Monday, April 23, 2012

Brief:

- China's HSBC manufacturing PMI contracted for a sixth consecutive month (49.1) in April, but was better than the prior monthly reading (48.3).
- Australia's PPI unexpectedly declined in the first quarter of 2012 (-0.3%), in turn raising speculation that if CPI data prints a weaker reading tomorrow, RBA could cut rates in May.
- DXY Index has rebounded from its prior weekly low of 79.11 to move towards 79.30 levels, supported by softer cues from Asian equities.
- Looking ahead, there are no major economic reports scheduled for release from US later during the day today.

Following a strong closing to the week wherein most risk correlated currencies advanced against the Dollar, trading has began on a rather dull note in the Asian session today. Equities across Asia-Pacific have traded with a softer bias despite of positive weekend developments from the IMF & G20 meeting. Instead, worries over China once again seems to be gaining momentum after a report from HSBC earlier today showed that the nation's PMI contracted for a sixth consecutive month in April. However, no major downside is seen despite of this as the data for April (49.1) printed well above the figure seen in March (48.3), which in turn could be a sign that manufacturing across the world's second largest economy is finding some stability. Other key development that took place across the Asia-Pacific today has been the release of PPI data from Australia. It showed that the producer prices cooled down by 0.3% during Q1 2012 as compared with the expectations of a 0.5% rise, which in turn has led to expectations that the RBA may cut its policy rates next month.

Looking ahead, there are no major development scheduled across the European and US session later today. As such, focus is likely to shift towards the much anticipated 2-days Federal Reserve FOMC meeting that would be beginning tomorrow and concluding on Wednesday. Intraweek movements across the global markets would be closely impacted based on the outcome of FOMC meeting. With recent economic reports from the US hinting that the US economy is starting to slow down, expectations are that the Fed could issue dovish comments on the health of US economy. However, no hint on QE3 has been expected during the meet as the central bank is likely to adopt a wait and watch approach. Until the meeting, markets are likely to move inside a relatively confined band which in turn could limit downside in Dollar index to 79.00 – 78.80 levels. Early tomorrow morning, focus will remain on the release of consumer inflation report from Australia. With today's PPI printing a softer reading, any similar reading on the CPI front could trigger sell-off in AUDUSD as bets will start to increase that RBA would lower rates during its May meeting.

DXY: DXY Index retreated below the pivotal 200-weekly EMA of 79.40 last week. The daily RSI and stochastic are below their neutrality zone and pointing lower, while the MACD line has fallen below its signal line. Based on this, immediate bias will remain on the downside with targets seen at 79.01 (rising support line), break of which could extend decline towards the daily lower

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Bollinger band of 78.80. However, with intraday oscillators hovering in oversold areas, we expect strong support at 79.01, from where a bounce back towards 79.40 can be expected.

Rupee

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
USDINR	Up	Up	52.00-52.50	52.00	52.12	52.20	52.25	52.30	52.41	52.50

The Rupee began the day mostly unchanged at 52.10 and extended its advance to a high of 52.0150, tracking weakness in Dollar against the G7 basket and Asian currencies. However, the Rupee has pared most of its early day advance and tumbled to fresh intraday low of 52.1750, weighed down by persisting Dollar buying by domestic importers and oil companies. For the rest of session, movements in Rupee will be largely dependent based on how dollar flows prevailing across the board. If dollar demand continues to remain high, the Rupee could extend its slide to fresh 3-month high of 52.30.

USD/INR: USDINR has moved back above the key 52.12 resistance (61.8% retracement of 54.30 to 48.61). The daily RSI is slightly below the overbought zone and pointing higher, while, the MACD line is above its signal line and in positive zone. Based on this, as long as stability is maintained above 52.12, bias will remain higher for a test of 52.30. However, break below 52.12 will negate this view and extend slide back towards the 52.00 handle.

Euro

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
EURUSD	Down	Down	1.3000-1.3300	1.3000	1.3080	1.3140	1.3170	1.3200	1.3240	1.3300

The Euro was able to break above the 1.3200 handle on Friday for the first time in more than a week as demand for the single currency was bolstered on the back of host of positive news flow from Euro zone. The first amongst this was stronger than expected bond auctions in Spain and France on Thursday which helped to temporarily ease jittery investor sentiment. The second amongst this was upbeat German IFO data from Germany, which showed that business confidence in the Euro zone's largest economy rose to a 9-month high of 109.9 in April as compared with a reading of 109.8 in March and forecast of 109.6. Finally, the third key reason was increase in the size of IMF's firepower by USD 430 billion, which in turn would let the IMF to deliver larger support to Euro zone economies in case the crisis intensifies further. All these factors in turn lifted the Euro from 1.3128 to as high as 1.3227 during the New York session, which was its strongest reading since the past 3-weeks.

With no major economic reports scheduled for release from the Euro zone later today, movements in the Euro will be largely driven by risk flows prevailing during the European and US session. Main focus will continue remaining on Spain. With the nation's benchmark 10-year yield inching back towards 6%, any move further higher would pressurize Euro retreat below the

1.3200 handle. However, if yields on Spanish securities are able to inch lower, we expect the Euro to hold on to most of its prior week gains and possibly extend gains towards 1.3270 levels.

EUR/USD: EURUSD has stabilized near the 55-daily EMA of 1.3182 levels. The daily RSI and stochastic have risen above the neutrality zone. Based on this, should the pair find stability above the key 100-daily EMA of 1.3240, further up move possibly towards 1.3305 can be expected. However, with intraday oscillators hovering near overbought areas, modest pullback can be expected first for a possible move towards 1.3182, provided resistance at 1.3240 manages to hold.

Sterling

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
GBPUSD	Up	Up	1.5960-1.6250	1.5960	1.6020	1.6080	1.6105	1.6140	1.6200	1.6250

The Sterling advanced for a fifth consecutive session on Friday boosted by a much higher-than-expected retail sales report from the UK. The data, which was expected to show a rise of +0.4%, printed in at +1.8% in March as compared with a decline of -0.8% in February. This in turn has further lowered the possibility of additional stimulus next month, thereby boosting demand for the UK unit. Besides improving UK fundamentals, the Sterling was also boosted by safe haven demand for the currency amid uncertainties surrounding the Euro zone debt crisis. On an intraday basis, the Sterling advanced from a low of 1.6038 to as high as 1.6150, which was its strongest print since the past 5.5-months.

Looking ahead, movements in the Sterling this week will be closely impacted based on how the prelim Q1 2012 GDP report prints in. The data is expected to post a growth of +0.1% as compared with a reading of -0.3% last quarter. On an intraday basis though, with no major economic report scheduled for release from UK today, movements in Sterling will be driven by risk flows prevailing across Europe and US. Any negative news flows from Euro zone could increase safe haven appeal for Sterling, which in turn could support the unit extend advance towards 1.6200 levels. However, negative cues from across the globe would increase demand for the safety of Dollar, which in turn could lead to modest profit taking in Sterling and drag the unit towards 1.6000.

GBP/USD: GBPUSD has risen above the upper Bollinger band resistance of 1.6088 levels. The daily oscillators are still below their respective overbought areas and are pointing higher. Based on this, as long as stability is maintained above 1.6088, immediate bias will continue remaining higher for a possible test of 1.6225 levels. However, with intraday oscillators moving into overbought areas, break of 1.6088 will negate this view and extend losses towards 1.6035 (21, 4-hourly EMA).

Yen

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
USDJPY	Up	Up	80.35-82.00	80.35	80.60	80.95	81.20	81.50	81.65	82.00

The Yen halted its three consecutive session slide on Friday supported by weakness in Dollar against the G7 basket. However, the Yen was not able to recover much of its early week losses, as traders continued to remain cautious ahead of this week's BOJ meeting in which the central bank is expected to increase the size of QE by JPY 5 trillion. On an intraday basis, the Yen strengthened from its early day low of 81.78 to as high as 81.48. As stated above, with the BOJ likely to increase the size of its QE program later this week, the Yen could continue remaining under pressure and extend weakness towards 82.00 handle during the next few sessions. However, directions in the Yen will also be closely impacted on the outcome of Fed meeting on Wednesday and any hints of QE3 by Fed could drag the Yen back towards psychological 80 handle.

USD/JPY: USDJPY has stabilized past the 55-daily EMA of 80.96 and is currently hovering near 21-daily EMA resistance of 81.54. The RSI on daily chart has lost its upside momentum but the stochastic is continuing to point at bullish momentum. Based on this, break and stability above 81.54 will extend advance further possibly towards 81.78 (4-hr, upper Bollinger band). However, as long as 81.54 holds as resistance, bias will remain down for a retest of 80.96.

Australian Dollar

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
AUD/USD	Down	Down	1.0210-1.0435	1.0210	1.0250	1.0300	1.0325	1.0350	1.0400	1.0435

The Aussie ended on a modestly stronger note on Friday as improving risk appetite across the globe supported demand for the high-beta currencies. This in turn lifted the Australian unit from a low of 1.0309 to as high as 1.3084 during the US session, close to where it ended. However, the Aussie was unable to gain much leeway on the upside as some caution was seen ahead of the release of a much anticipated consumer inflation report later tomorrow. The data is expected to show 0.5% rise q/q during Q1 2012 as compared with a flat reading in Q4 2011. On an annual basis though, inflation is likely to ease down to 2.1% in Q1 as against a reading of 3.1% printed in Q4.With RBA stating that it would consider cutting rates if inflation eases, movements in the Aussie will be closely impacted based on how the CPI data prints on Tuesday. Until then, we expect the upside in Aussie to continue remaining capped at 1.0430/50 levels.

AUD/USD: AUDUSD managed to rise above the 200-daily EMA of 1.0363 levels on Friday, but has today retreated below the same. The daily RSI however has stayed below the neutrality zone while the MACD line is below the zero line. Based on this, we expect any intraday upside in the pair to be contained at the key 100-daily EMA of 1.0430 levels. Meanwhile, should the pivotal 1.0363 hold as resistance, a move back towards 1.0270 can be expected.