As at February 12th, 2012

Greece Saga Continues

United States

Investors' Positive Sentiment despite the Slow Greece Negotiation

The progress on Greece remains slow but the market is quite willing to look through the noise and continue believing that an agreement will be reached. The European Central Bank failed to calm markets on Thursday as they delivered no rate cut; no additional non-standard measures; and finally did not mention any direct participation in the Greek debt restructuring. At the same time, although they did not depart from the dovish rhetoric despite tentative signs of improvement in the Euro zone economy and financial markets, the ECB saw some positive signs but clearly remained concerned over the credit crunch in Europe. Finally, the ECB expanded the collateral terms to include unsecured loan books in seven European countries but mentioned they did not expect the second round of long-term refinancing operations to exceed the size of the first round.

The Bank of England on the other hand decided to expand its asset purchase program by another GBP 50 billion to a total of GBP325 billion as market expected and voted to maintain the key policy rate, the Base rate, at 0.5%. In the US, Jobless claims continued to impress as they edged towards 350k and the 4w moving average on claims is now at the lowest since April 2008. Expectations for another strong employment report are building and US yields moved higher by the end of the week.

Central banks' efforts have reduced global tail risk for the moment and seem to have a never-ending supply of liquidity. With the continuous dovish Fed stance and the ECB's second long term refinancing operation scheduled for February 29, equity markets have not had a correction in over a month and investors seem to be standing on the side waiting for the right opportunity .

After starting the week at 1.3158, the Euro range traded during the week, reaching a high of 1.3322 Post Draghi's press conference. However, the excitement did not last and the currency ended the week at 1.3195. The Sterling Pound was little changed over the week starting at 1.5782 and ending it at 1.5755.

In the commodities complex, Gold continues to benefit from dovish Bernanke's statement and the ECB long term injection of liquidity; while longer term performance remains questionable as the state of the US economy seem to be on the right track.

After reaching a low of $96.80 in the beginning of the week on the European concerns, Oil traded all the way up to $100 after the United States has frozen all Iranian assets in the U.S financial facilities and banned foreign companies that traded with the Iranian Central Bank from the U.S financial market. Tensions between both countries have escalated during the past few days; in addition, of the European Union looking for ways to push India, the biggest importers of Iranian Oil to bring Iran back to the negotiation table over its nuclear programme.

The 8.3% Unemployment Rate Understates the Weakness of the Labour Market

The Federal Reserve Chairman Bernanke told the U.S. Senate budget committee this week that there has been a "modest increase" in the long-term normal rate of U.S. unemployment, noting it was a cause of concern to monetary-policy makers. He mentioned that the 8.3% Unemployment rate understated the weakness of the labor market. Bernanke also reiterated the importance of the Fed continues supporting the fragile recovery more than seeking higher inflation as the new target of 2% meant boosting inflation through monetary policies.

Job Data Continues to Impress and Jobless claims at 358K

The amount of U.S. job openings jumped 8.3% in December to 3.4 million as employers continue to have increases in the number of positions they are looking to fill. The growth as 2011 ended comes as the number of hires fell 2.1% along a similar drop in those leaving their job voluntarily or involuntarily. Last year finished with a

16% increase in the number of job openings, according to the Bureau of Labor Statistics. This fact can be seen as a bullish sign for the economy as employment growth has only now started to show signs of picking up.

In another sign that the job market is gaining momentum, unemployment claims fell further last week down to levels last seen in the early months of the recession. Jobless claims dropped by 15,000 to 358,000 last week beating consensus estimates. The average for the last four weeks dropped to 66,000, the lowest four-week average since April 2008. The decline reflects the slowdown in layoffs at companies as the economy has improved and employers have shown a greater willingness to hold on to their existing workers.

Europe & UK

Greece PSI Negotiations Continue

Headlines that Greek political leaders have reached a deal on austerity measures with EU/IMF leaders certainly helped matters this week, although a deal on the PSI still remains in the work. A formal PSI proposal is expected by Wednesday of next week, but there have obviously been significant delays. The European Central Bank press conference acknowledged signs of better activity in the Euro zone, but Draghi noted that the economic outlook remains subject to substantial downside risks. The ECB is keeping the door open to further rate cuts if necessary, and the next three-year long term refinancing operation (LTRO) is likely to be substantial and around the level of the first one, though Draghi declined to give more information.

Meanwhile in Greece, politicians after having reportedly reached a deal on Thursday have been attempting to put a spin to it that they "had no choice" to protect themselves against the fury of the people who still cannot accept why they can't retire at an early age. Some details about the agreement have started to emerge such as lower pension payments, 15K state job cuts and a 20% reduction in the minimum wage.

Merkel against Greece Dropping out of the Euro Zone

German chancellor Angela Merkel said there is no alternative for Greece to implementing needed program reforms but admitted the situation is complicated. She reiterated her position against any notion of Greece leaving the Euro zone given unforeseeable consequences and repeated Germany's opposition to a joint Euro zone bond as not the solution to the debt crisis and the latter will take time to resolve.

Germany Finance Minister Wolfgang Schaeuble Increases the Pressure

German Finance Minister Wolfgang Schaeuble told conservative lawmakers later in the week that existing Greek reform pledges would not bring its debt down to levels that are considered sustainable. Schaeuble said the current plans would leave Greece short of the goal of cutting debt to 120% of GDP by 2020. Schaeuble's statement suggests there are still around 10-11 percentage points to be shaved off the total debt pile to make it sustainable. That would mean that Greece would need a further 20 billion Euros in savings, possibly through a bigger write-down on its bond holdings.

Merkel told the same meeting that it would be dangerous to allow Greece to default on its debt, saying that could unleash "uncontrollable consequences".

German Data Weaker than Expected

Germany's exports surprised to the downside in December, falling to their lowest level since April, while imports, also weaker than expected, slipped to 11-month lows. After recovering by 2.6% in November, exports fell back 4.3% in December to 86.7 billion Euros, overshooting expectations for a fall of only 1%. Imports declined 3.9% over the same period, deepening November's 0.4% contraction. Germany's factory PMIs have been signaling falling export orders since last June and a slacking recovery in foreign demand. Bundesbank President Jens Weidmann said late last month that the German economy is in very good shape and the financial situation of firms was better than before the financial crisis. He also noted that low unemployment should bolster domestic growth as a counterweight to likely weaker exports.

The Bank of England expands its QE Programme by GBP 50 billion

The Bank of England decided to expand its quantitative easing programme by GBP50 billion to a total of GBP325 billion. It also voted to maintain the key policy rate at 0.5%. The monetary policy decision was in line with market expectation. The decision was taken in light of the most recent economic projections, and the key motivation for the extra asset purchases was the weakness in the near-term growth outlook, threatening a fall of inflation to below 2% in the medium term. The BoE expects a “gradual strengthening of output growth later this year”, which suggests that the BoE might be reluctant to expand its QE programme beyond the current asset purchases.

Asia

Japan Current Account Surplus Shrinks to a 15-Year Low

Japan’s current account surplus shrank last year to its smallest in 15 years. The current account balance recorded a mere surplus of Y 9.63 trillion in 2011, down 44% from the previous year. According to the ministry of finance, this was the biggest fall on record since 1980.

Last year, exports fell 1.9% to Y62.72 trillion, hurt by a strong Yen and subdued overseas demand. Imports rose by 15% to Y64.33 trillion, powered by crude oil and gas. The figures are likely to increase pressure on the government to find ways of containing the cost of imported fuels, at a time when just three of the country’s 54 nuclear reactors are operating following the accident at the Fukushima plant last year.

China Remains Dependant on Exports, While Inflation Beats Expectations

China's inflation spiked to 4.5% in January, breaking a five-month softening trend and forcing a market rethink of policy easing expectations. According to economists, the size of the seasonal distortion makes the January data particularly hard to read due to the holidays, but it is likely to have squeezed out expectation of a near-term cut to the bank reserve ratio requirements (RRR).

Foreign trade on the other hand, will continue to be an important factor in helping China maintain economic growth, despite declining exports in the second half of 2011 and gloomy prospects for the coming months, the Ministry of Commerce said last week. The International Monetary Fund also stated that China's growth may drop to 8.25% this year, from a previously projected 9%, should Europe's debt crisis worsen. Exports would be a significant drag on economic expansion in the next two years, the IMF said.

Commodities

Oil Range Trades over Iranian Tensions

Oil fell from the highest level in three weeks reaching a low of $95.84, as concern that Europe’s debt crisis will worsen and global commodity demand is weakening. Worth mentioning the IEA cut its 2012 global oil demand forecast for the sixth month, predicting worldwide crude consumption will increase by 800,000 barrels a day, or 300,000 less than previously estimated, to 89.9 million barrels a day.

Gold Prices Eased Ahead Of the Greek Deal

Spot gold prices dropped 0.8 % to $1,716.49 an ounce on Friday. Gold came under pressure over the optimism sparked by Greece's agreement on the austerity measures it needed to implement in order to receive a second rescue package. In addition, the biggest operator of U.S. futures exchanges, the CME Group, on Thursday lowered trading margin for gold to 11.8%.

Kuwait

Kuwaiti Dinar at 0.27745

The USDKWD opened at 0.27745 on Sunday morning.

Rates - 12 February 2012

	Previous Week Levels				This Week's Expected Range		3-Month
Currencies	Open	Low	High	Close	Minimum	Maximum	Forward
EUR	1.3158	1.3028	1.3322	1.3195	1.3085	1.3320	1.3188
GBP	1.5815	1.5730	1.5929	1.5755	1.5670	1.5930	1.5740
JPY	76.60	76.49	77.81	77.61	76.70	78.30	77.50
CHF	.9182	.9089	.9263	.9165	.9085	.9265	.9150