

Volatility Spikes in the FX Markets as Greek Deadline Approaches

United States

Volatile Market

Last week the US Dollar had a mixed performance across the board as the European debt crisis intensified, driving markets to react in a volatile manner. The Euro opened at its highest level of the week at 1.3230, but plummeted during the first day to a low of 1.3074 as German and Greek talks faltered in the weekend before the European Union leaders met in Brussels. The single currency regained considerably the next day as German officials said that the European Financial Stability Facility (EFSF) is able to sustain liquidity in the markets until the deadline on the 20th of March. The Euro then plummeted to a low of 1.3023 only to recoup again after strong PMI data. The single currency closed the week at 1.3152. The Sterling Pound opened at 1.5724, and surged during the week to a high of 1.5882 after positive economic data from the UK. The Pound closed the week at 1.5820. The Swiss Franc followed the Euro, opening the week at 0.9120 to reach a high of 0.9249 amid rumors of a Swiss National Bank intervention as the EUR/CHF hovers around the 1.2000 floor level. The Franc then dropped to a low of 0.9110 after strong European data undermined the US Dollar. The Swiss Franc closed the week at 0.9186. The Japanese Yen opened the week at 76.67, range traded throughout the week between 76.00 and 76.42, only to move slightly higher on Friday as the US unemployment declined pushing the Yen to close at 76.55.

Personal Spending Drops

Consumer income has jumped significantly to 0.5%, from last months' 0.1%, exceeding economists' expectations of a 0.4% increase. On the other hand, consumer spending declined below expectations to 0.0% from November's 0.2%. The drop in spending opposed to the increase in income, signals that Americans have used most of the increase in savings, as fear of a recession still overshadows the American public. The drop in spending translates that the biggest part of the economy will not be a driver of the recovery.

ISM Manufacturing Rises

Manufacturing in the US grew in January at the fastest pace in more than six months, indicating a global economic pickup from leading economies, as Germany and China. The ISM Manufacturing index rose from December's 53.9, to 54.1 this month. Factory production, led by inventory rebuilding at the end of 2011, is poised to keep expanding as the need to update equipment drives orders from big construction companies. US manufacturing accounts for about 12% of the economy and was at the forefront of the recovery that began in June 2009.

Bernanke Testimony

The Federal Reserve Chairman Ben Bernanke defended the banks' decision to hold interest rates at record-low levels, during a debatable hearing before federal lawmakers. The Federal Reserve Chairman told the House Budget Committee that the central bank's plan is an appropriate step to combat high unemployment while inflation is stable. The Fed reiterated that it does not plan to raise its benchmark interest rate from the record low before late 2014. Bernanke has stated that the Fed was trying to get the weak economy moving and that raising interest rates could trigger a recession, which would hurt investors, urging lawmakers to balance their desire to cut deficits with policies that could help boost the weak US economy in the short run.

Unemployment Claims Drop

Fewer Americans have filed for unemployment benefits last week, indicating an improvement in the labor market. Applications for jobless benefits decreased last week by 12,000 claims to 367,000, against market expectations of 373,000. The decrease in claims indicates that American businesses have slowed the rate of firings and are taking on more staff as they gain confidence that the recovery will be sustained. Moreover, the

US unemployment rate unexpectedly fell in January to 8.3% from 8.5%, the lowest in three years, as payrolls climbed more than forecast. The 243,000 increase in jobs was the biggest in 9-months, exceeding expectations.

Europe

Germany Vs. Europe

Resistance has been growing in Berlin in the face of widespread calls for Germany to do more to stem the Eurozone crisis, both by increasing its guarantees for Eurozone rescue funds and paying more towards the second Greek bailout. The German Parliament have raised the issue to impose tougher conditions on any new rescue package for Greece, including the appointment of an outside enforcer with the power to veto national spending decisions. Germany's call for an EU-appointed supervisor of Greece's budget provoked distress in Athens and led other European governments to warn against treating Greece differently than other countries.

The German strategy is to reach agreement on the toughest possible rules in the fiscal treaty before it is prepared to consider any concession over the size of the rescue fund.

European Confidence Drops to 2-year Low

European consumer confidence picked up for the first time since June, with the headline measure rising to -20.7 from -21.3. This indicates that consumers are less pessimistic about the outlook for the economy over the next 12 months, and less fearful of losing their jobs. The modest rise in Eurozone consumer confidence in January signals that the ECB might hold off from cutting interest rates again in February, in a way to monitor and stabilize the economic activity.

Retails Sales Tumble in the Christmas Season

Retail sales in the Eurozone surprisingly tumbled during the Christmas season last month, as a 14-year high unemployment rate and stubborn inflation combined with government spending cuts, have slowed down consumers' demand. Sales across the 17-nation union dropped 0.4% in December, lower than the forecasted rise of 0.3%. European households retained from spending, as governments step up austerity measures to maintain the regions fiscal crisis. The regions uncertainty is promoting companies to cut jobs, placing the unemployment rate at a 14-year high of 10.4%.

United Kingdom

Services PMI Surged to 10-month High

The UK's dominant services sector surged in January, at the fastest pace since January. The Services Purchasing Managers' Index (PMI) rose more than expected to 56.0 from Decembers' 54.0, promoting optimism that the UK economy might avoid a double-dip recession. On the other hand, concerns about the UK economy were likely to persist after the UK economy contracted in the final quarter of 2011. Moreover, the Bank of England is widely expected to announce an increase in its asset purchase program, with the prospect of quantitative easing, where the central bank floods the economy with Pounds to stimulate demand.

Nationwide HPI Drops

UK house prices fell for a second month in January to the lowest level in almost a year as dimming economic outlook and rising unemployment falters consumer demand. The cost of a UK home dropped 0.2% from last month, lowest since February 2011 when it rose 0.6%. The drop in house prices can be attributed to the economic contraction in the third quarter last year.

Japan

Japanese Financial Minister is ready to act “Decisively”

Japanese Finance Minister Jun Azumi piled pressure on the Bank of Japan to consider easing policy further, as the Japanese Yen climbs back to levels that led to Tokyo to intervene heavily in currency markets last year to protect its export-reliant economy. Azumi have added that he is ready to act decisively to respond to “one-sided” moves. Bank of Japan Deputy Governor Hirohide Yamaguchi responded that, “there is no need to ease policy right away, but the central bank could face growing calls to offer more monetary stimulus to help exporters through any prolonged slump, even though it has limited options remaining to support the faltering economy.” Moreover, Economics Minister Motohisa Furukawa also called on the central bank to ensure that real interest rates remain low, as the Federal Reserve’s commitment to keep its nominal benchmark rate near zero for nearly three more years pushes the US Dollar lower against the Yen.

Kuwait

Kuwaiti Dinar at 0.27735

The USDKWD opened at 0.27735 on Sunday morning.

Rates - 3 February 2012

Currencies	Previous Week Levels				This Week’s Expected Range		3-Month Forward
	Open	Low	High	Close	Minimum	Maximum	
EUR	1.3220	1.3023	1.3220	1.3152	1.2929	1.3300	1.3210
GBP	1.5724	1.5652	1.5882	1.5820	1.5600	1.5950	1.5890
JPY	76.67	75.90	76.74	76.55	75.50	78.00	76.10
CHF	0.9120	0.9110	0.9249	0.9186	0.9100	0.9320	0.9125