FX Edge

More ECB comments on QE; US backdrop and the USD; CHF firms

Comments from ECB officials suggest varying degrees of support for QE within the Governing Council. US data Friday was good, but not good enough to change market perceptions on the USD specifically or the US outlook more broadly. The CHF is recouping some ground as the new week gets underway.

ECB's Nowotny and Mersch are less enthusiastic on QE

Last week's discussion of potential quantitative easing (QE) measures by ECB President Draghi may have helped to put EUR-USD on the defensive, but is also intensified the market's focus on such measures, the form they might take, their effectiveness, and the perceived risk that the ECB could actually deploy it/them. Other ECB officials have also been weighing in on the matter since last Thursday's ECB press conference. Today, two ECB Governing Council members downplayed the potential for QE. Ewald Nowotny, who also heads The Netherlands's central bank, said the ECB is following inflation developments closely but that he sees no immediate need to act. In addition, he favors efforts to strengthen the asset backed securities (ABS) market in Europe as a preliminary step to prepare for possible QE in the future. Nowotny's comments not only downplay the risk of near-term QE, but also suggest that such measures, if they ever do come to fruition, would be focused on the ABS market, rather than on Eurozone sovereign debt. Separately, the Yves Mersch said that QE is a theoretical concept and that there is a long way to go to any practical implementation of such measures. And like Nowotny, Mersch added that he does not see an imminent risk of deflation (as increased deflation risks would otherwise argue for more immediate easing measures from the central bank).

The debate around the potential for QE, if and when it could happen, the securities it would target (ABS versus sovereign debt) and its potential effectiveness is just getting started. And recall that the debate includes the FAZ article from Friday supporting the possibility of QE by saying that the ECB has already "modelled" the inflation impact of a EUR1 trln asset purchase program. But it is interesting to note that just days after Draghi more seriously and publicly floated the idea last Thursday and the FAZ article on Friday, the downward pressure on the EUR is already diminishing. And comments such as those from Nowotny and Mersch above downplaying the imminent need/risk for QE raise questions about the stance of the full Governing Council on the matter and in so doing partially counter the EUR-bearish effects of Draghi's remarks at the ECB press conference. There will clearly be attention on the string of other ECB speakers slated for this week.

The aftermath of US data and the USD

Another input for EUR-USD and the USD more broadly is the after-effects of Friday's US labor market data, which showed a solid gains in payrolls (197K in March plus another 37K in upward revisions to the previous two months), a flat unemployment rate at 6.7%, a big 476K rise in the household measure of employment and a further improvement in the labor participation rate to 63.2%, bringing it four-tenths off the 68.2% cycle low reached late last year. On the surface, the outcome suggests that the early-year weakness was more weather-induced rather than indicative of some underlying deterioration in the labor market and such sentiments should be at least somewhat supportive for the USD. However, that has not developed to any significant degree and instead, the USD has consolidated and even lost some ground against the European currencies. And it has registered more noticeable losses against the JPY, with USD-JPY falling roughly a big figure from its post jobs data push above 104.00. The slippage in USD-JPY seems related more to the "risk off" bias evident in US and global equity market

Robert Lynch | 2125253159 | ROBERT.LYNCH@US.HSBC.COM

weakness since last Friday, while the USD's lethargy more broadly suggests that market participants were not overly impressed with the US jobs data. That may be partly because markets have already been coming around to the notion that the economy would in fact rebound from the early-year sluggishness and also because the outcome of Friday's data did little to change the Fed policy outlook, either in terms of the pace of tapering or the timing of the beginning of the tightening cycle.

Looking ahead this week, the minutes from the March FOMC meeting on Wednesday will be on the market's radar, even though Janet Yellen's press conference following the meeting would have seemingly fleshed out much of the relevant information from that event. The data calendar is fairly light and includes JOLTS Job Openings Tuesday, weekly MBA mortgage applications Wednesday, weekly jobless claims Thursday, while Friday brings March PPI and the preliminary reading of the April U. of Michigan Confidence Index.

EUR-USD chart points

Although we have highlighted that speculation of ECB QE and better US data have failed to put more sustained downward pressure on EUR-USD, it is the case that the shorter term chart pattern for the currency pair is more bearish than not, with momentum still pointing lower (5-day and 40-day moving average crossover last week) and the series of lower highs and lower lows registered since the March 13 peak. There is support at 1.3675-90, defined by Friday's low, the uptrend off the July 2013 low and the 100-day moving average, and a sustained break of all of those would seemingly open scope for further declines. Resistance remains at the late-March/early-April highs above 1.3800.

CHF recovers some ground

Swiss CPI edged up to 0.0% y/y in March from -0.1% February, one-tenth above expectations but hardly signalling any measureable change/improvement in the overall inflation backdrop or outlook. And in that regard, the argument for a continuation of the SNB's accommodative policy stance, including maintaining the ceiling on the franc (the 1.2000 EUR-CHF floor) remains very intact. We noted on Friday that the CHF had been losing some ground since mid-March, which we related partly to the reduced stresses and focus on the Russia/Ukraine tensions, the SNB's reiteration last month that the CHF ceiling will continue, and as well to the continued improvement in the peripheral Eurozone bond markets, which has reduced the appeal of the safe-haven CHF. Indeed, Friday saw German-Italian and German-Spanish 10-year sovereign spreads fall to their lowest levels in three years, in line with the trend this year (and in 2013, for that matter) and potentially given an extra boost by the discussion of ECB QE, which would potentially add to buying interest in peripheral debt. But today, those spreads have widened out by 3.5 bp and 5.5 bp for Italy and Spain respectively (the Nowotny and Mersch comments are impacting), with the slippage in the peripheral markets at least somewhat consistent with the firming in the CHF. Moreover, tensions in Ukraine are rising again amid reports of increased civil unrest in eastern areas of the country as well the shooting of a Ukrainian military officer by Russian forces in Crimea (Bloomberg News), which also tends to be CHF-supportive. EUR-CHF is threatening support from the March 14 trendline at 1.2191 while USD-CHF failed to sustain gains after temporarily breaking above the July 2013 downtrend at 0.8931 on Friday, and support there looks to be at the recent lows near 0.8820.

HSBC

Disclosure appendix

Analyst certification

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Robert Lynch

This document has been prepared and is being distributed by the Research Department of HSBC and is intended solely for the clients of HSBC and is not for publication to other persons, whether through the press or by other means.

This document does not provide individually tailored investment advice and should not be construed as an offer or the solicitation of an offer to buy or sell any securities or to participate in any trading strategy. The information contained within this document is believed to be reliable but we do not guarantee its completeness or accuracy. Any opinions expressed herein are subject to change without notice. HSBC may hold a position in, buy or sell on a principal basis or act as a market maker in any financial instrument discussed herein.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments (including derivatives) of companies covered in HSBC Research on a principal or agency basis.

Analyst(s) are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Chinese Wall procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

Additional disclosures

1 This report is dated as at 07 April 2014.
2 All market data included in this report are dated as at close 07 April 2014, unless otherwise indicated in the report.
3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

Disclaimer

** Legal entities as at 8 August 2012'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Bank Canada, Toronto; HSBC Bank, Paris Branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Brasil SA – Banco Múltiplo; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR*

Issuer of report
HSBC Securities (USA) Inc
452 Fifth Avenue, 9th floorHSBC TowerNew York, NY 10018, USATelephone: +1 212 525 5000Fax: +1 212 525 0354Website: www.research.hsbc.com

This material was prepared and is being distributed by HSBC Securities (USA) Inc., ("HSI") a member of the HSBC Group, the NYSE and FINRA. This material is for the information of clients of HSI and is not for publication to other persons, whether through the press or by other means. It is based on information from sources, which HSI believes to be reliable but it is not guaranteed as to the accuracy or completeness. This material is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. The opinions contained within the report are based upon publicly available information at the time of publication and are subject to change without notice. HSI and/or its affiliated companies will buy or sell from customers on a principal basis the securities of the issuer(s) whose securities are recommended in this report. Employees of HSI and its affiliates not involved in the preparation of this report may have positions in the securities mentioned in this report and may from time to time add or dispose of any such securities in a manner different than discussed in this report. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed. In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business for the information of its institutional and professional customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited makes no representations that the products or services mentioned in this document are available to persons in Hong Kong or are necessarily suitable for any particular person or appropriate in accordance with local law. All inquiries by such recipients must be directed to The Hongkong and Shanghai Banking Corporation Limited. In Korea, this publication is distributed by either The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") or The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch ("HBAP SEL") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. Both HBAP SLS and HBAP SEL are regulated by the Financial Services Commission and the Financial Supervisory Service of Korea. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR. In Canada, this document has been distributed by HSBC Bank Canada and/or its affiliates. Where this document contains market updates/overviews, or similar materials (collectively deemed "Commentary" in Canada although other affiliate jurisdictions may term "Commentary" as either "macro-research" or "research"), the Commentary is not an offer to sell, or a solicitation of an offer to sell or subscribe for, any financial product or instrument (including, without limitation, any currencies, securities, commodities or other financial instruments). MICA (P) 118/04/2013, MICA (P) 068/04/2013 and MICA (P) 077/01/2014