NY Open: Ain't No Mountain High Enough

Yesterday we wrote on CitiFX Wire that EURUSD had been 1.2285 +/- 50-pips for the whole of the week so far. As this report is written EURUSD is at exactly 1.2285, which, as the chart below shows, strongly suggests that there is not a lot going on.



- However, although there is not a great deal to report at least at this stage don't be lulled by the calm. There is seldom a dull moment in FX, at it could be that the market is just pondering what to do before we get a decent move.
- There have been some developments out of the Eurozone details of the MoU between Spain and the
 Eurozone governing the bank bailout terms have been leaked, and Spanish PM Rajoy has outlined
 further austerity measures see the Eurozone Cheatsheet for a summary of most of these by clicking
 here.
- · It feels that the market doesn't want to believe this could herald any change. And who can blame it, as we have had to face numerous disappointments since the whole saga began and obvious uncertainties remain
- The yield on the 10y Spanish Bono has fallen back below 6.75%, but as the <u>latest CitiFX Poll</u> suggests, the majority believes that we will end the week closer to 7.0%.
- In terms of price action, EURUSD rallied quite well mid-morning in Europe, prompting the normal speculation of interest from the usual suspects.
- It looked set to test the stops which are building above 1.2300, but it ran out of steam. This then sparked talk that a semi-official name was on the offer. There's also been a lot of talk about a Dutch prime broker selling. It seems the market is looking for clues.
- · CitiFX G10 Strategy is wondering whether we are due for a decent retracement.
- "EUR has experienced one of its steepest declines across the board at the start of July...The striking feature of the current EUR sell-off is still the fact that it is happening against the background of generally resilient market risk sentiment....The contrast between the weak EUR and the lack of market panic was the likely reason for the BUY signal that our fair value EURUSD model sent yesterday. Based on FX drivers like EUR-USD rate spread, FX implied vol and VIX as well the ratio between the euro zone and US bank stock indices, the model gives us a fair value of 1.2690 at present," they write. The full report can be accessed by clicking here.
- Overall, EURUSD volumes are running at around 75% of normal, and the flow shows a very small skew in favour of selling.
- Germany sold EUR4.153bn in a top up of its 10y Bund. The average yield was 1.31%.
- EURGBP has remained weak, trading below 0.7900 and down to its lowest level since 2008. There's a lot of talk about monthly-corporate interest pressuring the cross, but we fell this is vastly overstated. It's more a case that EUR crosses generally remain in a drift-lower mode.
- AUDUSD has recovered well from session lows below 1.0200. There is some talk of stops lining up from 1.0270, which is not supported by what we have in our order book. EURAUD is a record low, which has added some support. There's also a bit of buzz about a large one-touch having traded.
- Looking ahead, it seems many may be waiting for the release of the FoMC minutes. This coincides with the broadcast of the highlights of today's stage in the Tour de France on UK TV.

Ceemea FX

- USDZAR (8.1926): Citi traders report strong importer demand for EURZAR to take advantage of cheaper rates of 10.04, compared with last week's rates above 10.20. They expect more demand to emerge if we dip to 10.00. Importers are also seen active in USDZAR, though it held comfortably inside an 8.14/24 short-term trading range. Exporters are expected to have selling interest in the 8.21-23 area.
- USDTRY (1.8105): The lira firms back towards the 1.80 level, helped by a smaller-than-forecast Turkish May current account deficit (USD5.83bn). Traders are looking closely at the TRY basket, which has hit 2012 lows below 2.0180, pressured lower by EURTRY. In USDTRY, near-term support is seen at 1.8020 and then 1.7950.
- EURPLN (4.1780): The zloty continues to show resilience and we are closing in on the key multi-year EURPLN uptrend around 4.1550. If that breaks Citi traders see scope down to the 3.9300 area. USDPLN shows a different dynamic altogether with bullish price action led by the heavy EURUSD. Yesterday we saw some decent sized selling of EURPLN from investors, though there was also some continental corporate outflow. Offshore names continue to buy PLN on Wednesday, with a local agent bank also seen with modest demand.
- EURCZK (25.36): Hit its lowest in over three weeks. Some short CZK positions were unwound on Tuesday beneath 25.42, but traders report that many more remain. The risk is for the move to accelerate to 25.00 if the short covering continues. Czech June CPI came in strong at +3.5%YoY, arguing against another rate cut anytime soon.
- EURHUF (287.60): The forint has been a regional laggard in recent days, but did manage to claw back a bit of lost ground on Wednesday. Hungarian CPI came in stronger-than-forecast at +5.6%YoY, which may delay rate cuts, according to Citi economists.

Asian FX

- USDINR drifted lower today on back of interbank sell side flows. We also saw forwards premium coming off as exporters received in the long end of the curve. It is important to note that this move lower in spot in the last few days has been led by a lot of foreign institutional clients selling. We believe that these investors had built their long side portfolio earlier and are looking to take profit on the positions around 56.00 level. They are also probably being helped by national banks which keep coming to sell in spot from time to time. Exporters continue to remain under hedged and that flow might hit the market if USDINR breaks 55.00.
- USDCNY/CNH: The CNY fixing was 14 pips higher at 6.3209 lower than expected. The strong fixing kept the market stable despite a risk off sentiment this morning. Spot traded in range 6.3635 and 6.3685. DF was very quiet today and 1y was traded at 880.
- USDMYR closed at 3.1780/00, range 3.1790-3.1860. Focus today shifted to SGDMYR as we breached the important 2.5050 resistance level and held well above 2.5100. Technicals suggest a likely move to 2.5500 although we feel it will be a slow grind on the back of local USD sales which have been capping the USDMYR pair. Recommended trade idea will be to buy SGDMYR on a dip to 2.4900, and sell USDMYR at 3.1900/50.

Ranges

| | Current | | | | NY | Europe | Europe |
|--------|---------|---------|---------|---------|---------|---------|---------|
| | (11:01) | Open | High | Low | Close | High | Low |
| EURUSD | 1.22785 | 1.22539 | 1.2297 | 1.2246 | 1.2285 | 1.2297 | 1.22559 |
| USDJPY | 79.282 | 79.415 | 79.43 | 79.22 | 79.671 | 79.374 | 79.22 |
| EURJPY | 97.35 | 97.3 | 97.48 | 97.092 | 97.92 | 97.48 | 97.14 |
| GBPUSD | 1.5564 | 1.5515 | 1.5571 | 1.5511 | 1.5515 | 1.5571 | 1.5517 |
| EURGBP | 0.789 | 0.7896 | 0.79045 | 0.7885 | 0.7935 | 0.79045 | 0.7885 |
| USDCHF | 0.97814 | 0.98015 | 0.9806 | 0.97674 | 0.9773 | 0.9799 | 0.97674 |
| EURCHF | 1.20101 | 1.20095 | 1.20109 | 1.20092 | 1.20091 | 1.20109 | 1.201 |
| AUDUSD | 1.0257 | 1.0185 | 1.0263 | 1.0179 | 1.0208 | 1.0263 | 1.0202 |
| AUDJPY | 81.02 | 81.01 | 81.02 | 81.01 | 81.67 | 81.02 | 81.02 |
| USDCAD | 1.0195 | 1.0228 | 1.0231 | 1.0193 | 1.0198 | 1.0214 | 1.0193 |
| NZDUSD | 0.7977 | 0.7937 | 0.7985 | 0.7932 | 0.797 | 0.7985 | 0.7947 |

Other Markets

| | Change | Current |
|------------------|--------|---------|
| S&P Future | +2.9 | 1338.4 |
| Euro STOXX 50 | -0.99 | 2240.86 |
| FTSE 100 | -22.93 | 5641.14 |

| US 10y Future | -0.078 | 134.5469 |
|---------------|--------|----------|
| Bund Future | +0.03 | 144.14 |
| | | |
| XAU | +9.35 | 1576.5 |
| DXY | -0.193 | 83.207 |
| WTI Future | +0.92 | 84.83 |

Major Economic Releases

| | London | | | Stree | |
|--------|--------|--------|---|--------|-------|
| | Time | Period | Indicator | t | Prior |
| US | 12:00 | | MBA Mortgage Applications | | -6.7 |
| Canada | 13:30 | May | Int'l Merchandise Trade, CADbn | -0.43 | -0.37 |
| US | 13:30 | May | Trade Balance, USDbn | -48.6 | -50.1 |
| US | 15:00 | May | Wholesale Inventories | 0.3 | 0.6 |
| US | 19:00 | · | Fed Releases Minutes from June 19-20 FOMC M | eeting | |
| US | 19:00 | | Minutes of FOMC Meeting | Ü | |
| | | | · | | |

Major Earning Releases

| | London | | Company | | Estimat | |
|-----------|--------|--------------------------------|---------|------------|---------|----------|
| Date | Time | Company Name | Ticker | Period | е | Guidance |
| 7/13/2012 | 12:00 | JPMorgan Chase & Co | JPM US | Q2 2012 | 0.777 | |
| 7/13/2012 | 13:00 | Wells Fargo & Co | WFC US | Q2 2012 | 0.811 | |
| 7/16/2012 | 13:00 | Citigroup Inc | C US | Q2 2012 | 0.894 | |
| 7/16/2012 | | JB Hunt Transport Services Inc | JBHT US | Q2 2012 | 0.664 | |

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