

Rabobank FX Daily

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Rabobank International

Financial Markets Research

RabobankResearch@Rabobank.com
Market Strategy Team
+44 20 7664 9776

www.Rabobank.com

DATA RELEASES AND EVENTS

08:00 ECB President Trichet speaking

08:15 Switzerland Retail Sales (Mar)

	Median	Range	Last
yoy,%	3.0	2.0/5.3	3.3

09:15 ECB member Constancio speaking

10:00 ECB member Liikanen speaking

10:00 Eurozone Trade Balance (Mar)

	Median	Range	Last
Balance, EUR bn	2.5	0.5/5.1	0.8

13:30 US Housing Starts (Apr)

	Median	Range	Last
Starts, k	939	875/1000	947
Permits, k	910	880/985	928

13:30 Canada Auto Sales (Mar)

	Median	Range	Last
mom,%	0.0	-6.0/0.5	-3.2

15:00 US Michigan Sentiment (May-prov)

	Median	Range	Last
Sentiment	62.0	58.5/66.4	62.6

Still testing US sentiment. Into the close of the week we have two potential challenges in terms of the building case for some kind of base being formed in the US real economy, namely in terms of housing starts and provisional Michigan sentiment for May. However, it is worth reassessing the latest data not least the fact that although the Philadelphia Fed index may continue to indicate near term recessionary conditions, the improvement in the index of conditions looking six months ahead points towards the kind of time line we are anticipating in terms of a rebound in US activity and ties in with assumptions that the lagged impact of the monetary easing will have worked through the system prior to a potential turning in the Fed outlook in early 2009, suggesting any absolute deterioration in US economic activity will likely be short. Moreover while not only do conditions six months ahead look more favourable but the detail of the monthly capital flow data revealed a net outflow from corporate bonds in March, in line with the low in the DXY index (the Bear bailout came in March) however with rising new US issuance in recent weeks it would appear that USD inflows are likely to rise as market conditions improve, benefiting the USD as a consequence. However, while inflows may be improving there seems little obvious respite for the housing market just yet. Moreover, with survey evidence suggesting that US consumers are set to reduce travel over the Memorial Day weekend, for the first time since 2002, due to cost of fuel and the general economic malaise, the hopes for the future gleaned from the leading index of the Philly Fed is unlikely to be replicated into the close, so the USD may prove vulnerable for a rebound back towards US\$1.56.

Rates and flows boost the ZAR A potential double whammy of higher rates and investment inflows have conspired to boost the ZAR, this as the market may attempt a durable slide through the ZAR7.50 area. Market risk appetite remains elevated according to the Rabobank Risk Aversion Measure (RAM) as of the four key inputs into the series three underline rising risk appetite; corporate spreads have retreated to four month lows, equity volatility is back to levels not seen since October while broad FX volatility is at a three month low, with only a modest reversal in the two month trend towards narrowing US swap spreads reversing broader risk improvements. Against such a backdrop the potential of higher South African rates, comments from the SARB Governor highlighted the need for 'drastic action to bring inflation back within target', this as core CPI is currently at 10.1% against a 3-6% target while rates at 11.5% are ZAR positive. With the market also weighing up the risks of significant potential foreign inflows relating to a deal for telecoms operator MTN, on a carry and potential flow basis the ZAR may continue to see upside impetus.

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