Global FX Strategy

FX Bi-Weekly: Commodity Currencies- Capex Cliff or Crude Lift?

FX

Global

Daniel Waldman
Strategist
daniel.waldman@ubs.com
+1-203-719 4281

Geoffrey Yu
Strategist
geoffrey.yu@ubs.com
+44-20-7568 0605

Cameron N Umetsu
Strategist
cameron.umetsu@ubs.com
+1-203-719 7354

Gareth Berry
Strategist
gareth.berry@ubs.com
+65-6495 8604

Long USD/JPY: our first official trade recommendation of the year

The dovish FOMC and dollar weakness that followed provided us with a good entry point for our first trade recommendation of the year: long a 4-month USD/JPY call spread with strikes at 121.50 and 125.50, opened on March 26.

Long USD/JPY remains our favourite FX trade, based largely on the view that Japan-specific factors will continue to weaken the yen. In particular, we are focused on further easing from the BoJ and portfolio outflows as the key drivers of yen weakness.

Expect greater performance dispersion among the major dollar pairs

Going forward, although we still expect some further dollar appreciation, we think it will be more gradual and show greater dispersion than it has in the recent past.

Focus long USD positions against currencies with bearish idiosyncratic drivers

Long dollar positions should be chosen more selectively, and be concentrated against currencies from countries where idiosyncratic factors can drive FX weakness. In particular, we think long USD positions should be focused against currencies where central banks are likely to ease policy by cutting rates or by targeting the currency directly. Central bank easing will be more differentiated going forward, and is likely to see the greatest impact in JPY, SEK, and CHF.

Look for opportunities in non-USD crosses

In this issue's feature article, we look at differentiation across G10 commodity currencies. Although Australia, Canada, New Zealand, and Norway have different export exposures, economic starting points, and domestic investment backdrops, their currencies are often lumped together. With dollar performance likely to show more dispersion going forward, we think trading opportunities are opening up within commodity currencies. Specifically, we expect oil-exposed NOK and CAD to outperform AUD, where the capex investment cliff should prevent meaningful recovery. Clear divergences in policy prospects are also beginning to emerge, and should support these views as well.

FX Macro Thoughts

Daniel Waldman

Head of FX Strategy

The dovish March FOMC meeting was the most consequential event of the past two weeks, though our key FX themes are not especially dollar or Fed-centric, and as such, remain unchanged. Please refer to our first FX Bi-Weekly for details.

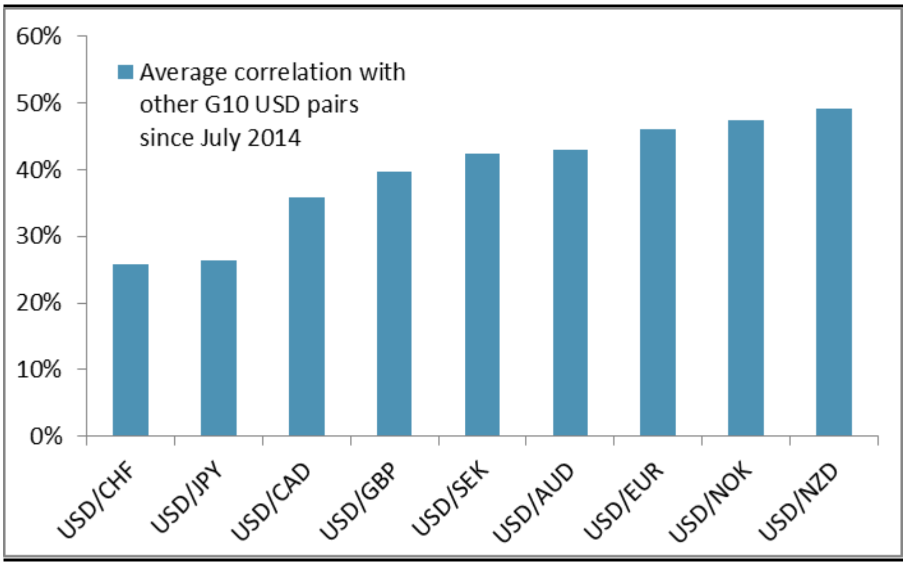
The dovish FOMC and dollar weakness that followed did provide us with a good entry point to open our first trade recommendation of the year: long USD/JPY. This remains our favourite FX trade, based largely on the view that Japan-specific factors will continue to weaken the yen. In particular, we are focused on further easing from the BoJ and portfolio outflows as the key drivers of yen weakness.

Since the start of the dollar rally last July, USD/JPY has the second lowest average correlation with the eight other G10 dollar pairs (Figure 1). This reflects the importance of Japan-specific factors for USD/JPY, and although the trade has leverage to further dollar strength, it isn't a prerequisite. In fact, we think it is quite possible that even if the dollar rally were to stall, USD/JPY could continue to rise.

The importance of non-US drivers for G10 FX is likely to increase and spread beyond the yen. During the past nine months, an investor could have picked any G10 currency to short against the dollar and made money. In both Q3 and Q4 of 2014, the dollar appreciated against every G10 currency-- only the third time in the past 25 years that it has moved in the same direction against every G10 currency for two consecutive quarters. If not for the removal of the EUR/CHF floor in Q1 causing a modest decline in USD/CHF, the streak would have been three consecutive quarters.

Things are unlikely to remain so extreme. Market pricing for a first Fed hike in September seems reasonable, and if this is correct, the ability of US rates to act as a catalyst for a further significant rise in the dollar may be limited in the near term. Given persistently low inflation and the nearly 20% rise in the trade-weighted dollar that has yet to fully feed into the economy, risks may be tilted toward a slightly later lift-off.

Figure 1: USD/JPY showing idiosyncratic behaviour



Source: Bloomberg, UBS

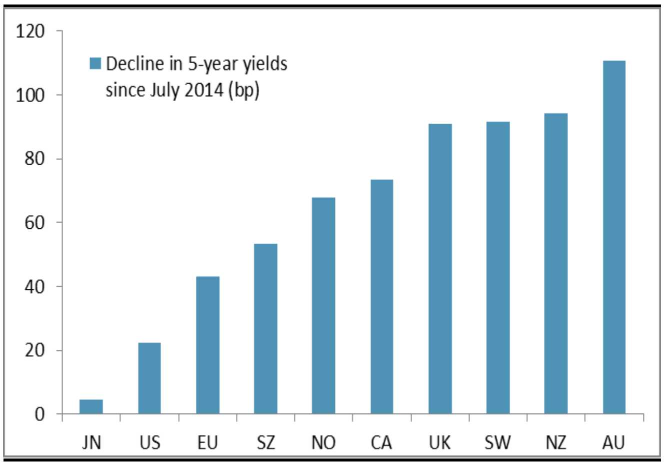
This doesn't mean that dollar strength is over. Our base case is for some consolidation and further moderate appreciation, and it is important to note that the sharp dollar rally since last July happened without help from US rates. 2-year yields in the US are up only 8bp since last July, and 5 and 10-year yields are down 25bp and 65bp, respectively. It is foreign rates that have done the heavy lifting, falling significantly more than US yields during this time (Figure 2).

Rate differentials should continue to move in favour of the dollar, but a dovish Fed and already-significant foreign central bank easing suggests that the pace will be slower than before. Movements in rate differentials are also likely to show greater dispersion, and it is likely that in some places, rate differentials will move against the dollar, even if only by a small amount.

We think the market implications of less rapid and more dispersed dollar appreciation are as follows:

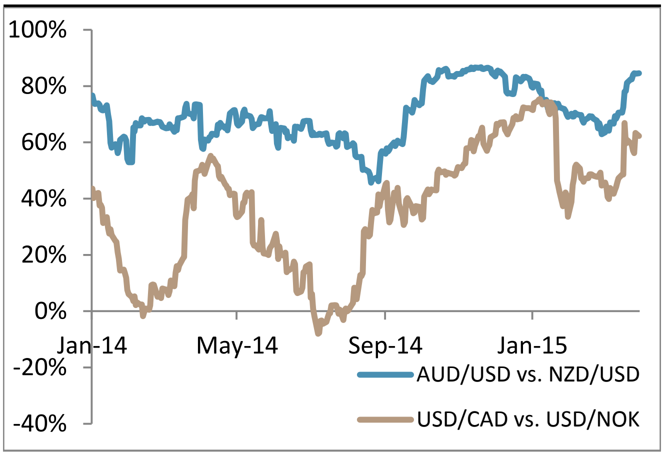
- Long dollar positions should be chosen more selectively, and be concentrated against currencies from countries where idiosyncratic factors can drive FX weakness. In particular, we think long USD positions should be focused against currencies where central banks are likely to ease policy by cutting rates or by targeting the currency directly. Central bank easing will be more differentiated going forward, and is likely to see the greatest impact in JPY, SEK, and CHF.
- The dollar should continue to outperform EM currencies, in line with our general expectation for continuing DM/EM divergence this year. A dovish Fed does not fix the liquidity or structural picture for EM currencies, where depreciation is still a necessary part of economic adjustment.
- Finally, there is value in looking at non-USD FX trades. In this week's feature article (page 5), we focus on relative value trades within G10 commodity currencies. Since the dollar rally began last July, correlations within commodity currencies have risen sharply (Figure 3). These correlations are likely to begin falling, opening up opportunities in non-dollar trades. Based on our analysis, we favour short positions in AUD versus CAD, NOK, and NZD.

Figure 2: Foreign rates have done the heavy lifting during the dollar rally



Source: Bloomberg, UBS

Figure 3: Correlations between commodity currencies have risen significantly during the dollar rally (40-day, returns)



Source: Bloomberg, UBS

Key FX Themes and Market Expressions

DM versus EM

- **Long CAD/ZAR**
- **Pay 6m6m OIS in Canada**

We remain broadly bearish EM versus DM currencies. This is based on the dispersion between EM and DM growth that is likely to characterize the global economy in 2015, unresolved structural problems in many EM economies, and still-overvalued real exchange rates. Short ZAR is a good expression of EM growth underperformance and structural EM issues. We think long CAD pairs well with it, and such trades take advantage of better DM fundamentals.

The dovish FOMC has given many EM currencies a reprieve, though we think this is likely to be short-lived. If EM couldn't perform well in 2014, when the macro backdrop was particularly favourable, it is difficult to see even a dovish Fed leading to persistent EM FX strength.

Stay with the 'reflation trade' in Japan

- **Long USD/JPY**
- **Long Nikkei**

We remain bullish USD/JPY, and think it is the best expression of a bullish USD view in the G10 space. Although questions remain regarding progress on the Third Arrow, we still believe the long USD/JPY and Nikkei trade will perform well into Q2, feeding off two critical drivers - further BoJ easing and a stronger portfolio rebalancing effect among Japanese investors. The fact that Japan is off many investors' radar screens at the moment has merely strengthened our conviction that risk-reward favours USD/JPY upside.

We used the better levels in USD/JPY post-FOMC to recommend the purchase of a 4-month USD/JPY call spread with strikes at 121.50 and 125.50.

Trading ECB QE

- **Short EUR/USD**
- **Long Euro Stoxx**

Monetary policy divergence between the Fed and ECB should further widen rate differentials at the front end of the curve. This should continue to act as a weight on the euro, but our conviction in the risk-reward of being short EUR/USD at these levels is lower than it has been in the recent past.

We see some cyclically positive developments in the Euro area, but think long European equities is the better way to trade this. A combination of long European equities and short EUR/USD should benefit from ECB QE, and is likely to perform well under a variety of macroeconomic backdrops.

Global disinflation and small open economies

- **Long EUR/SEK**
- **Long EUR/CHF**

With disinflationary pressures persistent in the global economy, we think it makes sense to be short currencies from small open economies where policy rates are at or below zero, and inflation remains very low. In such cases, currency weakness is a logical policy response and outcome. CHF and SEK both fit this profile well.

The Riksbank's surprise rate cut and QE expansion likely had SEK in mind, as they had clearly warned the exchange rate was a risk. While short of outright intervention, we think it was explicitly directed at the krona, and is consistent with the importance of the exchange rate for monetary policy in such a small, open economy.

Commodity Currencies: Capex Cliff or Crude Lift?

FX Strategy Team

- **Summary**: Although Australia, Canada, New Zealand, and Norway have different export exposures, economic starting points, and domestic investment backdrops, their currencies are often lumped together. With dollar performance likely to show more dispersion going forward, we think trading opportunities are opening up within commodity currencies.

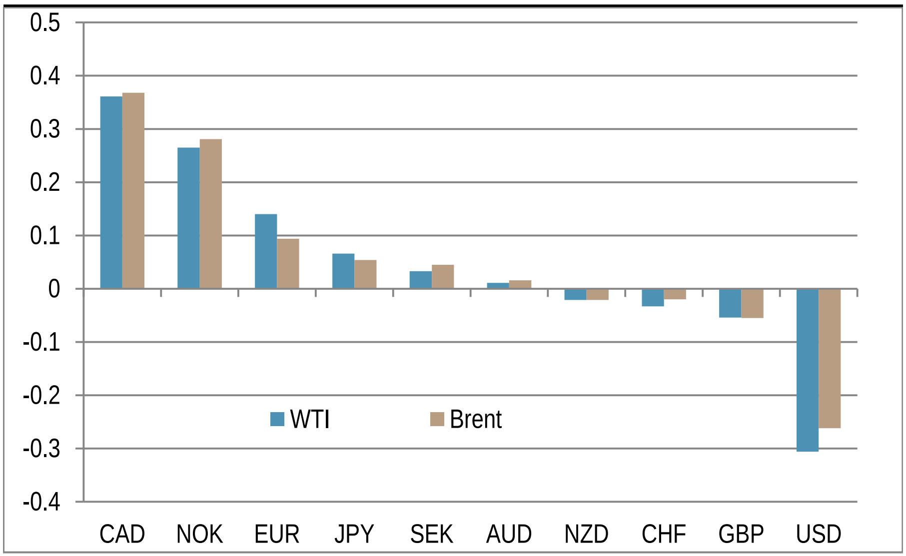
  Specifically, we expect oil-exposed NOK and CAD to outperform AUD, where the capex investment cliff should prevent meaningful recovery. Clear divergences in policy prospects are also beginning to emerge, and should support these views as well.

- **Market implications**: Short AUD vs. CAD, NOK, and NZD

The collapse in global commodity prices since H2 2014 has complicated policy for central banks, especially those of commodity exporters. Although these central banks have generally viewed the price and income shocks as transitory, they have responded in a number of places with rate cuts.

Important divergences are now emerging in responses to the current business cycle. This is being driven by differences in commodity export composition, economic starting points, and domestic export backdrops. These divergences, combined with what we believe is likely to be an environment of greater dispersion in dollar performance, are opening up relative value trading opportunities within commodity currencies.

Figure 4: Correlations with oil, July 1, 2014 to current (daily price changes)



Source: Bloomberg, UBS Calculations

Canada and Norway: Oil sensitivity high, but in the price

With oil prices having been the primary driver behind global commodity price adjustment, currencies with the highest corresponding sensitivity are expected to face the biggest shocks to national income. The Canadian dollar and Norwegian krone clearly stand out in this regard, with petroleum exports accounting for 27% and 67% of total exports, respectively.

The Bank of Canada expects the decline in business investment in the energy sector to cost nearly 1.5pp of 2015 GDP growth, while Norges Bank has revised its total output gap estimate down from around flat to 1% of potential GDP.

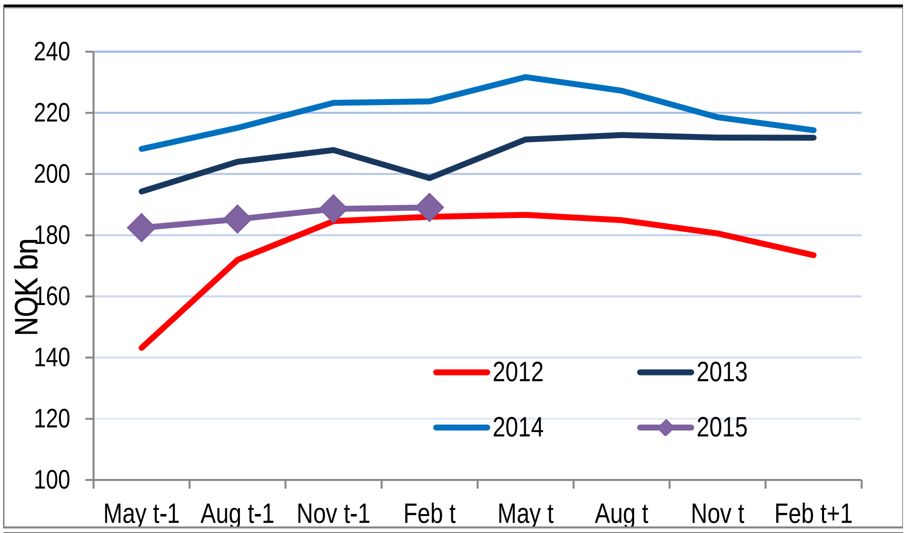
Oil less of a downside driver now for CAD and NOK, upside surprise possible

Although current crude levels are well below the respective 'break-evens' for both countries' domestic oil industries, risk-reward to shorting CAD and NOK in anticipation of additional 'insurance' rate cuts is limited. If anything, the oil impact could be asymmetric – CAD and NOK should drift with oil in the short term, but any stabilisation in oil prices alone (i.e. supply adjustments) is enough of a catalyst to help both outperform.

In reality, we believe both countries' central banks are nearing the zero bounds in their policy cycles. The current performance of the real economy and pressing need for structural adjustment in both countries precludes excessive easing.

Norges Bank already surprised markets by not easing in March. Even though they have communicated explicitly another cut by June, the warning that conditions were not as bad as anticipated suggests some reluctance to join the European pursuit of hitting the nominal zero bound. As we highlighted in our review of the latest oil and gas investment survey, overall investment intentions point to stability rather than a collapse. Perhaps more by accident than design, the first estimate for 2015 investments released in May 2014 already signalled a significant decline from 2014 levels, while the most recent estimates have actually increased from the initial report (Figure 5).

Figure 5: Norway's oil investment capex intentions



Source: Statistics Norway, UBS

Expect a period of stability after Q2 rate decisions, setting foundation for a broader economic expansion in coming years

As such, the Bank's policy cycle since mid-2014 had already factored in a possible widening in the output gap, meaning the onset of the oil price drop only required marginal adjustments to policy rather than a broader re-evaluation. With financial stability concerns moving up the agenda, and the currency representing a strong tailwind, we expect a period of stability after Norges Bank's Q2 decisions, setting the foundation for a broader expansion in non-oil sectors in the coming years.

If the output gap were to close next year, policy would have to respond early, especially with inflation close to target. Norges Bank expects NOK to strengthen mildly in 2015 based on their I-44 projections, suggesting tolerance for a stronger krone is an intrinsic part of the inevitable process of accommodation withdrawal.

For the Bank of Canada, an investment collapse was not part of their central scenario in 2014, and the surprise 25bp cut in policy rates earlier this year was clearly a pre-emptive move. The output gap has incurred an additional 25bp of potential GDP in widening, and the 30% drop in investment in the energy sector is expected to cause a 10% drop in overall business investment growth. While hardly immaterial, the Bank of Canada has gone to great lengths not to overstate the impact of oil on the Canadian economy as a whole. Oil and gas extraction accounts for only 6% of Canadian GDP, while the corresponding figure for Norway is closer to 15.5% (of total GDP). As such, even including the multiplier effects on overall business investment, the impact of oil can only go so far.

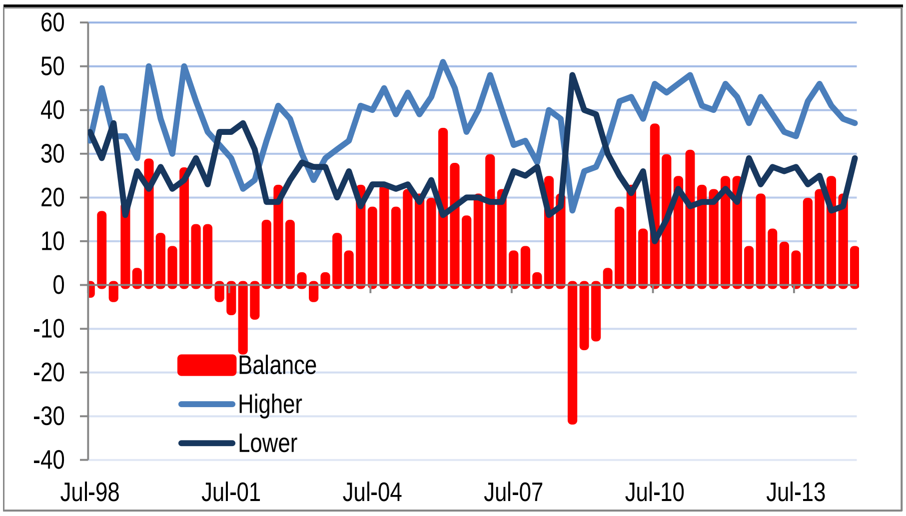
Even including the multiplier effects on overall business investment, the impact of oil on the Canadian economy can only go so far from here

Compared to Norway, Canada is doing a better job of readjusting toward investment in non-energy related activities, where the net contribution to real GDP growth is expected to be the strongest in a decade. The pick-up in non-oil exports should limit terms of trade losses, and we believe USD/CAD strength has already overshot the BoC's estimates corresponding to the net impact of oil price declines.

Canada capex drop is transitory and likely to be fully offset in 12 months

As Figure 6 shows, the balance of investment growth has fallen in recent quarters but not toward the recessionary levels seen in 2000–2001 and 2008-2009. Total business fixed investment is expected to cost real GDP growth 0.1pp this year (revised from a 0.4pp net addition), before recovering strongly to +0.7pp in 2016. With core inflation expected to trough at around 1.8% in Q3, the BoC feels justified in not taking out 'excess' insurance, and continues to see the output gap closing by the end of 2016.

Figure 6: Future investment in machinery and equipment, Canadian businesses



Source: Bank of Canada Winter 2014-2015 Quarterly Business Outlook Survey

The lagged effect of easing suggests that the BoC's policy bias should already start to change around the end of this year, in preparation for normalising in H1 2016. Crucially, after this point the BoC expects core inflation to recover to 2%, without providing further allowance for positive exchange rate pass-through.

Market pricing of BoC dovishness is inconsistent with the central bank's economic and financial stability outlook

As such, we continue to see both exchange rate and front-end interest rate markets as mispriced in this respect. Our Rates Strategy team recommends paying 6m6m OIS in Canada, which roughly corresponds to the most sharply inverted segment of the OIS curve. In light of the BoC's outlier stance on the need to closely monitor financial stability, risks are skewed towards a sharp re-pricing of rate expectations in Canada, and we expect the currency to adjust accordingly. Staying long CAD on the crosses offers particularly good risk-reward as Canada's

heavy US export exposure means steep gains would not materially affect terms of trade enough to concern the central bank.

Australia: Limited ability of commodity prices to help

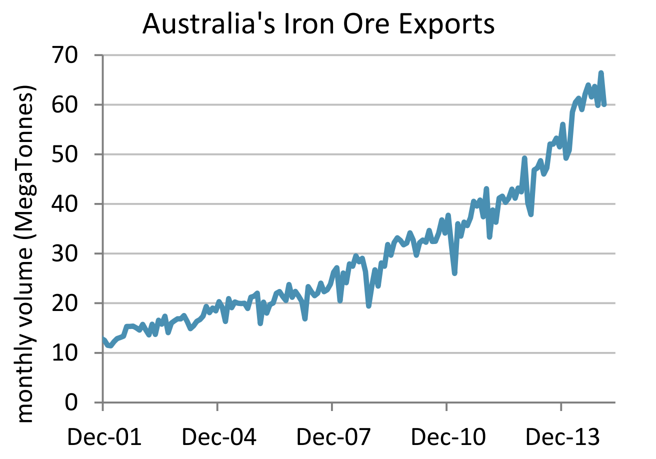
While a modest rise in commodity prices would likely be a significant help to CAD and NOK, rising commodity prices are unlikely to come to AUD's rescue.

Higher commodity prices triggered a mining investment boom, and supply has increased massively, driving prices lower

The surge in commodity prices before and after the Global Financial Crisis sparked a boom in Australian mining investment. New ore bodies were explored, new mines opened, rail networks were expanded, port capacity was upgraded, and all this served to significantly boost Australia's export capacity.

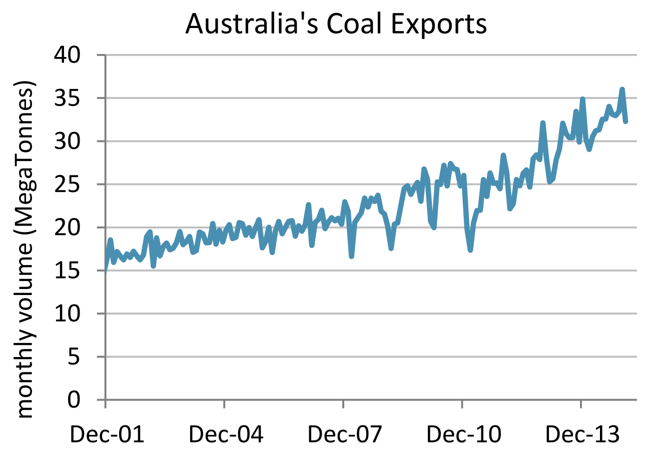
The fruits of this investment are clearly visible now (Figures 7-8). Crucially, this supply uplift has been a key contributor to weaker prices for iron ore and coal – Australia's two biggest exports. These steep price declines mean the legacy of Australia's mining investment boom is a trade balance still in deficit territory and a terms of trade now at multi-year lows (Figure 9 on the next page).

Figure 7: Iron ore exports have been steadily rising



Source: Bloomberg, UBS FX Strategy

Figure 8: Coal exports have trended higher too



Source: Bloomberg, UBS FX Strategy

A double-hit to growth: export values faltering while investment cliff beckons

Worse still, the boom has matured and is now in sharp retreat (Figure 10 on the next page). One need only recall the dismal 2015/16 ABS capex intentions survey to be reminded of the considerable headwinds facing the Australian economy – and hence the currency. What really stood out was not the (steep but widely expected) 20% y/y drop in mining; rather, the real kicker was the sharp erosion in non-mining intentions to a 9% fall. Barring a sudden improvement, total (nominal) business capex next fiscal year threatens to contract for the third consecutive year – the first time on record in at least 50 years.

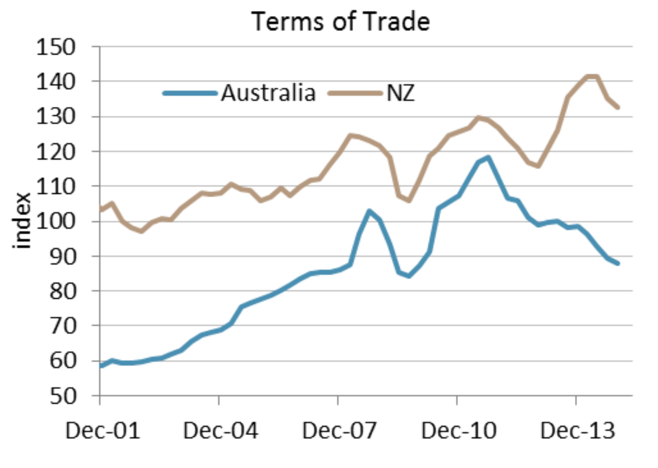
Based on current plans, our economists reckon that declining investment across all sectors (but primarily from miners) could subtract up to 1.75pp from GDP in the next fiscal year, condemning the economy to another year of sub-trend growth. Under a number of scenarios ranging from 'optimistic' (using 24-year average realisation ratios), the UBS base case (5-year average realisation ratios), or the 'worst case' (a cycle low realisation ratio), we still envision a deepening drag on growth from capex into 2015/16 of anywhere between -7% to -23% y/y.

That's a good reason to expect another RBA rate cut in April. Those not convinced will point to the conspicuous absence of any references to the capex survey in the RBA's March meeting press statement. However, the minutes of that same meeting openly conceded that the capex survey implied "further large falls in mining investment, as current projects were completed and few new projects were likely to proceed" and "non-mining investment would remain subdued for some time yet and for longer than had been previously expected". This alone portends another downgrade to the RBA's GDP forecasts in their May SOMP.

A recipe for further RBA easing

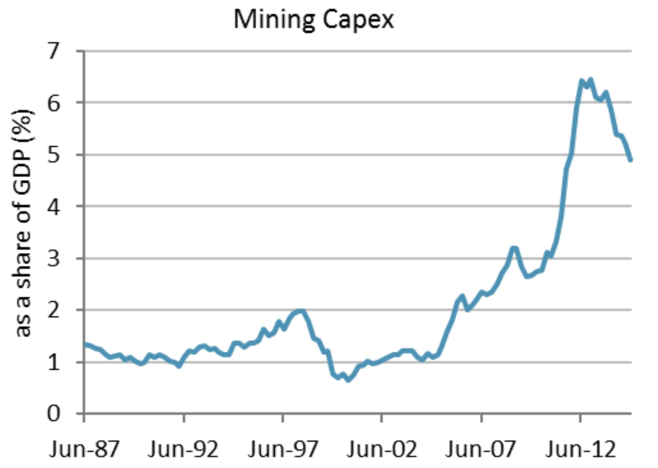
To help cushion the blow, the RBA has made no secret of its preference for a lower currency, which "would help achieve balanced growth in the economy". Granted, the market has already priced in a larger than 50% probability of a 25bp rate cut this month. However, any AUD relief bounce on a 'no change' verdict next week would simply tee up better levels to fade given the pricing in of further easing beyond that in the market.

Figure 9: Slow decline in national income underway



Source: Bloomberg, UBS

Figure 10: Mining investment already rolling over



Source: Bloomberg, UBS

This also explains why the Australian dollar has stopped benefitting much from occasional encouraging news flow or positive economic data out of China. Put simply, the mining investment boom is a once-in-a-generation event that has run its course. There is now ample existing capacity to cater to higher demand even if China does resort to another wave of steel-intensive investment.

Weakening sensitivity to China because only so much investment is needed

That leaves Australian dollar bulls pinning their hopes on a revival in investment from the non-mining sectors of the domestic economy. But for that to happen, business confidence must first improve, and a precondition for this is a weaker AUD in our view. It's not too late for graceful rebalancing to occur, but the currency will have to play its part in bringing this about.

Time to look closer to home for sources of growth

New Zealand: Considerably more constructive

The story in New Zealand is a bit different, and considerably more constructive than Australia, and to some extent Canada and Norway as well. New Zealand doesn't face an investment cliff, and the terms of trade hit hasn't been nearly as bad. Milk prices did fall sharply last year (Figure 11, next page), but this was mostly a demand story, suggesting that a recovery in prices is likely over time.

More to look forward to in New Zealand, and importantly no investment cliff

Looking beyond dairy, meat and wood account for another 20% of New Zealand's export basket (Figure 12). In contrast to milk prices, meat and wood prices have shown notable resilience, and consequently, the trajectory of New Zealand's terms of trade looks much less worrisome. Meat prices in particular are likely to stay supported over the coming years, thanks to rising incomes and improving diets across Emerging Asia. At this stage in economic development, China is likely to increase its meat consumption steadily going forward.

Although dairy is important, it is not the only factor in New Zealand's export basket

New Zealand's export basket is also more diversified in terms of exposure to China, as it only consumes 24% of New Zealand's dairy exports. Australia has significantly more concentration risk, with 70% of exported iron ore destined for China.

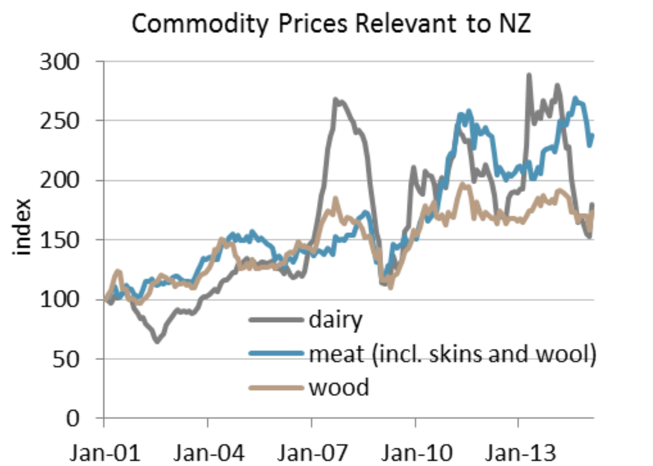
All this leaves the RBNZ in a relatively comfortable position, and likely to maintain an explicit neutral policy stance. Although inflation is low (0.8% y/y), activity data gives the RBNZ little room for excessive dovishness. Employment growth is running 3.5% y/y, similar to 2004/05 levels, and the participation rate just surged to an all-time high, an anomaly among G10 economies where participation rates have generally fallen. Y/Y GDP has printed above 3.0% for four consecutive quarters, with the 3.5% rate in Q4 the best since 2007, and the strongest inward migration in at least 35 years is supporting the housing market and economy more broadly.

RBNZ likely to remain neutral

All of this is known, and AUD/NZD trading near parity shows that a lot of it is already priced. But even so, rate market pricing remains relatively dovish, with one 25bp cut priced during the next year, and a flat rate profile through 2017.

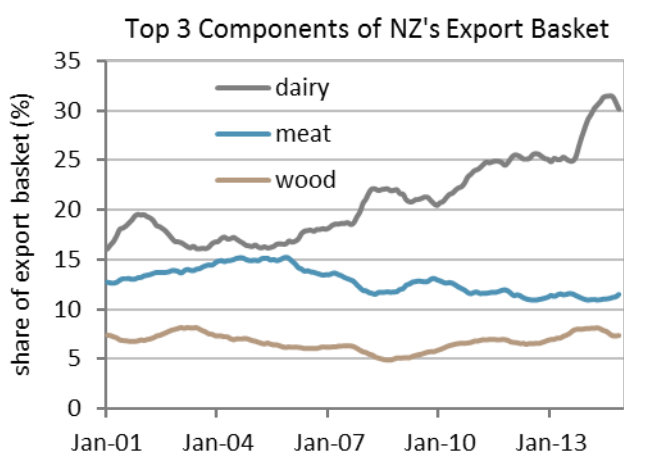
It may be tough for the RBNZ to surprise with a hike in the near term, as global disinflationary pressures are pushing nearly all central banks in the opposite direction. However, given how few central banks are anywhere close to hiking, this dynamic could set up good risk-reward for NZD in the event that the RBNZ does hike, or market pricing moves in this direction.

Figure 11: Milk prices have dropped sharply, but meat/wood prices are holding up (even in USD terms)



Source: globaldairytrade, UBS

Figure 12: It's not just about dairy, as meat and wood are significant components of New Zealand's export basket

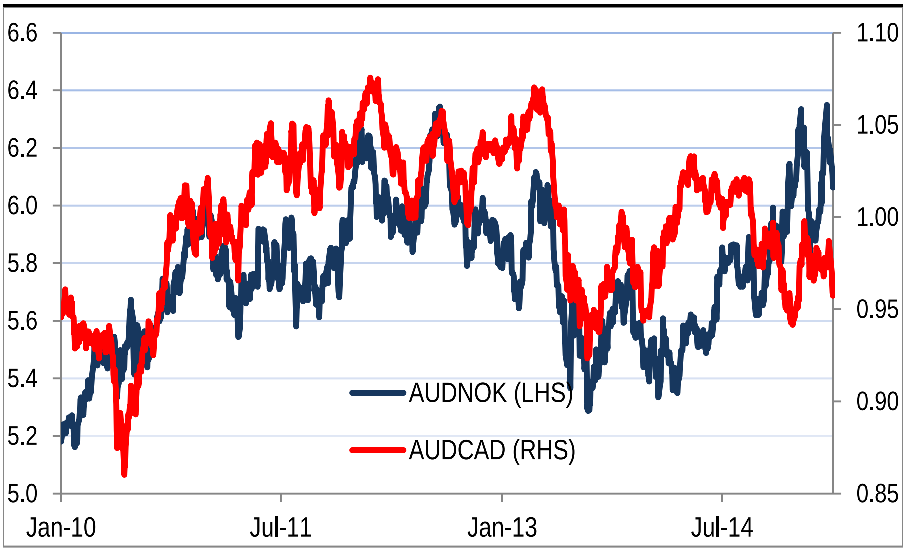


Source: Statistics NZ, UBS

Investment implications

From a market perspective, we think the above favours being short AUD against the remaining G10 commodity currencies. Scope for a significant recovery in AUD, even in the event of a rise in commodity prices is less than in CAD and NOK. Rate-market pricing seems fair in Australia up to May, but market pricing for BoC and Norges seems excessively dovish, unless oil prices slide further.

Figure 13: AUDCAD, AUDNOK 2010~Present



Source: Bloomberg

Look for AUD/NZD to fall below parity

Even at these levels, we expect AUD/NZD to fall further, with the cross likely to test and then fall through parity. New Zealand has no investment cliff, the overall terms of trade remain resilient, and economic activity is quite strong.

Next Two Weeks

North America

In the US, the key event for markets during the next two weeks should be the March employment report (April 3). The skew from this meeting is likely to be positive in USD/JPY. A strong print could re-awaken USD strength in the near term. In the opposite direction, a weak report would be negative through the interest rate differential channel, but if the weakness is not too shocking, it could support equity markets, which would give some bid to USD/JPY. On April 8 we get the minutes from the March FOMC meeting. These may give some more detail and context on how the committee views dollar strength, but are unlikely to have a long-term market impact.

In Canada, the spotlight will be on the BoC's rate decision on April 15, which will be accompanied by the release of the Monetary Policy Report. The BoC is widely expected to stay on hold – in line with the 'wait-and-see' stance flagged by Governor Poloz and Deputy Governor Lane in recent speeches – though oil remains a key swing factor. The BoC will also seek guidance from the Q1 Business Outlook Survey (April 6) and March employment report (April 10), both of which should feature prominently in the policy debate. The March CPI and February retail sales data on April 17 will come out after the BoC meeting, diluting their market-moving potential.

Asia-Pacific

In Japan, all eyes will be on the BoJ meeting set for April 7-8, the first to feature new Board member Yutaka Harada, who sits very much in the dovish camp. While no further easing is likely just yet, the continued erosion in actual CPI prints (to zero ex-tax in February) and inflation expectations suggests every meeting should be regarded as 'live' in coming months – particularly the quarterly assessment gatherings on April 30 and July 14-15. Our base case pegs an expansion of QQE at the latter, but one should not categorically rule out a dovish concession at the former, at least in terms of a downgrade revision to the FY15 CPI projections in the Outlook Report. The minutes of the March meeting (April 13) and Kuroda's speech at the Trust Banks' Association (April 16) should be closely watched, particularly in the absence of other top-tier domestic releases over the next two weeks.

In Australia, the RBA's explicit easing bias is likely to translate into futher easing soon. Market opinion has recently switched decisively in favour of a rate cut on April 7, and our economists agree. Investors searching for signs of economic rebalancing away from mining can consult the NAB business survey due on April 22 - evidence of progress has been scant so far, and we think the currency must fall further if we are to see business sentiment improve. Labour data has been unusually volatile in recent months, but the 3-year old trend towards higher unemployment rates is unmistakable - April 16 will provide the latest instalment here, and the RBA's recent warning that the "unemployment rate is now expected to rise a little further and peak a little later than earlier anticipated" argues in favour of a continuation of this uptrend.

In New Zealand, the April 20 CPI report is looming large, but it would take a major downside surprise in our view to tempt the RBNZ out of its current neutral policy stance, especially given its willingness to look through any price softness caused by the collapse in oil prices. Our economist doesn't envisage a shocker either and still forecasts a positive outcome at +0.3% y/y. House prices on April 10 are likely to

be firm, further discouraging the RBNZ from responding to global disinflationary pressures with policy easing.

Europe

In the Eurozone, Greece's cash problems are likely to become increasingly acute: Greece faces a payment of SDR360.45m on April 9, and T-bill rolls of EUR1.4bn and EUR1.0bn, respectively on April 14 and April 17. ELA limit increases will also need approvals on a weekly basis. Nonetheless, the current run of commentary suggests all parties involved are keen on resolution soon. The ECB will meet for its third policy decision of the year on April 15, where Draghi is expected to give his first assessment on the new asset purchase programme and answer any additional questions on its effect on market functioning. German industrial production and trade figures are due on April 9.

In the UK, the Bank of England is due to meet on April 9, but we expect politics to steadily move up the agenda as full-scale campaigning commences. Swings in polls will be watched closely in the aftermath of two debates, one for seven party leaders on April 2, and a second for opposition figures only on April 16. Current polls point to another hung parliament after the May 7 vote. In Switzerland, the event calendar is relatively light, with only CPI (April 8) and employment figures (April 10) due.

In Sweden, industrial production/orders (April 7) and CPI (April 14) are the key dates. However, markets will be on watch for any surprise decisions outside of the regular policy meeting calendar after the surprise QE expansion in March. The next (non-policy) Executive Board meeting is on April 23, but action could be taken earlier if exchange rates begin to move unfavourably. In Norway, only industrial production and CPI (both due April 10) could move markets, as Norges Bank has noted to markets that future policy steps will likely be implemented towards the second half of Q2 rather than earlier.

Forecasts (as of April 2nd, 2015)

Figure 14: UBS Forecasts

	Spot	1 month	3 month
EURUSD	1.0850	1.06	1.04
USDJPY	119.75	122	127
EURJPY	130.00	129	132
GBPUSD	1.4810	1.49	1.47
EURGBP	0.7337	0.71	0.71
EURCHF	1.0416	1.06	1.08
USDCHF	0.9587	1.00	1.04
EURSEK	9.3520	9.40	9.65
EURNOK	8.6550	8.60	8.35
NOKSEK	1.0800	1.09	1.16
AUDUSD	0.7571	0.7500	0.7350
NZDUSD	0.7484	0.70	0.76
AUDNZD	1.0115	1.00	0.97
USDCAD	1.2600	1.24	1.22

Source: UBS FX Strategy

Trade recommendations

Macro Trade Details	Entry Date	Entry Spot	Close Date	Close Spot	Profit (%)
We recommend purchasing a USD/JPY call spread with strikes at 121.50 and 125.50, expiring July 26, 2015. This costs 0.72% of face, with a spot reference of 118.70.	March 26th 2015	118.70			0.00%
Indicative Net Profit/Loss – Including Open Trades*					

Source: UBS FX Strategy. Past performance is not an indication of future results

Figure 13: DXY performance reference table

Source: UBS FX Strategy

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Outlook	Positive; Stable; Negative	Up to 6 months	UBS' expected trend in a company's creditworthiness
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Source: UBS

Company Disclosures

Issuer Name	Credit Rating	Outlook
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Commonwealth of Australia[2, 4]	-	-
Dominion of New Zealand	-	-
Federal Republic of Germany	-	-
Japan	-	-
Kingdom of Sweden	-	-
Norway	-	-

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