Mecklai Financial
WHERE RISK MEETS ITS MATCH

Mid-Day Update

Friday, September 14, 2012

Dollar

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
DXY Index	Up	Up	78.50 – 81.50	78.30	78.50	78.90	79.08	79.20	79.50	80.20

- After many months of speculation, the FOMC finally took the steps and announced embarking on a third round of quantitative easing, thus the dollar index dived by nearly 1 percent to current hover at fresh 4-month low of 79.02 and equity markets welcomed the new stimulus.
- The FOMC concluded its 2-day meeting today and announced a new round of asset purchases while extending its forward interest rate guidance to keep rates near zero through mid-2015. The details of the program indicate the Fed will purchase $40B of mortgage backed securities (MBS), however this program is open-ended as the Fed said that it will continue to buy MBS if the outlook for the labor market does not improve substantially. Combined with the continuation of Operation Twist, the Fed's holdings of longer-term securities will increase by about $85B each month through the end of the year.
- Their objective is to stimulate the economy, primarily by artificially suppressing mortgage rates, which in turn they hope will stimulate the housing market and thus contribute to a stronger economy.
- *Implications:* As the Federal Reserve purchases these assets, the yield on these assets decreases which (hopefully) trickles through the economy allowing businesses and individuals to take out credit at favourable rates. This theory is sound if money actually moves about within the economy. If individuals are not interested in purchasing or businesses are not seeking to invest, then the purpose of Fed is more likely goes wane.
- Assessing the economic landscape, the Fed downgraded its view of current economic conditions and also scaled back its expectations for the near-term economic outlook. While the 2012 Fed forecast was lowered, the GDP forecast for 2013 and 2014 were raised to 0.2 % and 0.3% respectively. The unemployment rate forecast was largely unchanged for 2012 and 2013.
- Moreover, the Fed has run on risk by pumping money in staggered manner, the question remains whether this will lead to rise in commodity prices and fuel inflation. On other hand, the objective of suppressing borrowing cost will not take place since the buyback is of MBS not treasuries. The policy announcement was not warranted but it was more of political desire to improve things faster.
- On data front, Weekly initial jobless claims disappointed with a rise of 15K to 382K from the prior 367K. The data underscored the continued deterioration in the labor market. Producer price index surged up by 1.7 percent in August following a 0.3 percent increase in July. The sharp jump in energy prices, which reflected the biggest increase since August of 2009, came on the heels of five consecutive monthly decreases.

- Asian equity markets, precious metals, energy, and risky FX are all treading higher after so called QE3 was delivered from Ben, following the path of ECB. Now only further rally in riskier assets could ignite if China announces similar round of easing to boost their economy.
- It looks market has turned calm though holding firm since morning. Thus the next catalyst to drive dollar and risk sentiment is Retail Sales, Core CPI and Prelim Consumer Sentiment which are due today evening.

DXY: The bearishness in the dollar index has remains intact with the price falling by 0.8% in yesterday's session and currently hovering at 79.00 levels. The index is set to close in red for four consecutive weeks which concludes it is in the oversold region across the tenor. Due to stretch on downside, a minor retracement is likely in coming sessions, however the price will face various resistance levels starting from 79.60 to 80.00 levels and then at 80.60. Today, sideways movement is expected and it will remain steady around 79.00 levels which if does, we can expect minor pull back in next session towards 79.50.

Rupee

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
USDINR	Neutral	Down	54.55-55.05	54.30	54.55	54.65	54.70	54.80	55.05	55.20

- India's rupee jumped the most in two months on speculation the government's move to improve its finances and additional stimulus measures from the Federal Reserve will boost investment inflows. The rupee advanced 1.3 percent to 54.6725 per dollar its biggest jump since July 13. It touched 54.6450 earlier, the strongest level since July 4.
- Indian inflation was faster than economists estimated in August as the first rise in diesel tariffs in more than a year threatens to fan prices. The wholesale-price index rose 7.55 percent from a year earlier, after climbing 6.87 percent in July. The move is inflationary and we believe that elevated inflation will still bother the central bank and deter rate cuts.
- The Indian government announced the rise in diesel tariffs yesterday. It also said the number of subsidized cooking gas bottles for each buyer is to be limited to six a year. Gasoline and kerosene prices were left unchanged. It's a move in the right direction and needs to be followed up by more action to sustain positive sentiment.
- Sensex, rose 1.9 percent to 18,367.23 at 9:18 a.m. in Mumbai. The index is poised for a 3.8 percent gain this week, the steepest climb since the five days ended June 8. Overseas investors bought a net $105 million of shares yesterday, taking investments this year to $12.8 billion.
- India's cabinet may today consider allowing foreign airlines to buy stakes in local carriers. Ministers may review a plan to permit carriers to acquire as much as 49 percent of local counterparts.

USD/INR: USDINR opened sharply lower at 54.80 compared to its yesterday's close 55.34 as the markets got it wanted QE3 and a bonus of a diesel price hike of Rs 5 per litre to restore the public finances. The sentiment is getting rupee supportive favoring for gains in rupee provided the pace of reforms continue. The pair is currently drawing support at 54.61 (21 Weekly EMA) and a close below that pivotal support levels will be very bearish for the pair and extend the downside to the next pivotal support of 54.20 levels which were seen in early July 2012. However if the support is held then upticks up to 55.05 later in the day cannot be ruled out.

Euro

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
EURUSD	Neutral	Up	1.2890-1.3150	1.2890	1.2930	1.2970	**1.3041**	1.3070	1.3120	1.3150

- Finally, Fed delivered the most awaited stimulus and supported risk sentiments. The 17-nation currency witnessed some buying interest to extend its appreciation rally till 1.3054. Currently the pair is changing hands at 1.3036.
- In Europe, Spain's Finance Ministry said the Treasury would issue €3 billion in bonds for banks through a private placement next week and another €5 billion in mid-October, as part of an effort to fill Spain's €18 billion liquidity fund for its regions indicating that it had secured a loan of €8 billion ($10.29 billion) from banks to help ailing regional governments refinance debt.
- The European Central Bank's bond-buying plan has lifted confidence in euro. ECB President Mario Draghi reiterated that the ECB will buy bonds only if countries stick to conditions, there is considerable progress in Spain and Italy. Many economies are correcting their past wrong policies, indicating an economic recovery in Euro zone.
- In bond market, Italy's borrowing costs for three years fell to their lowest level in nearly two years at a debt auction. The Treasury raised the maximum target of EUR 4 billion from the sale of its July 2015 bond. The auction attracted bids totaling EUR 5.94 billion. The yield on the 3-year debt dropped to 2.75 percent from 4.65 percent paid at an auction on July 13. It was the lowest yield paid since October 2010. The bid-to-cover ratio slid to 1.49 from 1.73 in July.

EUR/USD: EUR hits the target to the dot at 1.3030 areas. Some profit taking is expected around these levels. Any significant dips to the 1.2960 should be bought. The up move is intact as long as the 1.2900 areas hold and very unlikely it will be dislodged in such formulations. Today being Friday can see some profit taking and we will get a clearer view by Monday.

Sterling

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
GBPUSD	Up	Neutral	1.6105-1.6270	1.6080	1.6105	1.6145	**1.6191**	1.6210	1.6255	1.6300

- The Sterling continued its northward journey and traded higher against the dollar for the 3rd consecutive session boosted by Fed's announcement of additional stimulus. The pair once again posted a new high, breaching the level of 1.6205- level seen for the first time since May 2012- in today's morning session.
- Risk sentiments have found solid support with US Fed adopting a more accommodative stance following which the pair rallied from its intra-day low of 1.6065 and went on to touch the high of 1.6174, closing the session at 1.6152.
- Looking ahead, there are no data lined up for release in UK. As such, economic data releases from US will be the major driver for movement in the pair.

GBP/ USD – GBPUSD is seen to be taking resistance at 1.6200 as the pair continues to hover around this level. The daily oscillators are in extremely oversold region which signals that moderate correction in the pair is likely. Similarly, the pair is also seen taking resistance at the 200-weekly EMA and a beak of this will extend the rally in the pair. Untill then, the intra-day bias in the pair remains on the downside with possible target seen at 1.6109 (5-day EMA).

Yen

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
USDJPY	Up	Neutral	77.00-78.50	77.00	77.25	77.50	77.57	78.00	78.25	78.50

- With the announcement of QE3 by Fed the Japanese Yen appreciated considerably against its counterpart Greenback and marked a low of 77.13 levels. This appreciation in Yen could not sustain for a very long time embarking the strength Dollar posses thereby gripping the pair to trade at 77.57 levels currently.
- It has been observed that BoJ is printing money on a faster pace then Fed whereby the bank of Japan increased its monetary supply by 5.9% in first eight months of the year. On the other hand Fed has increased its money supply by 1.9% only. This faster pace has led to a record circulation of Yen.
- BoJ governor Shirakawa has pointed out that the Japanese authorities will pursue powerful easing in order to achieve the target of 1% inflation.
- Japanese finance minister Azumi has clearly stated that the appreciation in Yen has nothing to do with the Japanese economy. The authorities would continue to provide fiscal stimulus if the exports of the country are seen dampening. A sluggish stance maintained on exports is of a great concern for the economy.

USD/JPY: As mentioned in yesterday's session the pair was unable to break the psychological support of 77.00 levels and marked a low of 77.13. Intraday bias remains modestly on the upside, as long as the mentioned support is held. Therefore, 21 Daily EMA at 78.40 would act as a strong resistance for the pair.

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Australian Dollar

Currency	Trend		Exp.Range	Support			Spot	Resistance		
	Weekly	Fortnightly		S3	S2	S1		R1	R2	R3
AUD	Up	Neutral	1.0510 – 1.0613	1.0390	1.0427	1.0510	**1.0570**	1.0613	1.0675	1.0740

- The AUD has added up all the losses it faced over the past few weeks and hit a high of 1.0588 levels this morning, the levels last seen about a month back and seems on its way to breach its 6 month high of 1.0613 levels.
- Ben Bernanke decided to drug the economy with artificial liquidity pumping exercises notably called as QE3, which lead to a surge in prices of commodities including Gold and Oil the consequences of which were seen overflowing into risky currencies including the Aussie.
- It would be interesting to note what would be discussed in next weeks monetary policy meeting minutes post the resurgence in the local currency.

AUD/USD: The pair hit a close to one month of 1.0588 levels and looks likely to create new highs in trade post easing announcements. 1.0613 levels could act as a good immediate resistance a level last seen on 9th August. On the downside support would be visible at 1.0510 levels (horizontal line) post which a good support would be at 1.0427 levels (38.20% retracement of the fall from 1.0588 to 1.0167).