

FX Morning Adviser

AUD: A Radar Sweep

FX

Global

Downside risks are mounting

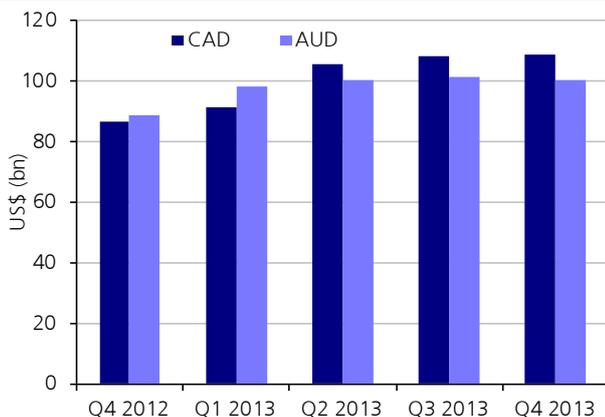
Australian dollars bears - including ourselves – have been frustrated by the currency's recent strength, but we stick to our view that AUDUSD downside from here is the path of least resistance. Scanning the horizon, we find the coming holiday-shortened week holds enough event risk to potentially kickstart another bout of currency weakness.

First, the IMF is due to release the currency composition of foreign exchange reserves, probably on Monday, providing a snapshot of holdings as they stood on March 31st. Current data already show that reserve manager interest in Australian government bonds has cooled noticeably, and we see no reason to expect that pattern to change. Figure 1 shows that fresh inflows have been absent for quite some time and even CAD holdings are now larger. Separately, appetite among Japanese investors – the other major overseas holder of Australian debt – also seems lukewarm. True, the sharp reduction in AUD holdings during 2012 has now run its course (red bars in Figure 2), but recent flow patterns have been mixed at best.

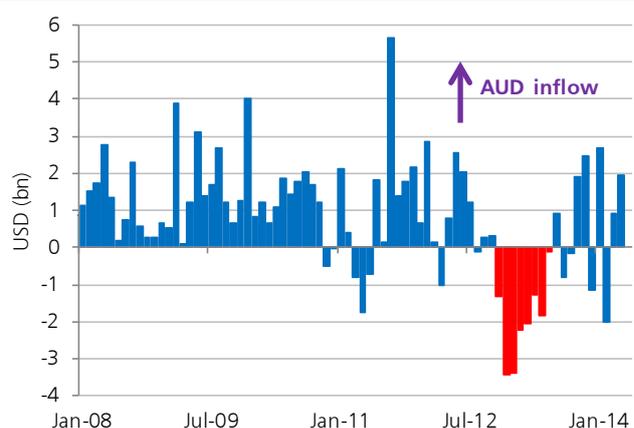
Second, the latest RBA minutes conceded it was "difficult to judge" whether rate cuts administered to date will be enough to offset the combined impact of the mining investment slowdown and planned fiscal consolidation. To us, that sounded like a warning shot across the bows – a first step towards a possible reinstatement of an easing bias. Aussie bonds have been rallying hard ever since, but the currency has so far failed to notice. All that could change on Tuesday if doubts about current policy settings are promoted to appear in the RBA's policy statement itself.

Finally, the currency's resilience to iron ore price has tested the patience of AUD bears. Part of the explanation is the time lag required before economic data is seen to deteriorate. Wednesday's trade balance for May could well see a dip deeper into deficit territory, which again could provide a wakeup call for FX markets.

A robust US nonfarm payrolls report on Thursday would be the icing on the cake for AUDUSD bears, but even if it fails to impress and the US dollar limps on for now, the Australian dollar's best days are behind it in our view, and it remains a sell on rallies.

Figure 1: Reserve Manager AUD & CAD holdings


Source: UBS FX Strategy

Figure 2: Australia's Monthly Bond Inflows From Japan


Source: UBS FX Strategy

Technical FX

EURUSD	BEARISH	The latest upside moves appears to be just a recovery phase within a downtrend. Resistance should hold at 1.3677. There's scope for resumption of downside to test support at 1.3477 and then 1.3248.
USDJPY	NEUTRAL	Further selling this morning has seen test of support at 101.43 and this suggests scope for an extended corrective phase with next main support at 100.76. Resistance is at 102.36 ahead of 103.02.
GBPUSD	BULLISH	With the trending indicators bullish, there's scope for further upside to eventually test significant resistance at 1.7332. Setbacks in the interim will be limited in time and extent, with first support at 1.6923.
USDCHF	BULLISH	As bullish conditions persist, downside will be limited to support at 0.8908. While this holds, there's potential for an upside move to resistance at 0.9082 and then 0.9156.
AUDUSD	BEARISH	Strong resistance focus is at 0.9461. While this holds, there's scope for extension of the range trading that has been in place since April. Support is at 0.9322 ahead of 0.9203.
USDCAD	BEARISH	The pair is under selling pressure and the subsequent weakness brings our focus on the critical support area marked at 1.0650 and then 1.0601. Resistance is at 1.0752.
EURCHF	NEUTRAL	The important near-term directional triggers are at 1.2205 and 1.2141. A closing breakout through one of these levels will determine the next leg.
EURGBP	BEARISH	The recent recovery has seen test of resistance at 0.8032, and as bearish conditions in place, there's scope for rejection and resumption from here to break through support at 0.7959 and then onto test critical 0.7755.
EURJPY	BEARISH	Support focus is at 137.71, as bearish conditions persist, a break through this level would extend the downtrend to 136.23. Resistance is at 139.18 ahead of 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	22:45	Trade Balance (May)	NZD mn	300	498	250	285
Australia	23:00	RBA's Kent Speaks					
UK	23:01	Hometrack Housing Survey (Jun)	m-o-m	n/a	0.50%	n/a	0.30%
UK	23:01	Hometrack Housing Survey (Jun)	y-o-y	n/a	6.10%	n/a	6.00%
UK	23:05	GfK Consumer Confidence (Jun)	index	n/a	0	2	1
Japan	23:30	Jobless Rate (May)	m-o-m	3.60%	3.60%	3.60%	3.50%
Japan	23:30	Natl CPI (May)	y-o-y	n/a	3.40%	3.70%	3.70%
Japan	23:30	Natl CPI Ex-Fresh Food (May)	y-o-y	3.20%	3.20%	3.40%	3.40%
Japan	23:30	Natl CPI Ex Food, Energy (May)	y-o-y	n/a	2.30%	2.20%	2.20%
Japan	23:30	Tokyo CPI Ex-Fresh Food (Jun)	y-o-y	2.70%	2.80%	2.80%	2.80%
Japan	23:50	Retail Sales (May)	m-o-m	n/a	-13.60%	2.90%	4.60%
Germany	06:00	Import Price Index (May)	m-o-m	n/a	-0.30%	0.00%	
Germany	06:00	Import Price Index (May)	y-o-y	n/a	-2.40%	-2.20%	
Switzerland	07:00	KOF Leading Indicator (Jun)	index	n/a	99.8	100.0	
Sweden	07:30	Retail Sales (May)	m-o-m	n/a	0.60%	-0.30%	
Sweden	07:30	Trade Balance (May)	SEK bn	n/a	4.6	n/a	
Norway	08:00	Unemployment Rate (Jun)	%	n/a	2.70%	2.80%	
UK	08:30	GDP (Q1 F)	q-o-q	0.80%	0.80%	0.80%	
UK	08:30	GDP (Q1 F)	y-o-y	3.10%	3.10%	3.10%	

UK	08:30	Index of Services (Apr)	m-o-m	n/a	0.40%	0.30%
UK	08:30	Total Business Investment (Q1 F)	q-o-q	n/a	2.70%	2.70%
UK	08:30	Total Business Investment (Q1 F)	y-o-y	n/a	8.70%	8.70%
Euro Area	09:00	Economic Confidence (Jun)	index	n/a	102.7	103.0
Euro Area	09:00	Industrial Confidence (Jun)	index	n/a	-3	-3
Euro Area	09:00	Consumer Confidence (Jun F)	index	n/a	-7.4	n/a
Euro Area	09:00	Services Confidence (Jun)	index	n/a	3.8	4.0
Euro Area	10:00	ECB Announces 3-Year LTRO Repayment				
Germany	12:00	CPI (Jun P)	m-o-m	0.10%	-0.10%	0.20%
Germany	12:00	CPI (Jun P)	y-o-y	0.80%	0.90%	1.00%
Germany	12:00	CPI EU Harmonized (Jun P)	y-o-y	0.60%	0.60%	0.70%
Canada	12:30	Industrial Product Price (May)	m-o-m	n/a	-0.20%	0.00%
Canada	12:30	Raw Materials Price Index (May)	m-o-m	n/a	0.10%	-0.10%
United States	13:55	Univ. of Michigan Confidence (Jun F)		index	83.0	81.2
Canada	15:10	BoC's Schembri Speaks				
China		Leading Index (May)	index	n/a	100.11	n/a
Euro Area		EU Leaders Hold Summit in Brussels				

Source: UBS Global Economics, Bloomberg LP, Reuters LP, Reuters, Market News International