International Personal Bank

November 26th 2012

FX Market Headlines

United States

Euro zone

United Kingdom

Japan

Australia

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FX Forecasts

		Forecasts			
		spot	0-3 mos	6-12 mos	long term
G10					
Euro	EURUSD	1.2965	1.25	1.21	1.19
Japanese yen	USDJPY	82.05	84.00	85.00	82.00
British Pound	GBPUSD	1.6022	1.57	1.53	1.51
Swiss Franc	USDCHF	0.9292	0.96	0.99	1.01
Australian Dollar	AUDUSD	1.0446	1.04	0.97	0.93
New Zealand Dollar	NZDUSD	0.8231	0.82	0.79	0.69
Canadian Dollar	USDCAD	0.9932	1.01	0.98	0.97
Dollar Index	DXY	80.216	82.94	84.52	85.17
G10 crosses					
Japanese yen	EURJPY	106.38	105.00	103.00	98.00
Swiss Franc	EURCHF	1.2046	1.20	1.20	1.20
British Pound	EURGBP	0.8092	0.80	0.79	0.79
Swedish Krona	EURSEK	8.6014	8.50	8.25	8.35
Norwegian Krone	EURNOK	7.3445	7.30	7.20	7.25
Norwegian Krone	NOKSEK	1.171	1.16	1.15	1.15
Australian Dollar	AUDNZD	1.2689	1.28	1.23	1.35
Australian Dollar	AUDJPY	85.712	87.00	82.00	76.00
Asia					
Chinese Renminbi	USDCNY	6.2255	6.21	6.15	6.05
Hong Kong Dollar	USDHKD	7.7501	7.75	7.76	7.75
Indonesian Rupiah	USDIDR	9613	9700	9850	9660
India Rupee	USDINR	55.8525	52.50	54.00	53.50
Korean Won	USDKRW	1086.16	1080	1070	995
Malaysian Ringgit	USDMYR	3.0553	3.08	3.04	3.05
Philippine Peso	USDPHP	41	41.0	41.5	40.8
Singapore Dollar	USDSGD	1.2225	1.22	1.20	1.19
Thai Baht	USDTHB	30.69	30.30	30.80	29.90
Taiwan Dollar	USDTWD	29.103	28.50	28.50	28.20
EMEA					
Czech Koruna	EURCZK	25.313	25.80	26.00	25.00
Hungarian Forint	EURHUF	281.93	290.00	300.00	290.00
Polish Zloty	EURPLN	4.1119	4.25	4.30	3.90
Israeli Shekel	USDILS	3.8602	4.00	4.10	4.20
Russian Rouble	USDRUB	31.024	31.30	33.80	34.50
Russian Rouble Basket	RUBBASK	35.1637	34.80	37.00	37.50
Turkish Lira	USDTRY	1.7949	1.80	1.87	1.91
South African Rand	USDZAR	8.8714	9.00	9.15	9.50
LATAM					
Brazilian Real	USDBRL	2.0816	2.10	1.95	2.05
Chilean Peso	USDCLP	478.75	480.00	490.00	490.00
Mexican Peso	USDMXN	12.9819	12.80	12.70	12.50
Colombian Peso	USDCOP	1823.73	1,815.00	1,850.00	1,850.00

Spot rates 26 November 2012, FX Forecasts as of 19 th November 2012

United States: The updated economic forecast continues to show a slowly improving cyclical backdrop pitted against downside risks from policy uncertainties. Although economic growth may prove modest on average next year, that outcome masks a gradual acceleration from a subpar start, weighed down by fiscal drag, to stronger above-trend gains heading into 2014 as the housing upturn gains traction. For this round, Citi Analysts have made minor changes to fiscal policy assumptions with about 1¼% of drag from a late-year compromise that avoids the bulk of the fiscal cliff. An agreement on taxes and spending may fall short of the reforms needed to spur business confidence and financial conditions, but much of the drag from higher payroll taxes on liquidity-constrained households should fade by the second half. Active Fed accommodation through asset purchases is expected to persist through at least the better part of 2013. Incoming data on housing markets shows the pace of recovery in the sector may be quickening and could provide an upside surprise for medium-term growth. Housing-related employment has risen an estimated 75,000 in the past year with very little gain from construction where increases typically lag. With homebuilding rebounding, monthly job gains of 200,000 or more could be in store as household formation and credit availability improve.

EURO ZONE: Euro Zone officials this week suggested that a deal on a reshuffle of the Greek bailout program is likely on Monday. This will probably include a set of options aiming to offer some debt relief for Greece over the next decade, although outright haircuts on official-sector loans are unlikely to be part of it. A buyback of the privately-held Greek debt is likely, Citi Analysts think could bring about debt relief of around 10% of GDP by 2020. Together with transfers back to Greece of ECB profits on Greek bond holdings, interest rate cuts on bilateral loans, and possibly an interest payment holiday period, these measures should be used to show that the Greek debt ratio will fall to 124% by 2020 — probably close enough to the original target of 120% to keep the International Monetary Fund (IMF) on board. However, even if a return to a semblance of sustainability is agreed for the Greek debt and the next bailout tranche is released, Citi Analysts doubt this will be the deal that fixes Greece once and for all. Citi Analysts think a Grexit scenario still has a 60% probability of occurring in the next 12-18 months.

United Kingdom: A month or two ago, it seemed likely that the Chancellor would face an unenviable choice in the Autumn Statement (Dec 5): impose extra near term fiscal tightening (on top of the existing tough plans), or receive an adverse verdict from the (Office for Budget Responsibility) OBR on one or both fiscal targets (especially the debt target). Either outcome probably would be a major political blow for the government and put the UK's AAA credit rating at risk. Citi Analysts do expect that the OBR will cut its forecasts for GDP growth and potential growth in 2012 and later years, hence also reducing its government revenues estimates. However, it now seems likely that the Chancellor will be able to dodge that potential dilemma and, despite lower growth, get a cautious “pass” verdict from the OBR on both targets, without extra near-term fiscal restraint. The horizon for the first target will be extended by one year to ‘17/18, making it easier to hit. Moreover, prospective savings in debt service outlays and the transfer of APF income probably will ensure the OBR project a falling debt/GDP ratio in ‘15/16 — hence meeting the second fiscal target (the debt rule). In order to underpin longer-term fiscal credibility, the Chancellor may well set a new target for the public debt/GDP ratio after 2015/16, helping to lock the UK into an extended period of fiscal austerity.

JAPAN: (Liberal Democratic Party) LDP publishes its election campaign promises — The Liberal Democratic Party (LDP) published its election campaign promises this Wednesday as the financial markets continued to quickly price in the LDP’s policies. While the basic thrust of economic policy will likely shift to efforts to vitalize corporate Japan and away from the Democratic Party of Japan (DPJ)’s approach of helping the household sector directly through various subsidies if the LDP returns to power, there does not appear to be much new in the LDP’s policy proposals, apart from Mr. Abe’s own eye-catching statements about monetary policy. In Citi Analysts view, it remains to be seen whether the LDP can really make a difference in the economy even if it returns to power. Election outcomes seem quite uncertain — it is unclear how many seats the major political parties will win, especially given that they have not finished selecting candidates yet. At this point, the general expectation seems to be that the LDP and New Komeito combined will secure a majority (241 needed) with each party getting around 220 and 30 seats, respectively. That said, the momentum for each party could change during the campaign, which will run for another month. In particular, LDP leader Shinzo Abe's aggressive monetary policy proposals made last week, which in Citi Analysts view are unbalanced and unsound, are making some wary.

AUSTRALIA: Australia's household debt stock, serviceability and the implications for monetary policy - Australia's debt is relatively low, but over half of it is held by households, leaving it well above the level of household debt in other nations, except other commodity producers. Nevertheless, the distribution of the household debt, the relative resilience of asset prices, and the increase in household saving has kept the debt manageable. The debt, though, is a headwind for monetary policy as it tries to stimulate the non-mining sectors. Citi Analysts calculate that the rebound in housing, consumption and non-mining Capital Expenditure (CAPEX) to fill the gap over the next few years left by the forecast decline in mining investment will require some further easing of policy and moderately lower household saving.

The Week Ahead

USD:

- ***Nov. 27, Fed President Fisher to speak at the Hyman Minsky Conference on Financial Instability in Berlin.***
- ***Nov. 27, Fed President Lockhart to speak on "Thoughts on Two Other Sources of Financial Instability," in Berlin.***
- ***Nov. 27, Fed President Evans to speak at the C.D. Howe Institute in Toronto.***
- ***Nov. 29, Fed President Fisher to speak at the "Monetary and Fiscal Challenges in the United States and the Euro Area" conference in Frankfurt.***
- ***Nov. 27, October Durable Goods Orders (Percent Change): New Orders Total – Citi. -1.3 %, Sept. 9.8 %, August -13.1 %, July 3.3 %; Excl. Transportation – Citi. -0.2, Sept. 2.0, August -2.0, July -1.4 -*** *Durable goods orders likely retreated in October. There are two sources of weakness for this report, and encouragingly neither of them is fundamental. First, there is a likely retreat in defense aircraft after a jump in September. Second, the pattern of weak core capital goods orders in the first month of each quarter has resurfaced this year. Citi Analysts anticipate this happening again in October, although not to the degree it impacted July.* ***Note:*** *While the first month phenomenon has reemerged, Citi Analysts note that the subsequent rebounds in the next two months have not occurred thus far this year, suggesting a weakening trend. In fact, over the course of the first nine months of the year, core capital goods orders have fallen by 9.4%. Citi Analysts attribute this severe weakness, in part, to uncertainty surrounding fiscal policy.*
- ***Nov. 27, November Consumer Confidence: Citi.73.0, Oct. 72.2, Sept. 68.4, August 61.3, July 65.4 -*** *Consumer confidence likely edged up in November. The flat reading in the Michigan sentiment index suggests that Hurricane Sandy did not significantly affect confidence figures. Citi Analysts therefore do not think the recent spike in jobless claims in storm-affected-areas weighed down the confidence index.*
- ***Nov. 28 October New Home Sales (Thousands): Citi. 400, Sept. 389, August 368, July 373, June 360, May 369 -*** *New home sales likely increased in October to the highest level since the first-time homebuyers tax credit expired in 2010. In recent days there has been a great deal of new data pointing to a durable pick up in housing activity. Both the housing market index and new building starts rose by more than even the most optimistic forecasts anticipated. Permits and existing home sales also showed significant improvement.* ***Note:*** *It is important to keep the recent housing gains in perspective. The current pace of new home sales is still at rock bottom with enormous room for growth. Sales in Citi Analysts forecast are just two-thirds of the long term average that prevailed before 1991, prior to the beginning of the long expansion and bubble in housing.*
- ***Nov. 29, Q3'12 (P) Real GDP (Percent Change at Annual Rate Unless Noted): Citi. 3.0 %, Q3'12 (A) 2.0 %, Q2'12 1.3 %, Q1'12 2.0 %, Q4'11 4.1 % -*** *Citi Analysts expect a sizable upward revision to third quarter real GDP in the preliminary report, but the extra growth does not imply a stronger economy. In fact, domestic demand – the main engine of growth – probably won't change materially with this revision, remaining relatively soft. The anticipated upward revision is mainly coming from inventories and net exports.* ***Note:*** *Citi Analysts continue to expect that the composition of GDP in the third quarter will dampen growth in the fourth. There was a huge one-time add to the third quarter from national defense outlays. A reversal in defense in the current quarter could take a chunk out of already lackluster domestic demand growth. In addition, inventories were bloated – even with the huge drought-induced drop in farm stocks – and are likely to pull back this quarter. As a result, the overstated headline third quarter GDP figure likely will be followed by growth of less than 1% in the fourth quarter.*
- ***Nov. 30, October Personal Income and Spending (Percent Change): Personal Income – Citi. 0.2 %, Sept. 0.4 %, August 0.1 %, July 0.2 %; Personal Spending – Citi. 0.1, Sept. 0.8, August 0.5, July 0.4; Core PCE (12-Month Percent Change) – Citi. 0.2, Sept. 1.7, August 1.6, July 1.7 -*** *Citi Analysts anticipate modest gains in both personal income and consumer spending in October, which disappear after adjusting for even a small increase in inflation. Both hours worked and average hourly earnings were tepid in the month, implying little advance in wage and salary income. Disruptions from Hurricane Sandy limited sales,*

especially among automotive dealerships. ***Note:*** *While Citi Analysts expect no rise in real consumer spending in October, the large September gain gave a head start to the fourth quarter. Consequently, Citi Analysts October real spending estimate is about 1¼% above the third quarter average.*

- ***Nov. 30, November Chicago Purchasing Managers' Index: Citi. 50.0, Oct. 49.9, Sept. 49.7, August 53.0 -*** *The Chicago business barometer likely remained neutral in November, for the third consecutive month. The index fell sharply in the spring, and has not recovered since. In fact, the latest readings have been the weakest since the early stages of the recovery in 2009.* ***Note:*** *Chicago area business activity had been among the strongest in the nation during this recovery through the early part of 2012. Citi Analysts think this strength largely reflected gains in the motor vehicle sector, but those gains are fading.*

EUR:

- ***Nov 28, Euro Area M3, Oct Forecast: 2.7% YY, 2.7% 3-M YY, Prior: 2.7% YY, 3.0% 3-M YY*** *- Even with another small monthly contraction in M3, the YY rate is likely to remain unchanged in October. Citi Analysts expect ongoing weakness in lending activity with monthly declines in loans to households and non-financial corporations in October.*
- ***Nov 29, Euro area Economic Confidence, Nov Forecast: 83.8, Prior: 84.5; Industrial Confidence, Nov Forecast: -20, Prior: -18; Consumer Confidence, Nov Forecast: -26.9, Prior: -25.6*** *- Citi Analysts expect a further fall in economic sentiment which is broad based among sectors. However, the fall in manufacturing confidence is likely to be most pronounced. If Citi Analysts forecast is right, economic confidence is likely to reach the lowest level since July 2009.*
- ***Nov 30, Euro area HICP, Nov Flash Forecast: 2.5% YY, Prior: 2.5% YY*** *- Citi Analysts expect inflation to remain unchanged in November. While the weak economy is likely to create downside pressure on euro area consumer prices, some delayed impact from the recent VAT increases in Spain and the Netherlands is likely to keep inflation elevated.*
- ***Nov 30, Euro area Unemployment Rate, Oct Forecast: 11.6%, Prior: 11.6%*** *- Following an increase in the unemployment rate to an unprecedentedly high reading since the start of the series in 1993, Citi Analysts expect an unchanged figure in October. However, with unemployment increasing in Germany and other core countries, Citi Analysts expect a monthly increase in seasonally adjusted unemployment of around 120K MM.*

GBP:

- ***Nov 27, GDP, 3Q (2nd Provisional): 1.0% QQ, 0.0% YY, Prior (2Q): -0.4% QQ, -0.5% YY*** *- There is a chance that these data will be revised, although this probably will hinge on the service sector output data released at the same time. The split is likely to show fairly strong growth in consumer spending, helped by sales of Olympic tickets and other games-related spending. This boost is likely to unwind in 4Q.*
- ***Nov 27, Service Sector Output, Sep Forecast: -1.0% MM, 0.6% YY, Prior: 1.0% MM, 1.7% YY*** *- Service sector output is likely to fall back quite sharply in September, reflecting the unwind from the Olympics boost and the sluggish underlying trend. Such a figure would leave 3Q output up 1.1% QQ but set the stage for a markedly weaker performance – perhaps even negative QQ growth – in 4Q.*

AUD:

- ***28 Nov, Construction Work Done, Q3 Forecast: 2.5%, previous -0.2% -*** *Private construction data should produce a 2.5% gain in work down in Q3. The turnaround from Q2 should reflect a positive contribution from both engineering and building investment. Citi Analysts suspect that most of the quarterly gain will come from private engineering work, reflecting mining investment. The risk is that contribution from building is smaller than Citi Analysts expect. This comes from the residential component and argues for some downside bias to Citi Analysts forecast.*
- ***29 Nov, Private Sector Capex, Q3 Forecast: 0.5%, previous 3.4% -*** *Private sector capital expenditure growth probably slowed further in Q3. Citi Analysts 0.5% forecast increase is considerably below the gains in the first half of the year. Driving Citi Analysts forecast is a slowing in the building and structures component, although the equipment, plant and machinery component is not expected to contribute meaningfully. The fourth estimate of 2012-13 capital expenditure should be around $AU185bn, 1.9% higher than the third estimate and cementing a deceleration in the forward outlook for capital investment.*
- ***30 Nov, Private Sector Credit, Oct Forecast: 0.3%, previous 0.3% -*** *Citi Analysts expect a slight pick-up in credit for housing will support overall credit growth of 0.3% in October. As Citi Analysts expect little chance of a pick-up in business credit that matches or exceeds the growth rate recorded in September, the prospects for stronger growth in overall credit are small.*

JPY:

- ***Nov. 29, Retail Sales, Overall (Oct) Forecast: -1.4% YoY; -0.2% SA MoM, Previous: 0.4% YoY; -3.5% SA MoM -*** *Retail sales probably decreased 1.4% YoY and 0.2% MoM in October (+0.4% YoY and -3.5% MoM in September). The YoY decline would be the largest since November 2011 (-2.2%). If Citi Analysts are on the mark, October retail sales were 2.1% below the third quarter average.*
- ***Nov. 30, Nationwide Consumer Prices, Overall (Oct) Forecast: -0.5% YoY, Previous: -0.3% YoY; Excluding Fresh Food (Oct) Forecast: -0.1% YoY, Previous: -0.1% YoY; Excluding Food (but not Alcoholic Beverages) and Energy (Oct) Forecast: -0.6% YoY, Previous: -0.6% YoY -*** *Citi Analysts estimate that the nationwide core CPI (excluding fresh food) declined 0.1% YoY in October (-0.1% YoY in September). The core CPI excluding special factors likely dropped 0.65% YoY in October at the same pace in September. The overall nationwide CPI probably fell 0.5% YoY in October (-0.3% YoY in September) while the*

CPI excluding food and energy likely dropped 0.6% YoY (-0.6% YoY). The core CPI is likely to hover around a mildly negative to 0% range in the coming months.

- ***Nov. 30, Nominal Household Spending, All Households (Oct) Forecast: -1.0% YoY; -0.2% SA MoM, Previous: -1.2% YoY; -2.0% SA MoM; Real Household Spending, All Households (Oct) Forecast: -0.3% YoY; -0.3% SA MoM, Previous: -0.9% YoY; -1.9% SA MoM -** Nominal spending of all households probably decreased 1.0% YoY and 0.2% MoM in October (-1.2% YoY and -2.0% MoM in September) while real spending likely dropped 0.3% both in YoY and MoM terms (-0.9% YoY and -1.9% MoM). Citi Analysts projection suggests that real spending decreased 0.8% in October from the third quarter average (+1.7% QoQ in 2Q and -1.4% QoQ in 3Q). Citi Analysts expect consumer spending will decrease 0.3% QoQ in the fourth quarter GDP data. This would be a second consecutive drop but an improvement from a 0.5% QoQ decline in the third quarter.*
- ***Nov. 30, Labor Data, Job Offers-to-Seekers Ratio (Oct) Forecast: 0.80, Previous: 0.81; Unemployment Rate (Oct) Forecast: 4.3% of Workforce, Previous: 4.2% of Workforce -** The unemployment rate likely rose to 4.3% in October, for the first rise in seven months while the effective job-offers-to-seekers ratio (0.80) probably declined for two consecutive months. The economy watchers survey's employment-related DI fell sharply to 44.3% in October from 50.8 in September. However, Citi Analysts expect the current deterioration in labor demand will prove both short-lived and limited.*
- ***Nov. 30, Industrial Production (Oct) Forecast: -1.9% MoM; -7.7% YoY, Previous: -4.1% MoM; -8.1% YoY -** Industrial production likely decreased 1.9% MoM in October, underscoring a downtrend. A 2.9% MoM drop in real exports (the BoJ calculation) in the month suggests a notable fall in output. Production data lead us to believe that the economy is already in recession after having hit a peak in March this year. However, Citi Analysts see the bottom is drawing near, probably around the turn of the year.*
- ***Nov. 30, Housing Starts (Oct) Forecast: 13.3% YoY; 0.885mn units SAAR, Previous: 15.5% YoY; 0.866mn Units SAAR -** Citi Analysts expect October housing starts to stand at 885k (+13.3% YoY) on a seasonally adjusted annualized basis (886k, +15.5% YoY in September). Citi Analysts expect housing starts to show a clear uptrend into the first half of fiscal 2013, leading to a strong 8.8% expansion of residential investment in the fiscal year.*