

The Greek Saga Continues to Pressure Markets

United States

Volatility Rising in the FX Markets

The US Dollar had a mixed performance against its major counterparts towards the end of the week as uncertainties rising from the Greek debt situation provoked a highly volatile environment in the FX market. The Euro reached a high of 1.3287 boosted by the Greek parliamentary vote at the beginning of the week, but failed to break the 1.3300 level, as markets remained cautious on Greece. The single currency then dropped dramatically as Moody's Investor Service downgraded a number of European countries and warned to strip France and the UK of their top rating, citing the debt crisis. Additionally, the less favorable news flow and the delay of the second Greece aid package from the troika added more pressure on the Euro as it reached a low of 1.2973. However, on Friday sentiments improved, induced by better-than-expected claims from the US labor market helping the currency regain some of its losses to close the week at 1.3145. The Sterling Pound opened the week at 1.5775 and reached a high of 1.5862. Cable quickly lost its gains, in parallel with the Euro, and reached a low of 1.5642. The currency erased its losses on Friday as it closed the week at 1.5830. Similarly, the Australian Dollar has weakened from relatively firm levels amid the current contraction in risk, despite a better than expected employment figure, as it reached a low of 1.0625. The Aussie recouped its losses, reached a high of 1.0798, and closed the week at 1.0702. Finally, the Japanese Yen dropped sharply against the greenback throughout the week as the BoJ unexpectedly added JPY 10 trillion to an asset-purchase program after the economic slide fuelled criticism that the central bank was slow to act. The USDJPY dropped to a low of 77.35 at the beginning of the week, only to surge gradually towards a week high of 79.62. The Yen closed the week at 79.55.

Housing Data

Builders took initiative on more homes than expected in January, helped by better weather conditions, adding signs that the real estate market is stabilizing. Housing Starts rose to 699,000 annually from December's 689,000 pace. Builders reported that more orders are a result of a pick-up in hiring, cheaper properties and borrowing costs at record lows.

Retail Sales Rising

Retail sales climbed in January as Americans took advantage of post-holiday discounts, showing households are being economical in their spending. The 0.4% gain followed little change the 0.1% increase in December. January's advance was half the 0.8% expected by the market, reflecting an unexpected decline at auto dealers.

Inflation Surprisingly Rising

US consumer price Index rose 0.2 percent, the gain was just below analyst's expectations of a 0.3 percent increase. Consumer prices rose the most in four months in January as the price of gasoline jumped, highlighting a growing concern that higher energy costs could slow the economic recovery.

Unemployment Claims at a 4-Year Low

Jobless benefits expectedly dropped last week to the lowest level in four years, indicating that the labor market is gaining momentum. Applications for jobless benefits decreased by 13,000 to 348,000 lower than market expectations, and the least since March 2008. The slowdown in firings coincided with a pick-up in hiring to help repair the damaged US labor market.

Manufacturing in the US

Manufacturing in the Philadelphia region expanded in February at the fastest pace in four months as orders and sales picked up. The Federal Reserve Bank of Philadelphia's general economic index increased to 10.2, higher than the anticipated rise to 9.0, from 7.3 last month.

Europe

Moody's Downgrades Six European Countries

Moody's Investor Services cut the debt ratings of six European countries including Italy, Spain and Portugal, and said it may strip France and the UK of their top ratings, citing Europe's debt crisis. Slovakia, Slovenia and Malta also had their ratings lowered. The Euro weakened following the announcement from Monday's high of 1.3285 to a low of 1.3150 in early trading on Tuesday.

Greek Situation

The Greek Saga continued last week as the postponement of the Greek aid package from the troika and the flow of negative news fuelled volatility and uncertainty in the market. The Greek situation remains unclear. However, what had been viewed as constructive developments in the situation over the past month has obviously broken-down alongside the continued delays in getting the Euro-Zone officials to approve the second bailout package for Greece. Meanwhile, the head of the Euro group of EU finance ministers, Jean-Claude Juncker, said that substantial progress had been made on the Greece aid package and expressed confidence that an agreement on the matter would be reached on their next scheduled meeting on February 20. On the other hand, other media reports indicated that Germany, the Netherlands and Finland are taking a tougher position on the Greece aid package conflicting with the more optimistic comments from Mr. Juncker.

German GDP

Germany performed better than expectations in the market in the fourth quarter even as the sovereign debt crisis devastated the Euro Zone's largest economy. Gross domestic product in Germany, fell 0.2% from the third quarter, beating projections for a 0.3% decline.

Confidence Rising in Germany

The Euro rose to a session high and shares reversed early losses after key German data bolstered hopes that Europe's largest economy was recovering and a strong Italian bond sale added to signs that financing pressures were being contained. Germany's ZEW Indicator of Economic Sentiment suggested that the recovery is back on track and that analysts are less fearful now about the impact of the Euro Zone's debt crisis on the growth outlook. Confidence rose to 5.4 from the previous -21.6.

United Kingdom

Inflation: Signs of Easing

British inflation dropped sharply in January as the effect of a rise in 2011 sales tax fell away, supporting Bank of England forecasts for a sharp easing of price pressures this year and providing some relief for cash-strapped consumers. Consumer prices dropped to 3.6%, its lowest annual rate since November 2010.

Retail Sales

UK retail sales unexpectedly rose for a second month in January as discounting at furniture and household-goods stores attracted customers. Sales including fuel rose 0.9% from December, when they rose 0.6%. Analysts expected a drop by 0.3%. Bank of England Governor Mervyn King said this week that the economy should "gradually" recover this year as cooling inflation helps reduce a squeeze on consumers' finances, while the

European debt crisis will weigh on growth. The recovery in retail sales may falter with unemployment at a 16-year high and confidence at what Nationwide Building Society says is a “subdued” level.

Consumer Confidence Edging Higher

Consumer confidence rose in January to its highest level since August as people's view of the outlook six months ahead grew more upbeat. The improvement in consumer morale supports the Bank of England's view that consumption will help underpin the economy later this year as a fall in inflation eases the squeeze on household budgets. Nationwide's consumer confidence index climbed to 47 from 38 in December, which was the second-lowest reading since the survey started in 2004.

Japan

Gross Domestic Product

Japan's economy shrank 0.6% in Q4 2011 from the previous quarter as a global economic slowdown, Thai floods and a strong yen weighed on the economy just as it was emerging from a recession created by last year's devastating earthquake. The decline was bigger than economists' expectations for a 0.3% contraction, and followed a revised 1.7% expansion in previous quarter.

BoJ MPC Meeting

In a move that surprised markets, the central bank added ¥10 trillion (\$130 billion) to its ¥20 trillion pool of funds set aside for asset purchases, with the increase earmarked entirely for long-term government bonds. That boosted its asset-buying and lending scheme, under which it buys government and private debt and lends funds against collateral, to ¥65 trillion. The BOJ also said it will set consumer inflation of 1 percent as its price goal for the time being, making a clearer commitment to end deflation than before when it defined the level as its "understanding" on long-term price stability. Additionally, the BoJ kept their key lending rate unchanged at the range of zero to 0.1%.

Kuwait

Kuwaiti Dinar at 0.27795

The USDKWD opened at 0.27795 on Sunday morning.

Rates - 17 February 2012

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.3212	1.2975	1.3283	1.3145	1.2970	1.3330	1.3152
GBP	1.5775	1.5642	1.5862	1.5830	1.5640	1.6160	1.5843
JPY	77.59	77.35	79.62	79.55	77.30	81.50	79.45
CHF	0.9141	0.9099	0.9300	0.9815	0.8950	0.9470	0.9180