

7 May 2009

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Daily Commentary (07th May 2009)

Speculation of quantitative easing by the ECB weighed on the EUR/USD earlier in the week however increased risk appetite left EUR/USD in a range-bound pattern. Risk sentiment continued to rally yesterday following the release of robust U.S. private sector employment data for April. The ADP employment report showed job losses coming in at 491,000, far less than the expected figure of 644,000 indicating that the downturn may be easing. The data comes ahead of Friday's more comprehensive non-farm payrolls report by the government which will be closely monitored. Overnight markets were fairly quiet as investors await the results of the US government's stress test on banks. It was rumoured yesterday that a number of banks will require substantial capital with speculation that Bank of America to be the most under-capitalised among the 19 largest banks in the US.

The common currency remains under pressure in the lead up to the ECB meeting today, as weak fundamentals point towards a need for further easing. Yesterday saw Eurozone retail sales figures come in much worse than expected. According to Eurostat report, sales declined by 0.6% month on month in March after falling a revised 0.3% in February. At the meeting this afternoon it is expected that the ECB will reduce its refinancing rate by 25bp bringing the rate to an historic low of 1%. It is also anticipated that president Trichet will announce the non-standard measures required to spur lending and boost the economy in the Euro region.

Data out in the UK yesterday was mixed, with the Halifax House price survey showing House prices in Britain falling by a bigger-than-expected 1.7% in April and by 17.7% in the three months to April compared with a year earlier. Good news came in the form of the PMI Services, where the CIPS/Market services PMI activity index rose to an eight-month high, to 48.7 in April from 45.5 in March. In the UK today, the focus will be on the Bank of England Policy decision at noon, where it widely expected that the policymakers will keep interest rates on hold at 0.5%

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