adt_fx Weekly Review & Outlook - 10 August 2013 - Vol 1 #3

I'm formerly a prolific, passionate and rated Bank Equities Analyst. So prolific (writing and analysis), passionate and rated that many years on from last properly performing this function, the skills and practices of it can flood to the fore without me thinking. Accordingly I still conduct some Bank Equities trading function. I also have some skills and history across Macro – Economics and Econometrics – Quant, which I also have some passion for. Presently I am focussing on Currencies. I thrive on the breadth and type of influences over FX and the two worlds – Bank Equities and Foreign Exchange Rates, are not too dissimilar. They both involve Subsidiaries, Balance Sheets, Profitability and Management, only with FX its Countries, their States, Provinces or Prefectures, Financial Accounts – Economy/s, Capital Account, Current Account, Trade Account, Budget, Working Capital, Cash flow, and regarding Management - implant also Central Bankers and Politicians. The intent in either regard is to generate Profitable ideas and conduct Profitable Investment & Trading. So that is the background with which I presently write **adt_fx Weekly**, which I publish to website **andrewdturner.info** at least once a month, and ambitiously - weekly.

General Theme/s

Refer **adt_fx Weekly 28 July 2013** for Broad FX Themes.

USD

To Taper or Not To Taper. It all has become a little Shakespearean in proportion hasn't it. Having said that, I can't agree with broad criticism of the Fed. US Economic trends are presently a little difficult to fully determine and for example dissecting GDP numbers makes for a real lesson in Rubber production. Further regarding criticism of the Fed, if things had been left to market forces and Private Sector through the last four years we would still be languishing in Global Depression. So I see the Choice as having been Dangerously Excessive Liquidity or Global Depression; Pretty easy Choice for me.

Back to the point. I think in the context of difficult to properly determine economic trends or at least strength thereof, not the least confused by weaker than expected NFP figures, we have shifted back from expectation of broad based USD strength to a situation of question marks over EM, and more general emergence of growth through the entire Developed World perhaps excluding the Developed Worlds' Commodity Producers. To that end I would now be looking at USD on a case by case basis. Meandering to up EURUSD in short term, possible ongoing strength in GBPUSD on the basis of UK economic trends, and a tendency to recovery in USDJPY from recent weakness on the back of slow Japanese economic recovery and QE commitment.

EUR

Perhaps somewhat surprisingly, emergence of signs of EU economic recovery, have buoyed the EURUSD. Inferior economic strength even by trend appears to be offset to a large extent by EU strength in Capital and Current Account at least on a Gross (German) basis. We wouldn't diverge from this view, at least in the near term, and as expressed in this reports previous issue, to do so and attempt to trade EURUSD short is possibly too much Hard Work. EU, German and French GDP numbers this week may add further light on EU economic recovery and in particular on a relative basis v USD.

GBP

The UK to my mind is presently exhibiting the strongest economic momentum in the world. However, the state of the UK economy as a base is low; Tri-Deficits Syndrome - Budget, Trade and Current Account Deficits of some note and GDP still 3% below 2008 high-point. The new Governor of BOE is settled in and reasonably firm signals on QE peak consistent with quite broad economic recovery, more than just signals, have developed.

Following some confusion through May – June economic data when residual weak May data overlapped stronger June economic data, the UK economy has begun to exhibit not only strength in most Purchasing Manager Indices but also Production and Order Books.

Confirmation of Consumption and Retail Sales Recovery is being sought by the Market, but it is expected based on Industry – Anecdotal evidence. We still have under consideration the GBPUSD 1.65 target based largely on PPP (Purchasing Power Parity). In the very near term however there would appear to be potentially quite Significant Resistance at the 1.555 level relative to the current rate of 1.550.

JPY

Evidence of Japan economic recovery has eased off again. Coincident and Leading economic indicators have declined on latest releases and growth and inflation targets have been stretched out to 2015 and 2016. Government, and others, have extended the 2% inflation target out to achievable by 2015-16, while growth recovery as well as recovery from deflation have extensively been described as moderate. Nonetheless USDJPY remained weak through most of last week. I expect some sort of USD recovery against JPY but if it weren't for the BOJ QE commitment I would be expecting some further revaluation of Yen.

AUD – The Little Aussie Battler

The "Battler" pulled up its boot straps on the RBA rate decision (Tuesday 6 Aug) – decrease 25bp, and rallied through the rest of the week. The cut had become a virtual certainty as the market eventually cottoned-on to the previous months' debate and the parlous state of the economy. The market perception of the RBA comments on the rate cut for August, along with subsequent Statement on Monetary Policy (Friday 9 Aug), however, encouraged buyers on the expectation rate cut prospects have diminished. In the context of at least Retail record short positions on AUDUSD, the prospect it is a little oversold (fall from 1.058 – 13% since April and 14.7% since January calendar ytd high of 1.079), a stabilisation in commodity prices and in fact higher AUD commodity prices (eg. Fe AUD144 p/t and not far from 2013 Feb AUD155 peak), along with favourable interest rate differentials, AUDUSD has rallied to 0.92 from a low a little under 0.885. This is despite what I regard as generally very weak (appalling, to be a little emotive!) core economic trends.

I have found particularly interesting the Business Sector Performance indices within Australia. Nearly all Non-Mining readings have been or are, not only sub 50 and therefore in decline but around 40 – European Basket Case levels. Latest readings from AIG - Sector Performance Indices are as follows:

AIG – Australian Sector Performance Indices - July

		Latest	Previous
Manufacturing	PMI	42.0	47.7
Services	PSI	39.4	41.5
Construction	PCI	44.1	39.5

I thought my reading of the RBA interest rate decision as tweeted and as follows was more appropriate than the markets expectation of diminished rate cut prospects:

Andrew D Turner adt *@adt_fx* *6 Aug 2013*

#RBA 25bp rate cut.........possible further $AUD decrease facilitating rebalancing of economy. Inflation & growth ok for rate cut.........Continue to monitor

Australian Manufacturing took another dip based on PMI in July. Australian Manufacturing accounted for 36% of National Income in 1970. It is now 8%. Other notable Aus economics in the last week have included Unemployment for July where Unemployment rate was steady at 5.7% but employment fell (Ft -76.7K and Pt -3.5K), Unemployed numbers also fell (Ft -7.1K and Pt +1.4K) and Participation rate fell to 65.1% from 65.3%; All conspiring to leave a steady Unemployment rate – Total 5.7%, Ft 6.0%. I don't like Australia's Labor market trends especially in the context that the Social Services Sector has been the major source of any growth. Significant Non-Mining employment has been lost in the last two years through Currency strength, General Business Administration Costs and various System Rigidities and the associated Business and in some in stances Industry closure.

Trade deficit was stable around a $0.6B surplus in July. Some near term prospect of this being sustained or expanded exists, beyond which commodity prices will continue to dictate trend offset by any import growth induced by any recovery in non-mining fixed asset investment and any housing / domestic consumption improvement. Trade Deficit for 2012-13 was $9.4B. The Current Account however remains in Deficit at a rate of around $50B p.a or -3% of GDP. Net Foreign Equity stands at $121B and Net Foreign Debt at $749B , as measured by the Australian Bureau Of Statistics.

Some lending figures have been very recently a little more positive, including Housing lending and Construction lending.

Accordingly the near term prospect – 1-2Days, is for the AUDUSD to find its target of 0.934. Beyond that, my personal view is that the recent China Trade etc influence is overstated and that with the ordinary core economics, even in the context of a probable change of Government in 4 weeks, the Medium Term trend is down and would lead to an under-scoring of 0.85. Interest rate differentials are not expected to work in AUDUSD favour over the next 12 months or so, with expectations for further rate cuts. Of 27 economists the low expectation is 2.00 from 2.50. For the remainder of this calendar year a further rate cut can logically be expected in November following Federal Election and release of September Quarter CPI. Further, the US trend is likely in the opposite direction – narrowing differentials. However nearer term, again with the extent of recent decline and a market desire to believe in a perpetual China Economic Miracle, regardless of Debt, Corruption and Propaganda (especially economic data releases), upward momentum may push AUDUSD through Resistance at 0.934; All the more Shortable on my perspective.

CAD

The Canadian Dollar took a slight dip at the end of last week on weaker employment data from July but then recovered and advanced along with other Developed World Commodity Currencies. Specifically Cad fell with an unexpected drop in jobs of 39.4K - 18.3K Ft and 21.2K, against expectations of a 10K gain, and June -0.4K. Participation Rate fell from 66.7% to 66.5% and unemployment rate rose to 7.2% from 7.1% in June. An interesting comparison here of Participation rate of 66.5% against 65.1% in Australia, probably partly explaining the higher Canadian unemployment rate against 5.7% (6.0% Ft) in Australia. Also an interesting status, similar to Australia and the US – that being the bemoaning of increased trend to Part Time employment with greater Pt composition of the workforce. In Aus this stands now at slightly in excess of 30%. The US is also reportedly over 20%.

EM

Emerging Market Currencies saw some stability through slight rise (some +1%-2%) during the end of last week and in particular a slight jump Thursday US trading around mid-day. This would appear to be in relation to Chinese Trade data and expectation of improving growth outlook into 2014.

MXN

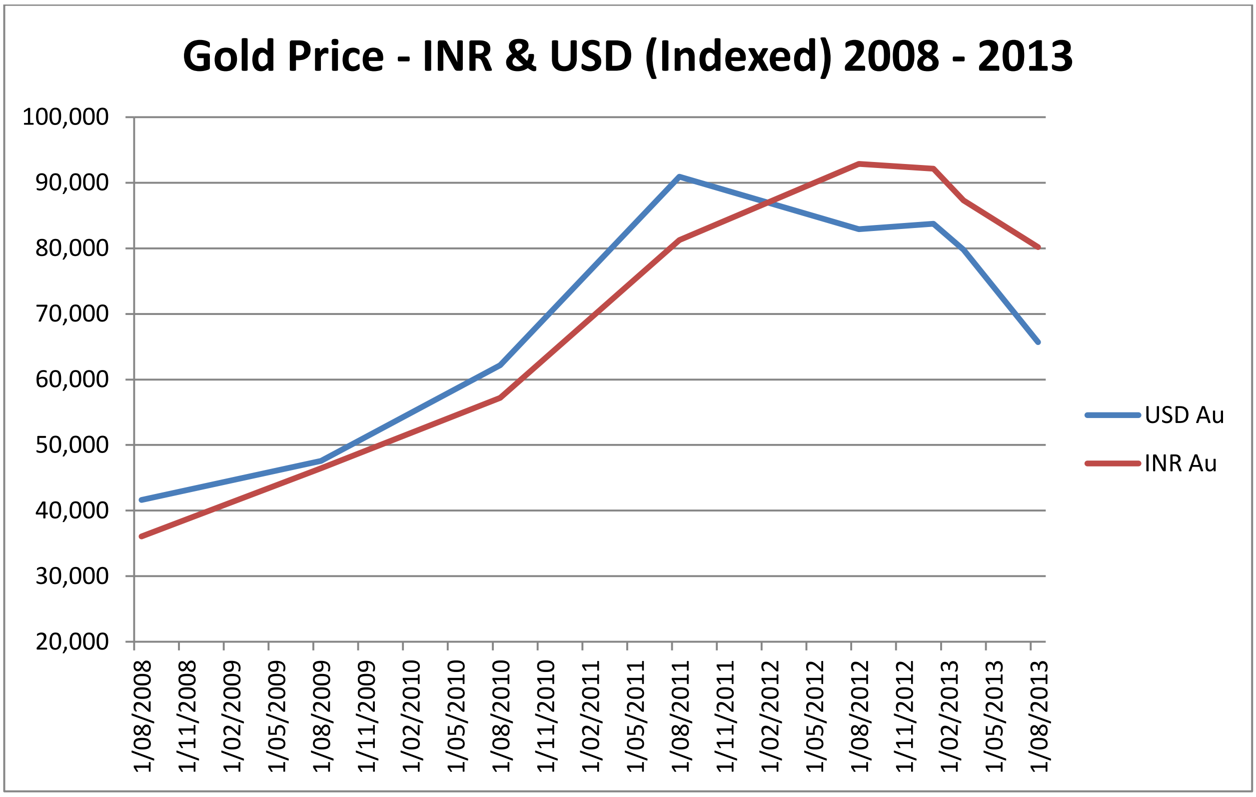
Bank of Mexico downgraded current calendar year – 2013 – GDP Estimate from 3%-4% to 2%-3%, in line with current market expectations of 2.7%. GDP growth in 2012 was 3.9% Expectations are for 3.2% - 4.2% GDP growth for 2014 along with Inflation of 3.5% 2013 and 3.0% 2014. USDMXN traded in a narrow band around 12.5 – 12.8 through the week.

INR

India is experiencing increasingly difficult economic circumstances. Accordingly in the context of QE Taper induced EM pressures, USDINR has seen strength and remains toward its recent highs, despite a slight INR rally late last week. India is in significant need of Structural Reforms, it suffers Tri-Deficit Syndrome – UK, US, MXN (slightly) also – being Government Budget, Trade and Current Account. These are -5%, -10% and -4.5% respectively. Mexico by comparison is -2%, -0.5% and -1.4%. Indias' numbers are significant.

The RBI has announced efforts to support the INR as a result, with Cash Management Bill Sales of INR 220B per week. Further efforts are expected from RBI to support the currency. A number of commentators are quite pointed in describing Indias' economic and social difficulties. Accordingly, despite efforts by RBI I would not expect any significant decline in USDINR beyond very short term RBI induced INR gains, and that natural existing market forces could well drive USDINR well higher.

Along the way through the last two years the Indian Government has also moved to curtail Gold hoarding by Indian's with increases to the import tariff. As one of the worlds' largest gold consumers, it's probably worth taking a look at the Indian Rupee (INR) Gold price. The rise in USDINR from 45 in 2011, and 55 through 2012-13 and the recent QE Taper induced 10% surge to 61, has seen INR Gold Price outperform USD Gold price quite significantly, with interesting repercussions for Indian financial and social related Investment behaviour.



CNY

Chinese Trade data on Thursday 8 August turned Commodity and Emerging Market Currencies on their heads a little. Despite a decline in the July Trade Surplus from $27.1B to $17.8B, import growth yoy of 10.9% (6.6% S.Adj?) and export growth of 5.1% was seen as expansionary. In addition China had record Iron Ore Imports in July, however at least one Industry Body in China warned of Fe prices being excessive relative to Chinese industry restructuring ambitions including the Steel industry which is experiencing losses. At this stage of proceedings, in the context of Chinese Debt levels (>2xGDP?), lack of understanding even in China of Local Government Debt, Banking Sector Trends, General Financial System Liquidity, Budget Deficit to GDP Ratio >2% with a ceiling of 3%, not to mention Political concerns, I am not accepting of this being a continuation of the Chinese Economic Miracle. If anything I am more concerned we are not heading on a Very Fast Train toward the Chinese Economic Debacle. If not Hard Landing I don't see an Easy Chinese Landing. All this in the context of highly dubious quality and accuracy of Chinese Economic data to the extent Dr Doom – Marc Faber, suggests Reported GDP in China is not actually 7%+, rather it is no more than 4%. This thinking leaves me to tend to discount slightly improved FAI, and Industrial Production data out of China last week as well.

Other Relevant Matters

Nothing To Report

Quotable Quotes & ScuttleButt

Nothing To Report

Latest Prices

FX

EURUSD	1.334
GBPUSD	1.550
USDJPY	96.20
USDCAD	1.028
AUDUSD	0.918
NZDUSD	0.802
USDCNY	6.175
USDMXN	12.62
USDINR	60.86

Fixed Interest

USD	2 Year 0.31	10 Year 2.58
Ger	2 Year 0.17	10 Year 1.67
UK	2 Year 0.34	10 Year 2.47
JPY	2 Year 0.11	10 Year 0.76
AUD	2 Year 2.41	10 Year 3.67

Equities

Dow	15425
S&P500	1691
Nasdaq	3660
ASX S&P200	5055

Commodities

Au	1314	$/oz
Ag	20.5	$/oz
Cu	3.24	$/kg
Fe	133	$/t
Oil – wti	106	$/bbl
Oil – brent	108	$/bbl

Commodity prices generally (Gold, Silver, Copper, Oil) remain in a modest Backwardation of 2%-5% - December Futures.

Week Ahead

12 Aug – JPY GDP Q2 qoq 0.9% Est (1.0% Prev)

- JPY Industrial Production mom June (-3.3% Prev)

- JPY BOJ Minutes July 10

13 Aug - USD Retail Sales -0.1% Est (0.4% Prev)

- AUD NAB Business Conditions July (-8 Prev)

- EUR German CPI July yoy 1.9% Est (1.9% Prev)
- GBP CPI yoy July 2.8% Est (2.9% Prev)
- GBP CPI Core yoy July 2.3% Est (2.2% Prev)

14 Aug - USD PPI July 0.3% Est (0.8% Prev)

- USD PPI Core July 0.2% Est (0.2% Prev)

- EUR French GDP Q2 yoy -0.1% Est (-0.4% Prev)

- EUR German GDP qoq (-0.2% Prev)

- EUR EU GDP yoy -0.8% Est (--1.1% Prev)

15 Aug - GBP Retail Sales July mom 0.6% Est (0.2% Prev)

- GBP Retail Sales July yoy 2.4% Est (2.2% Prev)
- USD Initial Claims 10 Aug 340K (333K Prev)

- USD Continuing Claims 3 Aug 3000K Est (3018K Prev)
- USD CPI July 0.2% Est (0.5% Prev)
- USD Core CPI July 0.2% Est (0.2% Prev)
- USD Empire Mfg Aug 5.0% Est (9.4% Prev)
- USD Industrial Production July 1.0% Est (0.3% Prev)

16 Aug - USD Housing Starts July 855K Est (836K Prev)

- US Michigan Uni Consumer Sentiment Aug 85.1 Est (85.1 Prev)

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Views expressed are generally my own. Where not I aim to acknowledge the original thought and its originator/s.

The Author uses data from:

Daily FX – dailyfx.com

BK Asset Management – bkassetmanagement.com

Euromoney - euromoney.com

Financial Times – ft.com

Marc Faber – marcfabernews.com marcfaberblog.com