

## Market Outlook

14 – 20 December 2015

### Highlight

#### Last Week:

Most of the major currencies were traded modestly since the markets had been waiting for the US Federal Reserve's committees to decide whether or not they will raise their borrowing cost. The JPY also strengthened due to the higher demand of safe-haven currency. Meanwhile, both EUR and GBP mildly changed after a huge gain seen a couple of weeks ago albeit various data were released. While the commodity currencies, the AUD and NZD, were found in panic zone from a continuously drop in oil price before both currencies rebounded after RBNZ surprised the market by shutting the door for further easing.

#### This Week:

The Dollar is expected to strengthen against its counterparts as investors wait for the Fed's December 16<sup>th</sup> policy decision with a high possibility of a rate hike. Meanwhile, investors will also focus on the BOJ meeting held on December 17-18<sup>th</sup>.

### USD

At the beginning of last week, the US dollar held its gain against major currencies on expectation the FED will increase its policy rate at the FOMC meeting which will be held during December 15-16. The support was on a better-than-expected in November US job data released on Friday (4/12). The non-farm payroll raised 211,000 positions, higher than market expectation at 200,000 positions, while the unemployment rate remained unchanged at 5.0%, the lowest in 7.5 years since April 2008. The US dollar faced a huge drop on Wednesday (9/12) as the markets had sold the dollar off for profit-taking before it rose again on Friday (11/12) with the support from retail sales and consumer confidence data. The retail sales rose 0.2% mom in November, while the consumer confidence rose 0.5pts to 91.8 in December.

#### Graph: Dollar Index (DXY)



Source: Reuters

**Comments:** As mentioned earlier, the highlight for this week will be the outcome of the FED's two-day meeting. Anything other than a 25bps hike in the targeted Fed Fund range (to 0.25-0.50%) would surprise the market and has a huge impact on the currencies movement.

### EUR & GBP

The euro opened at 1.0837/38 USD/EUR on Tuesday (8/12), depreciated from the previous Friday (4/12) closing level at 1.0889/92 USD/EUR after the strong U.S. economic data was released. On Friday (4/12), the U.S. Department of Labor reported that the number of non-farm payrolls in November increased by 211,000 jobs, higher than expectation of 201,000 jobs while U.S. unemployment rate and average hourly earnings remained unchanged at 5.0% and 0.2% respectively, in-line with market expectations. Additionally, European Central Bank (ECB) President, Mario Draghi, said that ECB could extend its stimulus if necessary in order to reach the targeted inflation. On Tuesday (8/12), the euro rebounded as the data showed that Eurozone GDP-Q3 was increased by 0.3% QoQ and increased by 1.6% YoY, in line with expectations. On Wednesday (9/12), the euro still gained against dollar from better-than-expected in German trade surplus that rose to 20.8 billion euros in October, from 19.2 billion euro forecasting. At the end of the week, the euro fell as the dollar held gains ahead of the Federal Reserve Bank (Fed) meeting on 15-16 December by expectations that Fed will raise interest rate for the first time since 2006. During the week, the euro moved in the range between 1.0794-1.1041 USD/EUR and closed on Friday (11/12) at 1.0942/44 USD/EUR. The pound opened at 1.5049/50 USD/GBP on Tuesday (8/12), depreciated from the previous Friday (4/12) closing level at 1.5128/32 USD/GBP after the optimistic U.S. economic data was released. At the beginning of the week, the pound continued falling against the dollar after the data showed that U.K. manufacturing production fell 0.4% in October, after rising 0.9% in previous month. On Wednesday (9/12), the pound rebounded against the dollar and hit to 3-week high at 1.5238 USD/GBP ahead of the Bank of England (BOE) meeting while the dollar was pressured from the lack of economic data and the recovery in oil prices. On Thursday (10/12), the pound was almost unchanged against the dollar although the U.K. trade deficit rose from 8.8 billion pound in September to 11.8 billion pound in October. Nonetheless, the pound declined slightly after BOE announced its decision to keep interest rates on hold at

record lows of 0.5%. Moreover, the BOE said that they still concerned about the wage growth and need to maintain its domestic cost, compared to current rates in order to push inflation to the 2% target. At the end of the week, the pound continued depreciating against the dollar as investors turned their attention to next week's Fed meeting. During the week, the pound moved in the range between 1.4954-1.5238 USD/GBP and closed on Friday (11/12) at 1.5133/39 USD/GBP.

#### Graph: EUR & GBP



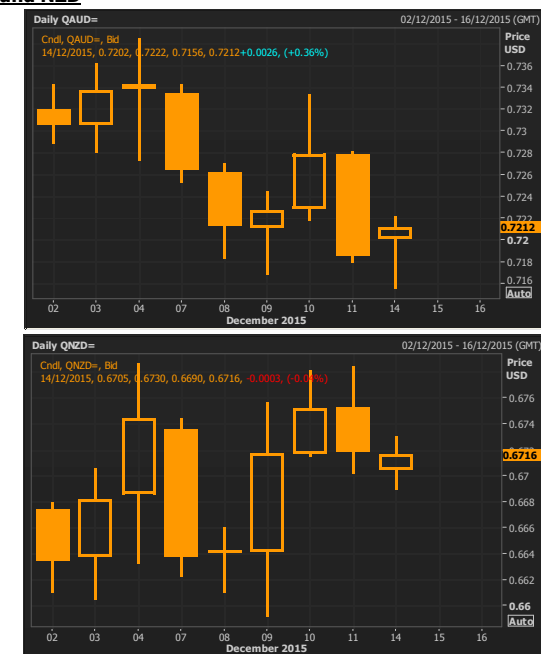
Source: Reuters

**Comments:** This week, we believe that investors still wait for the Fed's meeting on 15-16 December amid expectations that Fed will raise interest rate for the first time since 2006 and it is driving the EUR and GBP lower. However, there are a lot of important economic data to be released for Eurozone and U.K. this week such as U.K. inflation (15/12), German and Eurozone ZEW economic sentiment (15/12), Eurozone manufacturing PMI and service PMI (16/12), U.K. unemployment rate (16/12), German Ifo business climate (17/12) and U.K. retail sales (17/12) are also will be focused. We expected the euro and the pound will move in the range between 1.0750-1.1050 USD/EUR and 1.5000-1.5250 USD/GBP respectively.

#### AUD & NZD

The AUD and NZD opened on Monday (7/12) at 0.7334/36 USD/AUD and 0.6735/37 USD/NZD, slightly depreciated from Friday's close (4/12) at 0.7339/41 USD/AUD and 0.6744/46USD/NZD. In the beginning of last week, the Australian and the New Zealand dollar depreciated against the dollar after a tumble in oil prices. The New Zealand dollar was also under pressure by the expectation that the reserve bank of New Zealand (RBNZ) will cut interest rate at its meeting on Thursday (10/12). However, the New Zealand dollar rebounded on Thursday after the RBNZ surprised market by shutting the door on further easing. The RBNZ cut rate by 25 bps to 2.5% and virtually shut the door on further easing, saying it expected to achieve its inflation target without more monetary stimulus. While, the Australian employment climbed by 71,400 in November, pushing the jobless rate to the lowest in 19 months at 5.8%, better than expected at 6.0%. Last week, the Australian dollar and New Zealand dollar moved in the range between 0.7169 - 0.7343 USD/AUD and 0.6592 -0.6784 USD/NZD, and close on Friday at 0.7186/88 USD/AUD and 0.6719/21 USD/NZD.

#### Graph: AUD and NZD



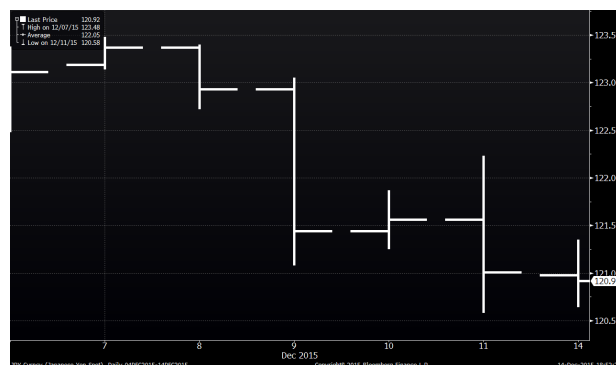
Source: Reuters

**Comments:** This week the Reserve Bank of Australia will release the minutes of its latest meeting and Australia will release a house price index on Tuesday (15/12), which expectation that the index will increase 10.2% qoq in Q3. The New Zealand will release a Q3 GDP on Thursday (17/12) which expected that will increase 2.3% yoy. This week, the Australian and New Zealand dollar will moved in the range between 0.7150 - 0.7300 USD/AUD and 0.6700 - 0.6850 USD/NZD.

## JPY

This week, the JPY was moving in a wider range even there was no domestic economic data. The JPY was opened on Tuesday (8/12) at 123.27/28 JPY/USD slightly depreciated from previous closed level at 122.78/79 JPY/USD. The lacking of new factors drove the Yen to move in a tight range initially. However, the JPY was supported by a bright October factory orders was raise to 10.7%, better than expectation at -1.5% and higher than 7.5% read in September. In addition, the factory orders YoY was up to 10.3%, beat the expectation at 1.4%. Also, the JPY was supported by the demand of the safe-haven currency after investors hold their position before the Fed meeting. Furthermore, Special Adviser to Prime Minister Shinzo Abe, Koichi Hamada said the Bank of Japan will have more latitude to maintain its current policy stance if Fed interest rate triggers a sell-off in the yen. The JPY was varied in a range between 121.05-123.47 JPY/USD before closing at 121.88/92 JPY/USD.

### Graph: JPY



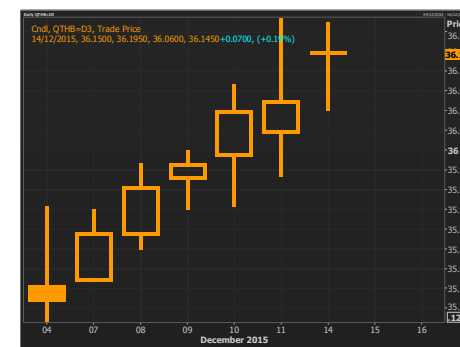
Source: Bloomberg

**Comments:** The JPY was slightly stronger since the demand of the safe-haven currency was gradually strong. The upcoming Fed policy meeting is a major event of the week. If the Fed decides to tighten their policy, there could be a serious sell-off momentum in JPY and could drive the Yen towards 130 JPY to the dollar. However, the Fed decision collapsed the investor needs the market will face a major USD sell-off trend and could make JPY a precious currency in short. The BoJ meeting on 17<sup>th</sup>-18<sup>th</sup> December will slightly effect the movement of the JPY. We expected the JPY to be between 120.70 -126.50 JPY/USD.

## THB

The Thai Baht opened on Monday (8/12) at 35.85/87 THB/USD, little changed from previous Friday's (4/12) closing level at 35.88/90 THB/USD. However, the currency started to depreciate since last Tuesday (8/12), following the other currencies due to a rise in U.S. dollar as market expects that the Federal Reserve (Fed) will raise the interest rate during Fed's meeting on 15-16 December after jobs data in November came out better than forecasted. In addition, risky assets were pressured from a drop in crude prices which fell to a seven-year low, while the International Energy Agency sees oversupply concerns in crude oil could continue and OPEC shows no signs of decreasing production as it fights for market share. Moreover, the Baht was volatile by the fragility of China's economy, sending China's yuan to its lowest in four-and-a half years on concerns over the second largest economy, and expectations of a U.S. rate hike could be harmful to global capital markets. During last week, Thai Baht moved between 35.71-36.10 THB/USD, before closing on Friday (11/12) at 36.02/05 THB/USD.

### Graph: THB



Source: Reuters

**Comments:** This week, we focus on Bank of Thailand's meeting on 16 December, and FOMC meeting on 15-16 December. We think that the Baht will likely to depreciate from the Fed's rate hike expectation. We expect the currency to move between 36.00-36.40 THB/USD during this week.

## FX Forecast

Currency	Support	Resistance
THB/USD	36.00	36.40
JPY/USD	122.00	124.00
USD/EUR	1.0500	1.0700
USD/GBP	1.5000	1.5200
USD/AUD	0.7100	0.7300
USD/NZD	0.6400	0.6600