

Greek Debt-Swap Talks Still Ongoing

United States

Negative Week for the US Dollar

FX markets are still turned towards any hint about the Greek debt-swap deal, but there is still no clear direction in the market as to what the agreement will be. However, traders are optimistic that EU officials will draft a deal in time to avoid a potential default, which boosted the risk sentiment last week and weakened the US Dollar accordingly. Moreover, the Federal Reserve's meeting and Bernanke's statement afterwards also gave a hit to the greenback as the Central Bank extended its low interest rate period and sounded more dovish than usual about the state of the US economy.

Therefore, the US Dollar had a negative week against most of its counterparts, shown by the performance of the Dollar Index. After opening at 80.20, the Dollar Index broke lower to a low of 79.07 after the Fed's meeting, and closed the week at an even lower level of 78.84. The Euro was able to keep its upward trend last week even though talks about the Greek debt agreement were unclear. The single currency opened the week at 1.2930 and managed to reach a high of 1.3185 on Thursday, before ending sessions at 1.3220. Although the MPC's minutes showed disagreement among policymakers and GDP figures were lower than expected, the Sterling Pound had a somewhat similar performance to its European counterpart. The pound started on Monday at 1.5575, reached a high of 1.5735 towards the end of the week, and closed at 1.5730. The Swiss Franc followed suit with the Euro, strengthening against the greenback from an opening level of 0.9350 to 0.9150, and closed at 0.9125. USDJPY broke its usual trend, and was able to reach a two-month high of 78.28, before reversing its trend and closing the week at 76.70.

Due to the weakness of the US Dollar, Gold strengthened from levels around \$1,660 and ended the week at the high level of \$1,739.

Fed Meeting

The Federal Reserve's meeting last week ended as expected with the Central Bank taking no action in terms of implementing further policy actions to boost the financial markets overtly, or quantitative easing. The only real shocker coming out of the meeting was the statement that the Fed expects to "hold rates at exceptionally low levels until late 2014", which is an extension of about one year from the previous meeting. The FOMC's dovish statement was further underscored by the Fed's downbeat assessment of the economy. The statement characterized housing as "depressed", unemployment as "still elevated", and business investment as having "slowed". Furthermore, the outlook for GDP growth in 2012 was downgraded slightly, and the Fed still does not see inflation as an issue. The Fed stopped short of giving any explicit signals of QE3. Yet, Bernanke did say that the balance sheet is likely to remain at current size for longer than previously expected. Expanding the balance sheet remains an option according to the Chairman and will be considered seriously if progress towards full employment slows down or if inflation falls relative to the Fed's forecast. One significant development was the announcement of an explicit inflation target of 2.0%, but the Central Bank was a bit more vague on its unemployment objective and gave a range of 5.2% to 6.0% as the estimate of the longer-run normal rate.

Pending Home Sales Slightly Lower

The number of Americans signing contracts to buy previously owned homes in December held near a 19-month high, showing that the stabilization in the market that began in late 2011 could extend into the new year. The index of pending home sales decreased 3.5% last month after jumping a combined 18% in October and November. It was the best back-to-back reading since a buyer tax credit boosted demand in early 2010. The ability of the market to sustain gains in the absence of government incentives may mean housing has stopped weighing on growth. President Obama proposed last week a plan aimed at reducing monthly mortgage payments, which would help combat a drop in home prices that is impending the world's largest economy according to some Fed policymakers.

New Home Sales Unexpectedly Decline

Sales of new US homes unexpectedly declined in December for the first time in four months, capping the slowest year on record for builders. Purchases of single-family properties decreased 2.2% to 307,000, from an earlier reading of 315,000, and lower than the expected 321,000. Last year marked the worst year for the industry since 1963. The threat of further price declines may be dissuading some Americans from buying a new home even with mortgage rates near all-time lows and more people finding work.

Economy Grew Less than Forecast

The U.S. economy expanded less than forecast in the fourth quarter of 2011 as consumers curbed spending and government agencies cut back, validating the Federal Reserve's decision to keep interest rates low for a longer period. Gross Domestic Product (GDP), the value of all goods and services produced, climbed at a 2.8% annual rate following a 1.8% gain in the prior quarter, lower than the expected 3.0% growth. Excluding a jump in inventories, growth was only 0.8%.

Europe

Manufacturing and Services Sectors Strengthen

European services and manufacturing output strengthened in January, led by a robust performance by the region's largest economy, Germany. Purchasing Managers Indices for manufacturing and services both surged this month, with the composite index increasing from 48.3 to 50.4, thus crossing the 50 level that separates contraction from expansion.

Business Confidence Jumps in Germany

German business confidence jumped more than expected in January to a five-month high, hinting that Europe's largest economy may avoid a recession. The IFO institute's business climate index, based on a survey of 7,000 executives, climbed from 107.2 in December to 108.3, recording the third straight monthly increase. This figure adds to evidence that the country has shaken off a probable contraction in the fourth quarter. While the IMF cut its prediction for German expansion last week, it said that the economy will weather a recession in the region and keep growing.

United Kingdom

MPC Minutes Show More Quantitative Easing Probable

The Bank of England (BoE) released the minutes from their last January meeting, which showed that the central bank inched towards pumping more money into the faltering economy, as the risks from the global economy still loomed large. The Central Bank's minutes repeated the view that inflation was set to fall sharply in the coming months, though tensions in the Middle East carried the risk of a sharp rise in oil prices. The nine-member Monetary Policy Committee (MPC) also noted that some positive developments moderated some of the most serious risks, pointing to the European Central Bank's generous provision of long-term liquidity. The MPC voted unanimously to hold the target for asset purchases steady at £275 billion and the key interest rate at the record-low of 0.50%, where it has been since March 2009. Most economists expect the Central Bank to announce another £50 billion cash injection for the economy in February as the government's hands are tied by its pledge to erase the country's huge budget deficit over the next five years. BoE governor Mervyn King said in his first key note speech of the year that falling inflation is providing the scope for further quantitative asset purchases if necessary.

Slower Growth

The UK economy shrank more than economists had forecasted in the fourth quarter of 2011, as manufacturers cut output and services stagnated, leaving Britain on the brink of another recession. Gross Domestic Product (GDP) fell 0.2% from the third quarter, lower than the 0.1% drop expected. Bank of England Governor Mervyn

King stated that policymakers could increase stimulus again if needed to aid the ailing economy and guard against a “renewed severe downturn”.

Asia Pacific

BOJ Leaves Policy Unchanged

The Bank of Japan (BOJ) decided last week to leave its monetary policy unchanged for the third month in a row even as it lowered its forecast for growth. The central bank's policy board voted unanimously at the end of its two-day meeting to leave its policy rate, the unsecured overnight call loan rate, in a 0%-0.10% range. The Central Bank said it lowered its forecasts for real gross domestic product to a 0.4% contraction for this fiscal year and a 2.0% gain for the next year, from its previous projections of 0.3% and 2.2% gains, respectively. The bank still expects the year-on-year change in the consumer price index, excluding volatile food, to be at 0.5% in fiscal 2013, a sign that it thinks deflation will persist into 2014 and will maintain a lax monetary policy until then.

Kuwait

Kuwaiti Dinar at 0.27715

The USDKWD opened at 0.27715 on Sunday morning.

Rates - 27 January 2012

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.2930	1.2855	1.3235	1.3220	1.3080	1.3540	1.3225
GBP	1.5575	1.5515	1.5740	1.5730	1.5530	1.5980	1.5725
JPY	77.00	76.65	78.30	76.70	74.00	78.30	76.60
CHF	0.9345	0.9115	0.9395	0.9125	0.8950	0.9300	0.9115