Friday, April 27, 2012

Brief:

- Euro is seen under pressure against the Dollar today and has dipped below the 1.32 handle weighed down by Spain's 2-notch sovereign rating downgrade by S&P's.
- Bank of Japan increased the size of asset purchase facility by JPY 10 trillion to JPY 40 trillion, which was more than the forecast of JPY 5 trillion.
- During the European session, focus will remain on Italian bond auctions which in turn would determine further intraday directions in the Euro.
- Over in the US session, all eyes will remain on the release of advance GDP data, which has been forecasted to print at 2.6% in Q1 versus Q4 reading of 3.0%.

It has been a volatile Asian session so far with equities across the continent lacking clear directions for most parts of the day. On the positive side, US pending home sales data printed an upbeat reading last month which in turn has continued to build optimism that housing sector in the world's largest economy is stabilizing. On the negative side though, rating agency S&P's has lowered Spain's credit rating by 2-notches to BBB- from A along with a negative outlook. Besides this, most of the economic reports that were released from Japan earlier today were mostly disappointing, which in turn has weighed in on risk sentiments. Meanwhile, the BOJ meeting that was concluded earlier today proved to be a big surprise. As expected, the central bank left its benchmark overnight call rate unchanged at <0.10%. However, the BOJ surprisingly increased the size of asset purchases by JPY 10 trillion to JPY 40 trillion.

Risk assets have come under modest pressure during the latter hours of Asian session weighed down by S&P's downgrade of Spain. Asian equities were seen trading with a modestly positive bias earlier during the day but have come under pressure towards the end of session. Commodities too have inched lower tracking strength in Dollar against the G7 basket. At the moment, Gold has inched down by 0.25% to $1653.30 an ounce while Crude oil has slid by 0.75% to $103.80 per barrel. Meanwhile, the Dollar index has recovered from some of its early week losses and has gained 0.41% today, rising above the 79.20 handle. Amongst the G7 basket – EURUSD is seen finding stability below the 1.32 levels, GBPUSD has managed to hold on to most of its early week gains and stay near 1.62, while USDJPY has remained extremely volatile throughout to currently quote at 80.85. Looking ahead, focus in the European session today will remain on bond auctions in Italy. With risk appetite already waning due to Spain downgrade, disappointing bond auctions in Italy could further weigh in on risk sentiments which could support DXY extend advance towards 79.50. Over in the US, focus will remain on the release of advance GDP data. Expectations are for a print of 2.6% in Q1 2012 as compared with a reading of 3.0% in Q4 2011. Should the data come in below market estimate, it could put the Dollar under considerable pressure and drag the DXY towards 79 support.

DXY: DXY Index bounced off the daily lower Bollinger band support of 78.83 yesterday. Intraday oscillators on the 4-hourly chart have lost their bearish momentum and started to point slightly higher. Based on this, as long as 78.83 manages to hold as support, immediate bias will remain on the upside for a test of 79.40 (200-weekly EMA). However, with daily oscillators continuing to point at bearishness, we expect strong resistance at 79.40 which is likely to be held for rest of session. Meanwhile, break below 78.83 will flip bias back to the downside for a possible move towards 200-daily EMA of 78.63.

Rupee

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
USDINR	Up	Up	52.45-52.90	52.45	52.50	52.60	**52.68**	52.75	52.87	52.90

After beginning the session at 52.51, the Rupee advanced to its intraday high of 52.4650 tracking modest strength amongst Asian currencies. However, the Rupee has come under heavy selling pressure since then, falling to as low as 52.7150 weighed down by heavy demand for Dollars from importers. With Dollar regaining some of its lost ground against the G7 basket, the Rupee could continue staying under pressure for the rest of session for a possible test of 52.87 early weekly low.

USD/INR: USDINR has traded with an upside bias today but has been unable to move beyond 52.75 resistance. The daily MACD line has stayed above its signal line while the RSI is slightly below its overbought zone. Based on this, break of 52.75 will extend gains further possibly towards 52.87 (April 24th high). However, as long as 52.75 manages to hold, a move back towards 52.50 can be expected.

Euro

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
EURUSD	Down	Down	1.3000-1.3365	1.3000	1.3080	1.3150	**1.3180**	1.3240	1.3300	1.3365

The Euro advanced to a 3-week high of 1.3263 against the Dollar on Thursday supported by overnight dovish comments from the Federal Reserve. However, the single currency was unable to hold on to its gains and has since tumbled back towards the 1.3200 support, weighed down by news that rating agency S&P's has lowered Spain's long-term credit rating by 2 notches from 'A' to 'BBB+' along with a negative outlook. This in turn killed the rally in Euro and dragged the currency back below the technical 1.3235 support. Besides this, the Euro was also weighed down by disappointing batch of data releases from the 17-bloc region. This included consumer confidence sliding to -19.9 in April from -19.8 in March, economic confidence sliding to 92.8 in April from 94.4 in March, industrial confidence slipping to -9.0 in April from -7.2 in March, and services confidence declining to -2.4 in April from -0.3 in March.

Speaking of S&P's downgrade on Spain, the agency stated that "*it expects Spain's budget trajectory to worsen against a backdrop of economic contraction*", while also adding that it "*sees an increasing probability that Spain's government will need to provide further fiscal support to the banking sector*". Looking ahead, movements in the Euro later today will be closely impacted based on how bond auctions in Italy go. This also includes EUR 2.5 billion each of 2017 and 2022 securities, amongst others. Besides this, movements in Euro will also be impacted based on how US GDP data prints in. Should the data print below expectations, Dollar is likely to come under severe pressure which in turn could support Euro, and vice versa.

EUR/USD: EURUSD has bounced back above the 55-daily EMA of 1.3184 levels, though it has traded extremely close to the same. The daily stochastic line has started to point lower and has moved below its signal line, while the daily RSI has slipped back from above to move towards neutrality zone. Based on this, as long as key resistance at 1.3235 is held, a move towards 1.3135 can be expected later today. However, break and stability back above 1.3235 will negate this view and extend advance towards 1.3285.

Sterling

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
GBPUSD	Up	Up	1.6000-1.6300	1.6000	1.6080	1.6120	1.6180	1.6200	1.6240	1.6300

The Sterling strengthened against the Dollar on Thursday as the UK unit was supported by strong cues from across the global equities. The Sterling was also supported by a report which showed that nationwide consumer confidence unexpectedly improved to a 10-month high of 53 in March from 44 in February. This suggests that confidence amongst consumers is returning back, which in turn could increase consumer spending in the coming days. Both these factors in turn lifted the UK currency from 1.6158 to an 8-month high of 1.6207. However, with risk appetite fading post the downgrade of Spain, the Sterling has inched below the 1.62 handle, though the downside has been very limited. Amongst other data releases from the UK, BBA mortgage approvals fell to 31.9k last month from 32.8k in February, CBI realized sales dipped to -6 this month versus expectations of -4, while Gfk consumer confidence remained unchanged at -31 in April which was slightly below the estimate of -29.

Looking ahead, there are no major economic reports scheduled for release from the UK later today. As such, movements in the UK currency will be largely driven by risk flows prevailing during the European and US session. However, with recent data from the nation stating that the UK economy has slipped into recession, we expect any rallies in Sterling to be absorbed near 1.6235 – 1.6295 levels. Nevertheless, near-term trend in Sterling will continue remaining higher as long as support at 1.6000 psychological levels is held.

GBP/USD: GBPUSD has stayed above the minor 5-daily EMA of 1.6148 on the daily chart. The daily oscillators have lost their upside momentum - stochastic line pointing lower to move below its signal line while RSI line has flattened out between a band of 60 & 70. Based on this, should the pair break and stabilize below 1.6148, further slide possibly towards 55, 4-hourly EMA of 1.6085 can be expected. However, as long as 1.6148 continues holding, intraday bias will remain higher for a possible move up to 1.6208 (4-hourly Bollinger band).

Yen

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
USDJPY	Up	Up	79.80-81.75	79.80	80.20	80.50	80.85	81.00	81.35	81.75

The Yen advanced to a 10-day high of 80.66 on Thursday as traders pushed the Japanese currency higher on the back of rumours that BOJ would keep its asset purchases unchanged during the policy review today. The Yen extended its advance even further earlier today, rising to as high as 80.47 against the USD. However, the Japanese currency has pared its entire advance and tumbled back beyond the 81 handle in reaction to the outcome of BOJ meeting. Earlier today, the BOJ kept its overnight call rate unchanged at <0.10% which was as expected. However, the central bank expanded its monetary stimulus, increasing the asset purchase program by JPY 10 trillion to JPY 40 trillion, in order to fight against deflation and also to weaken the Yen. This was more aggressive as the markets had priced in a JPY 5 trillion increase in asset purchases and as such, has pressurized the Yen to soften against its US counterpart.

Besides this, the Yen has been pressurized by disappointing data releases from Japan. This includes manufacturing PMI falling to 50.7 in April from 51.1 in March, household spending rising 3.4% in March which was below expectations of 3.7% rise, prelim industrial production rising 1.0% in March versus forecast of a 2.3% rise, retail sales rose 10.3% in March as compared with the estimate of 2.3% growth, while housing starts rose 5% last in last month versus a reading of 7.5% in February. Disappointing data releases coupled with higher-than-expected increase in monetary stimulus could pressurize Yen stay above 80.50 levels later today, while on the downside, a move towards 81.50 can be expected. However, directions in Yen will be largely driven based on how US GDP data prints in. Should the data print below expectations, Yen could extend its rally towards psychological 80 levels, while a stronger reading could pressurize Yen extend losses towards 82.00 levels.

USD/JPY: USDJPY has remained extremely volatile today but has been met with strong resistance at cluster EMAs seen near 81.40 levels. Intraday oscillators are showing mixed cues at present, but the daily oscillators are pointing at bearish momentum. Based on this, as long as stability is maintained below 81.40, immediate bias will remain lower for a test of 80.20 (daily Bollinger band support). However, break and stability above 81.40 will negate this view and extend advance towards 82.00 levels.

Australian Dollar

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
AUD/USD	Up	Up	0.8965-0.9235	0.8965	0.9000	0.9080	0.9120	0.9150	0.9180	0.9235

AUD/USD: AUDUSD is seen hovering near the 200-daily EMA of 1.0363 levels. The daily RSI and stochastic has lost their downside momentum and have started to point slightly higher. Based on this, should the pair stabilize above 1.0363; a move towards cluster EMAs of 1.0430 can be expected. However, stability below 1.0363 will negate this up view and turn bias back lower wit possible targets then seen at 1.0295 levels.