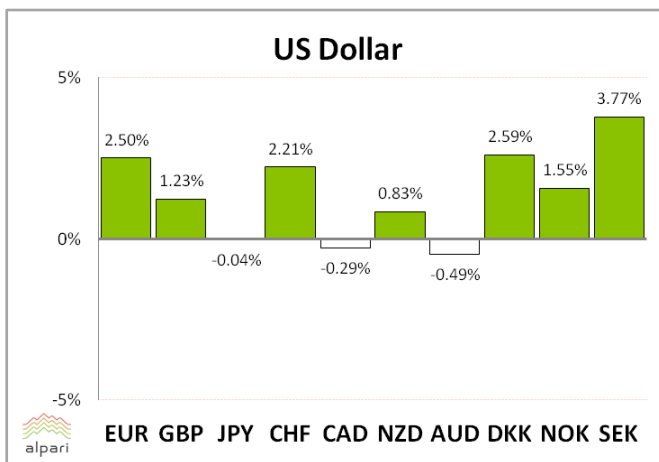
From our summary table it can be seen that most currency pairs explored an upside and a downside before closing more or less where they opened. The best example for this was USD/JPY (-0.04%).

## US Dollar

### */Sell-side influences/*

The US Trade gap narrowed to its lowest level since 1999 as imports fell sharply contrasted with slowly growing exports. Very USD positive in the traditional sense but because USD has been acting as a risk barometer, the news was paradoxically negative because better demand/growth/recovery prospects tend to drive capital flows away from safe-havens such as USD, JPY and CHF.

Wells Fargo reported that it expects to see much larger than expected profits when it announces its official Q1 results on Apr 22<sup>nd</sup>. Wells Fargo was funded by the US bank bailout scheme to the tune of \$25bn. The announcement increased the likelihood that earnings results would definitely be better than expected for most financial firms but also for other firms in other sectors of the economy.



### */Buy side influences/*

Pessimistic FOMC minutes didn't make a significant impact on US equities or the US Dollar. Minutes revealed that FOMC members' view of the US economy deteriorated rather than improved between their February and March meetings. This revelation is contrary to the strong surge in commodity and equity prices that occurred in the same period. USD was firmer after the release

of the minutes presumably on the back of risk-aversion. US equities were sold initially but recovered late in the US trading session and tracked higher on Thursday suggesting the content of the minutes was largely ignored.

Overall, buying interest in the US Dollar came from risk aversion and scepticism over upcoming earnings results. Also, stress tests designed by the US administration to test bank health (and in effect solvency) were widely expected to be concluded the following week which also took volume out of the market. Market participants preferred to stay sidelined pending further developments.

### */Economic calendar highlights/*

Trade Balance (-\$26bn vs. -\$36.6bn exp)

Unemployment Claims (654,000 vs. 665,000 exp)

Federal Budget Balance (-\$192.3bn vs. -\$156.3bn exp)

## Euro

Overall, a risk-averse mood gave confidence to Euro bears in particular and ensured the Euro was the worst performing currency last week. Risk-appetite returned to the market following a sanguine start to the week but EUR failed to benefit because of numerous anxieties and concerns.



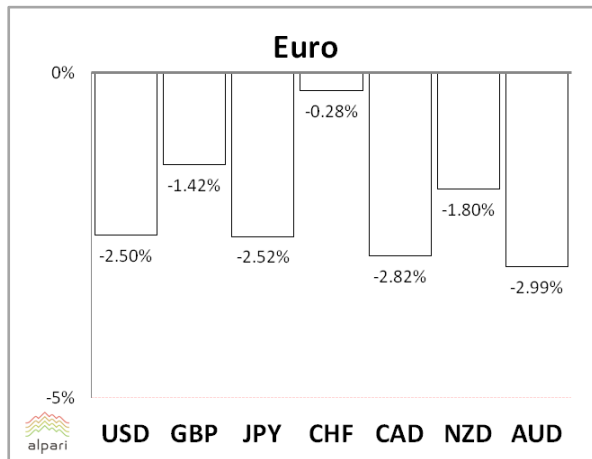
### *| Sell-side influences |*

A report by the IMF recommending Central and Eastern European countries adopt the Euro without formally joining the Euro zone gained traction amongst market participants and weighed on the Euro.

Bini Smaghi's statement that intervention may be warranted in FX markets (in some cases) caused a stir because the ECB is usually very coy and tentative when commenting on currency fluctuations.

The Euro ran into trouble as sombre news regarding Ireland's growing budget deficit required an emergency budget raised fears that Ireland may not be able to handle the economic crisis by itself and will require EU or IMF support. Irish growth is estimated to be -7% as the main driver for growth (construction industry) suffers from continued weakness on both the demand and supply side. The next day, Ireland had debt ratings on all of its banks cut by Moody's. This added momentum to doubts that at least one member of the European Monetary Union would soon need emergency financing and/or would leave the Union.

ECB council member Ewald Nowotny said cutting the benchmark rate below 1% is "still open for debate" and it would be "sensible" for the bank to buy corporate debt. Nowotny's comments upset market participants not because interest rates falling below 1% are much of a surprise. Most



investors understand the realities of monetary policy going forward but what investors didn't know is the level of disagreement and dislocation within the ECB regarding the issue of rates and (more importantly) asset purchases aimed at expanding liquidity. So far, most ECB commentary has been against quantitative easing although worrying developments in EU member countries like Ireland and exposure to Central and Eastern European loans has begun to affect investor sentiment towards the Euro and increased the chances

of European monetary policy resembling its counterparts in the US and UK. We have seen strong EUR interest as the ECB rejected calls to implement expansionary policy so now that a U-turn seems on the cards many of those EUR longs are slowly exiting their positions.

IMF estimates that likely write-downs across the financial industry will reach \$4,000bn, higher than the previous estimate of \$2,000bn drove fear into investors that the recent trend of large write-downs would continue regardless of the rise in commodity prices or the stabilisation in

macro deterioration. Investors reigned in their optimistic outlooks and took profits on EUR and cyclical longs going into important announcements next week.



*/Buy side influences/*

The Euro has been strong against the other major currencies as hopes of an economic recovery move closer to reality. Although commodity and cyclical currencies have performed best alongside improving risk-appetite, EUR has been a good alternative for investors looking to add exposure to a seemingly premature financial recovery.

Very few buying signals over the course of the week as a clear downtrend in most EUR pairs was evident. There were brief spells of EUR buying in response to confidence boosting news regarding Wells Fargo but this was far outweighed by other factors.

*/Economic calendar highlights/*

Retail Sales (-0.6% vs. -0.3% exp)

German Trade Balance (€8.9bn vs. €7.5bn exp)

German Factory Orders (-3.5% vs. -2.4% exp)

## British Pound

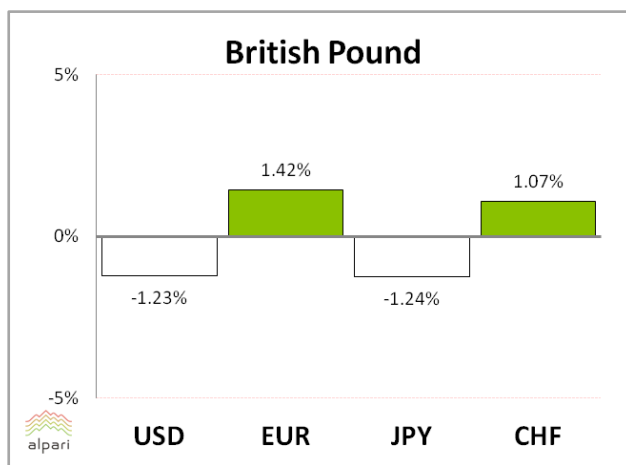
A shortened, subdued week led to speculative fluctuations in Sterling pairs but with no clear direction.



### */Sell-side influences/*

Q1 earnings season in the US was the primary talking point amongst investors last week making it difficult for significant trading activity to occur until the extent of the economic recovery could be gauged. GBP was weaker against USD (-1.23%) and JPY (-1.24%) which suggests an element of risk-aversion being present amongst market participants although there were also instances of strong GBP demand as well.

Speculative GBP shorts came into the market expecting a very negative tone to Sterling trading in the following week because of the high correlation between financial stocks and GBP.



### */Buy side influences/*

BoE left interest rates unchanged at a record low of 0.50% and the first tranche of QE policy (£75bn) is due to be completed in the next 2 months. GBP was stronger following the decision as prevailing positive attitude to risk resumed its influence. Market participants were particularly pleased to hear that expansion of the QE policy announced last month would not occur for now.

Much better than expected manufacturing production figures were a good indicator for the UK economy leading to GBP gains across the board.

### */Economic calendar highlights/*

Manufacturing Production m/m (-0.9% vs. -1.4% exp)

Trade Balance (-£7.3bn vs. -£7.6bn)

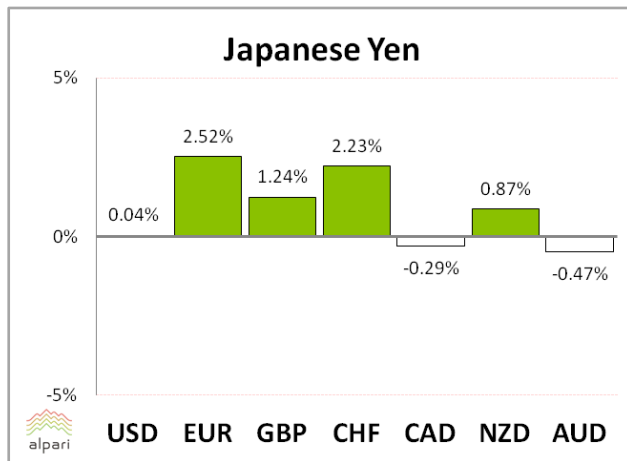
Official Interest Rate (held at 0.5% as expected)

## Japanese Yen

### */Sell-side influences/*

Japan's Prime Minister Taro Aso unveiled a 15.4 trillion Yen (\$154 billion) stimulus in an attempt to stimulate the Japanese economy that is seeing increasing deterioration in its economic fundamentals.

The current government is proposing to spend 3% of GDP on the environment, education, child care, measures to support the job market and companies. Aso's 3<sup>rd</sup> package since September would take total spending to 25 trillion Yen (\$250bn). The extra fiscal stimulus boosted stock markets and helped risk-appetite recover from a pessimistic week up until Thursday. The fall in risk-aversion was a negative factor despite the good news affecting the Yen more so than any other currency. In our opinion, this is an illustration of how currencies are becoming more responsive to global events rather than domestic ones.



### */Buy side influences/*

At the start of the week JPY fell to a 6 month low against the US Dollar but was soon stronger as an element of caution came back into financial markets. Much of the confidence (and hope) that an economic recovery is beginning to occur was nowhere to be seen which helped JPY to gains across the board.

JPY continued to make gains alongside falling equity markets as market participants braced themselves for a hugely important earnings announcement by Alcoa, a significant bellwether for other mining stocks but also an indicator of global commodity demand. Weak Q1 figures would dampen expectations that US led stimulus packages will/are making an impact.

Q1 earnings from Alcoa were more negative than expected. The news undermined hopes that earnings could show signs of an economic recovery and added momentum to risk-aversion from which the Yen and US dollar benefited.

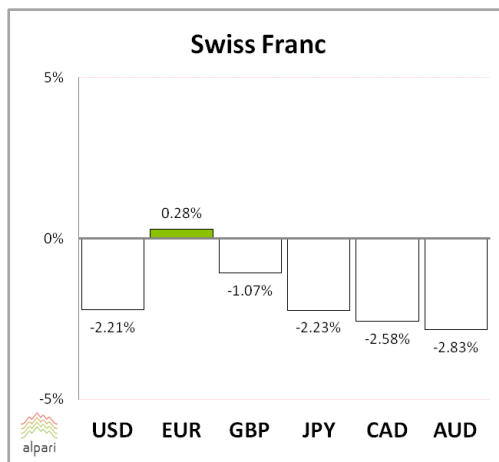
### */Economic calendar highlights/*

Current Account (0.67 trillion Yen vs. 0.51 exp.)

## Swiss Franc

### */Sell-side influences/*

CHF was lower against every currency apart from the Euro as heightened risk-sentiment failed to induce buying interest. A breakdown in the correlation of the Swiss Franc to risk-aversion could be because the SNB has ventured on a course of CHF intervention in an attempt to weaken the currency and make Swiss exporters more competitive. Some investors have developed anxiety over holding the currency in the short-medium term because of actions by the central bank. In addition, actual intervention may have contributed to CHF weakness. However, this explanation should be tempered with the fact that FX markets were relatively illiquid with a large percentage of market participants away from their desks. This aspect is important because market moves must be done with significant volume for them to be representative of broad investment opinion.



### */Buy side influences/*

Limited buying interest could have come from speculative positioning and profit taking after several weeks of poor performance. Low volumes and a limited data flow made it very difficult for buying interest to emerge. The biggest surprise was the Franc's comparative downside to other safe-haven currencies such as JPY and USD.

### */Economic calendar highlights/*

Unemployment Rate (3.3% vs. 3.3% exp.)

## Others

Sharp rise in crude oil prices due to a smaller than expected rise in inventories. Oil prices rose confidently above \$50 per barrel. The news added weight to the argument that economic activity and demand around the world is beginning to recover. Commodity currencies benefited most and retraced some of the losses against USD made earlier in the week.

The Australian Dollar rose early in Tuesday's European session despite a relatively unexpected 0.25% interest rate cut. The rate cut was accompanied by a statement suggesting further rate cuts would be looked at with caution, inducing investors to buy AUD in favour of USD, EUR, CAD and JPY. This was probably because market participants do not expect more interest rate cuts for the time being. Volatility was high which led to erratic, choppy trading conditions.

## Preview: 13<sup>th</sup> – 19<sup>th</sup> April 2009



### Looking ahead

- Q1 earnings will be the prime focus for the duration of the week as investors gauge continuity of recent revival
- Currencies could take their cue from equity market developments with prime focus on financials
- Sparse economic calendar focuses on retail sector via retail sales and CPI readings
- Key themes maintain their positions: further developments in the QE arena and extent of economic stabilisation/recovery currently taking place

Early on Tuesday morning, the Singapore government announced a one-off devaluation of its currency (SGD) in response to dire GDP figures (-19.2% on an annualised basis). The announcement led to a fall in USD/SGD because it is reportedly a one-off measure designed to stimulate the economy. Considering the magnitude of the GDP figure it is likely that the Singapore dollar will weaken over the short-medium term. Against the Yen, SGD has now recovered most of its losses that came after the announcement during the Asian trading session.

This week could be a very important one as investors pay attention to company results from the 1<sup>st</sup> quarter of 2009. Some of the largest firms in the US including banks, oil, industrial, telecoms and consumables firms are all due to report either this week or next (earnings calendar on page 10).

Q1 results are usually quite straightforward and do not attract a lot of attention but under current circumstances they are pivotal. The financial crisis has now fed through to all sectors of most economies in the world; around the globe demand is weak, investment is falling and international trade levels have fallen to record lows. Over the course of March 09, stock markets rallied as macroeconomic indicators stabilised (i.e. deteriorated by less than feared) and reports circulated that banks as well as other financials are profitable for the first time since the crisis took hold in 2007. Commodity prices have also been rising as an indicator of better global demand and hopes of a broad economic recovery. Currencies have been affected in favour of commodity and cyclical currencies at the expense of safe-havens such as USD, JPY and CHF. In our opinion, earnings will probably be mixed leading to volatile equity markets. Currencies will only be affected if we see a pronounced change in sentiment. Other factors important to consider is that expectations are high so even if a company is in line with estimates, that could be interpreted as negative. Also, new accounting practises brought into force last week have allowed some firms to conceal unsavoury parts of their balance sheets which could be picked up by investors.

The upcoming earnings results are essentially a litmus test for many of the assumptions that have been made over the course of March. If companies report better than expected earnings it could act as confirmation that the financial crisis is easing leading to a continuation in the up trends of currencies like AUD, CAD, NOK, SEK, NZD and even GBP which tends to benefit from good banking news. Poor results on the other hand could remind investors that most sectors are still weighed down by a lack of demand and that financing (via borrowing) will be continue to be a problem because of widespread distrust and anxiety. The rallies we have seen so far have been largely due to popular opinion and commentary whereas official earnings results will at least provide market participants with a tangible tool to gauge the progress of key companies. Current economic

problems began with banks so if there is a recovery it must involve an improvement in the banking sector.

Ongoing stress test results of US banks are being kept confidential for the time being but investors are keen to see which banks are labelled health and which ones are not. This could encourage a 2 tier system whereby some banks are considered free from the credit crisis, thus being worth of private investment, and others which are still not completely free from further write-downs and bad loans leading to financial difficulties further down the line. In this case, the US government would be forced to provide more capital to the ailing institutions in question.



### **FX Sensitive Calendar Events**

#### Monday 13<sup>th</sup> April

(NZD) Retail Sales

#### Tuesday 14<sup>th</sup> April

(USD) Retail Sales

#### Wednesday 15<sup>th</sup> April

(USD) Consumer Price Index

(USD) Empire State Manufacturing Index

(USD) TIC Long-Term Purchases

(USD) Industrial Production

(USD) Beige Book

#### Thursday 16<sup>th</sup> April

(EUR) Consumer Price Index

(USD) Building Permits

(USD) Unemployment Claims

(NZD) Consumer Price Index

#### Friday 17<sup>th</sup> April

(CHF) Retail Sales

(EUR) Trade Balance

(CAD) Consumer Price Index

(USD) University of Michigan Consumer Sentiment

The economic calendar is once again limited with USD events dominating. US housing and industrial sector activity are likely to be the focus. We expect US data to play a part this week under the shadow of equity developments and commentary from central bank members which is almost certain to include references to monetary expansion. Most central bank commentary is scheduled for Thursday and Friday.

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**Q1 2009 Earnings Calendar**


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**Monday 14-Apr**

Goldman Sachs  
CSX Corp  
Johnson & Johnson  
Intel Corp

**Monday 20-Apr**

Eli Lilly & Co  
Halliburton  
Bank of America

**Tuesday 15-Apr**

Abbott Laboratories  
Charles Schwab Corp

**Tuesday 21-Apr**

Lockheed Martin  
Coca-Cola  
M&T Bank Corp  
Lexmark International  
US Bancorp  
El Du Pont de Nemours  
Bank of New York Mellon  
Fifth Third Bancorp  
Keycorp  
Western Union  
Advanced Micro Devices  
Yahoo! Inc  
Merck & Co  
State Street  
Morgan Stanley  
New York Times  
Northern Trust Corp  
Delta Air Lines

**Wednesday 16-Apr**

JPMorgan Chase  
BlackRock  
Google Inc

**Wednesday 22-Apr**

Freeport-McMoRan Copper & Gold  
McDonald's  
Boeing  
AT&T  
Wells Fargo  
Continental Airlines  
Alliance Data Systems  
Hertz Global Holdings  
Kimberly-Clark  
QUALCOMM  
Pepsi Bottling Group  
Apple Inc

**Thursday 17-Apr**

Mattel Inc  
Citigroup Inc  
General Electric Co

**Thursday 23-Apr**

Marriott International  
PepsiCo  
Microsoft Corp  
American Express  
Ambac Financial Group  
T Rowe Price Group  
Reliance Steel & Aluminum  
Northrop Grumman  
Motorola Inc  
Union Pacific  
Black & Decker  
AllianceBernstein Holding  
Amazon.com Inc  
Raytheon Co

**Friday 18-Apr**

N/A

**Friday 24-Apr**

Honeywell International  
Schlumberger  
3M Co  
Genworth Financial  
Goodyear Tire & Rubber  
Xerox Corp  
Bristol-Myers Squibb  
Ford Motor Company  
Whirlpool Corp

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