

UBS Investment Research
The Morning Adviser
USD Still Climbing

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www.ubs.com/fx

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- The US yield curve was prodded into life by last night's FOMC policy statement. US 2y yields climbed above 35 bp overnight and the 10y has finally hit 2.15%. This kept the yen in particular on the defensive, and the dollar also advanced more generally. USDJPY set an 11-month high trading between 82.68-83.32. Yesterday's Fed and BoJ policy meetings suggest a gradual Fed-BoJ divergence should manifest itself over the months ahead and this should keep USDJPY risks skewed to the upside. Notably, the FOMC upgraded assessments of the US labour market plus capex, and no longer cited "slowing in global growth". Perhaps more importantly, the FOMC now foresees "moderate economic growth" in the longer run, a step up from "modest" previously. Though the late 2014 rate guidance was reaffirmed, US dollar bulls could glean encouragement from the fact that there was no move toward any further QE. Our US economics team expects the Fed to stay on hold well into next year, before hiking rates in H2 2013. The BoJ is unlikely to be in such a position. Yesterday's decision to leave the Asset Purchase Programme (APP) unchanged should not obscure the easing bias evident in the expansion and extension of the special lending facility for growth industries, not to mention the dissent from Board member Ryuzo Miyao, who proposed a JPY 5 trn boost to the APP. The policy spotlight now shifts to Norges Bank's meeting later today. We expect no change in the headline policy rate, but anticipate significant verbal intervention by Governor Olsen on the strong currency. Overnight, EURUSD traded at 1.3031-1.3121. Finally, our latest fundamental trade recommendation advocates the purchase of a 2-month CADCHF call spread.

Key Events

13 March 2012				Source: UBS Global Economics			
Country	GMT	Release/Event	Frequency	UBS	Prev/Revised	Consensus	Actual
Euro Area	10:00	Euro-Zone CPI - Core (Feb)	y-o-y	1.60%	1.50%	1.60%	
Euro Area	10:00	Euro-Zone Ind. Prod. sa (Jan)	m-o-m	0.90%	-1.20%	0.50%	
Switzerland	10:00	ZEW Survey (Expectations) (Mar)	index	n/a	-21.2	n/a	
Norway	13:00	Norwegian Deposit Rates	%	1.75%	1.75%	1.75%	
United States	13:00	Fed's Bernanke Speaks					
Sweden	15:40	Riksbank's Ingves Speaks					
New Zealand	21:30	Business NZ PMI (Feb)	index	n/a	50.5	n/a	

Research Spotlight
Yen Safe Haven Fades
G10 FX Strategy

- The BoJ's recent measures have succeeded in dimming the appeal of the yen. Why did the central bank act now? Perhaps to pre-empt the government choosing dovish replacements for two board members who step down next month, or from imposing its own candidate to replace Governor Shirakawa next year. Whatever the reason, looser BoJ policy is, at last, weakening the yen. And with the SNB successfully capping the Swiss franc, we see one safe-haven currency left: the US dollar. Please see <http://www.ubs.com/fx> for details.

EUR	Targets: EURUSD 1m 1.30, 3m 1.25
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- The German ZEW survey was generally mixed. The current situation index was softer than consensus at 37.6, while the economic sentiment reading was stronger at 22.3. Our European economists highlighted the big shift in the inflation outlook as well. For Europe, the balance of opinion changed (by +33.5 points) towards higher inflation over the next 6 months. Consequently, the short rate outlook also increased by 16.2 points.
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JPY	Targets: USDJPY 1m 80, 3m 85
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- The BoJ's monthly report of 'Recent Economic and Financial Developments' acknowledged the yen's latest fall and noted that if yen's decline is sustained it will ease pressure on exports. It also forecast a return to economic growth in Q1 which is likely to continue into Q2.
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NOK, SEK	Targets: EURNOK 1m 7.60, 3m 7.50 EURSEK 1m 8.80 3m 8.90
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- The Norwegian FSA said household debt and house prices are at very high levels, and many households are vulnerable if interest rates rise. It added that funding and solvency improvements were needed. The amount of commentary on the Norwegian housing market by regulators and policymakers of late is getting worrying and provides one of the main hurdles for a rate cut.
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FX Technicals

EURGBP 0.8314 support

EURUSD	BEARISH	The pair targets 1.2974, the key low from the Feb. 16, a break below which would signal scope for deeper pull back towards 1.2828. Resistance is at 1.3191.
USDJPY	BULLISH	Next resistance is at 83.74 where a break would open the way towards 85.53, the April 2011 high. Support lies at 82.87.
GBPUSD	BEARISH	Decline through 1.5603 would pave the way for 1.5525. Resistance is at 1.5748.
USDCHEF	BULLISH	The pair tests the resistance at 0.9263 a clearance of which would expose the February failure high at 0.9300. Support lies at 0.9140.
AUDUSD	BEARISH	Next supports are at 1.0474 and 1.0428. Resistance is at 1.0577.
USDCAD	BEARISH	Support lies at 0.9873 ahead of 0.9842, the year-to-date low. Resistance is at 0.9951.
EURCHF	NEUTRAL	Yesterday's rally now targets 1.2114 ahead of 1.2133. Support is at 1.2047.
EURGBP	NEUTRAL	Our focus is on the key support at 0.8314, the March low. A break below this would open 0.8265. Resistance is at 0.8424.
EURJPY	BULLISH	The cross tests 108.74, a closing break above this would open 109.93, the year-to-date high. Support is at 107.52.

***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

14 March 2012				Source: UBS Global Economics			
Country	GMT	Release/Event	Frequency	UBS	Prev/Revised	Consensus	Actual
Australia	23:30	Westpac Consumer Confidence sa (Mar)	m-o-m	n/a	4.20%	n/a	-5.00%
Australia	23:30	Westpac Consumer Confidence Index (Mar)	index	n/a	101.1	n/a	96.1
Japan	23:50	BSI Large All Industry (Q1)	q-o-q	n/a	-2.5	n/a	-2.7
Japan	23:50	BSI Large Manufacturing (Q1)	q-o-q	n/a	-6.1	n/a	-7.3
Japan	04:30	Industrial Production (Jan F)	m-o-m	n/a	2.00%	n/a	1.90%
Japan	04:30	Industrial Production (Jan F)	y-o-y	n/a	-1.20%	n/a	-1.30%
Japan	04:30	Capacity Utilization (Jan F)	m-o-m	n/a	3.10%	n/a	3.40%
Japan	06:00	Machine Tool Orders (Feb F)	y-o-y	n/a	-8.60%	n/a	-8.60%
Sweden	09:00	PES Unemployment Rate (Feb)	%	4.80%	4.80%	4.80%	
UK	09:30	Claimant Count Rate (Feb)	m-o-m	5.00%	5.00%	5.00%	
UK	09:30	Jobless Claims Change (Feb)	lvl	4.0K	6.9K	5.0K	
UK	09:30	Average Weekly Earnings (Jan)	3M/y-o-y	1.90%	2.00%	1.90%	
UK	09:30	Weekly Earnings exBonus (Jan)	3M/y-o-y	n/a	2.00%	1.90%	
UK	09:30	ILO Unemployment Rate (Jan)	3mths	8.40%	8.40%	8.40%	
Euro Area	10:00	Euro-Zone CPI - Core (Feb)	y-o-y	1.60%	1.50%	1.60%	
Euro Area	10:00	Euro-Zone CPI (Feb)	m-o-m	0.40%	-0.80%	0.50%	
Euro Area	10:00	Euro-Zone CPI (Feb)	y-o-y	2.70%	n/a	2.70%	
Euro Area	10:00	Euro-Zone Ind. Prod. wda (Jan)	y-o-y	-0.70%	-2.00%	-0.80%	
Euro Area	10:00	Euro-Zone Ind. Prod. sa (Jan)	m-o-m	0.90%	-1.20%	0.50%	
Switzerland	10:00	ZEW Survey (Expectations) (Mar)	index	n/a	-21.2	n/a	
United States	11:00	MBA Mortgage Applications (Mar-9)	m-o-m	n/a	-1.20%	n/a	
Euro Area	12:00	ECB's Praet Speaks					
United States	12:30	Current Account Balance (Q4)	USD bn	-119.3	-110.3	-114.8	
Canada	12:30	Capacity Utilization Rate (Q4)	m-o-m	81.60%	81.30%	81.60%	
United States	12:30	Import Price Index (Feb)	m-o-m	0.20%	0.30%	0.60%	
United States	12:30	Import Price Index (Feb)	y-o-y	5.50%	7.10%	5.90%	
UK	12:45	BoE's Haldane Speaks					
Norway	13:00	Norwegian Deposit Rates	%	1.75%	1.75%	1.75%	
United States	13:00	Fed's Bernanke Speaks					
Sweden	15:40	Riksbank's Ingves Speaks					
New Zealand	21:30	Business NZ PMI (Feb)	index	n/a	50.5	n/a	
China		Actual FDI (Feb)	y-o-y	n/a	-0.30%	14.60%	

Source: UBS Economics

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