

USD higher, UK debt woes, uncertainty about Greek aid

- **USD:** Higher, China's manufacturing growth slows, denial of imminent Greek bailout, UK debt jitters
- **JPY:** Lower, government pressure on the BOJ to buy government debt to combat deflation
- **EUR:** Lower, pressured by spillover from collapse of the GBP, uncertainty about Greek aid
- **GBP:** Lower, concern about UK government debt, mortgage approvals at eight month low
- **CHF:** Lower, Greek bailout rumors, UK debt worries overshadow strong Swiss PMI
- **CAD and AUD:** AUD & CAD higher, strong Australian housing data, strong Canadian GDP

Overview

The USD traded higher Monday supported by a collapse in the GBP, weaker than expected PMI data from China and a denial from German Chancellor Merkel of report of an imminent Greek bailout. GBP was pressured by UK election polls and concern about UK government debt. China's February PMI declined to 52, a reading of 55.4 was expected. This report suggests that manufacturing activity is slowing in China. There are numerous reports of a possible new Greek bailout plan which according to the WSJ is estimated at 30bln. According to these reports the bailout plan will require Greece to raise taxes and implement spending cuts. German Chancellor Merkel denies that there is an imminent Greek bailout plan and EUR traded lower. Stronger than expected manufacturing PMI data from the EU, UK and Switzerland were overshadowed by the UK debt jitters. Commodity currencies traded higher with the CAD supported by reported stronger than expected Canadian GDP and AUD supported by report of strong new home sales and Q4 company profits. JPY traded lower pressured by report that the Japanese government wants the BOJ to consider directly purchasing government debt and in reaction to firmer equity market trade. US economic data was mixed with personal income rising less than expected and consumption coming in higher than expected. ISM Index came in slightly weaker than expected and construction spending was in line with expectations. US equity markets extended early gains after the release of today's data today's data which added support to the commodity currencies but had limited impact on European currencies.

Focus turns this week's central bank policy meetings in Australia and Canada on Tuesday and the UK and EU on Thursday and Friday's release of US February unemployment. The BOC is expected to maintain steady rate policy, the RBA is expected to hike rates 25 bps, the ECB is expected to remain on hold and there is uncertainty about whether the BOE will maintain its current level of asset purchases. US February unemployment is expected to post a modest rise with nonfarm payrolls unchanged from last month.

Today's US data:

Consumer spending rose by 0.5%, a reading of 0.4% was expected and personal income rose by 0.1%, a reading of 0.3% was expected. January construction spending rose by 0.6%, a 0.7% decline was expected. February ISM declined to 56.5, a reading of 58.4 was expected.

Upcoming US data:

On March 2nd domestic auto sales will be released. On March 3rd February ADP employment will be released expected at 10k compared to -22k last month. February manufacturing ISM Index will also be released on March 3rd expected at 51 compared to 50.5 last month. On March 4th initial jobless claims for week ending 02/27 will be

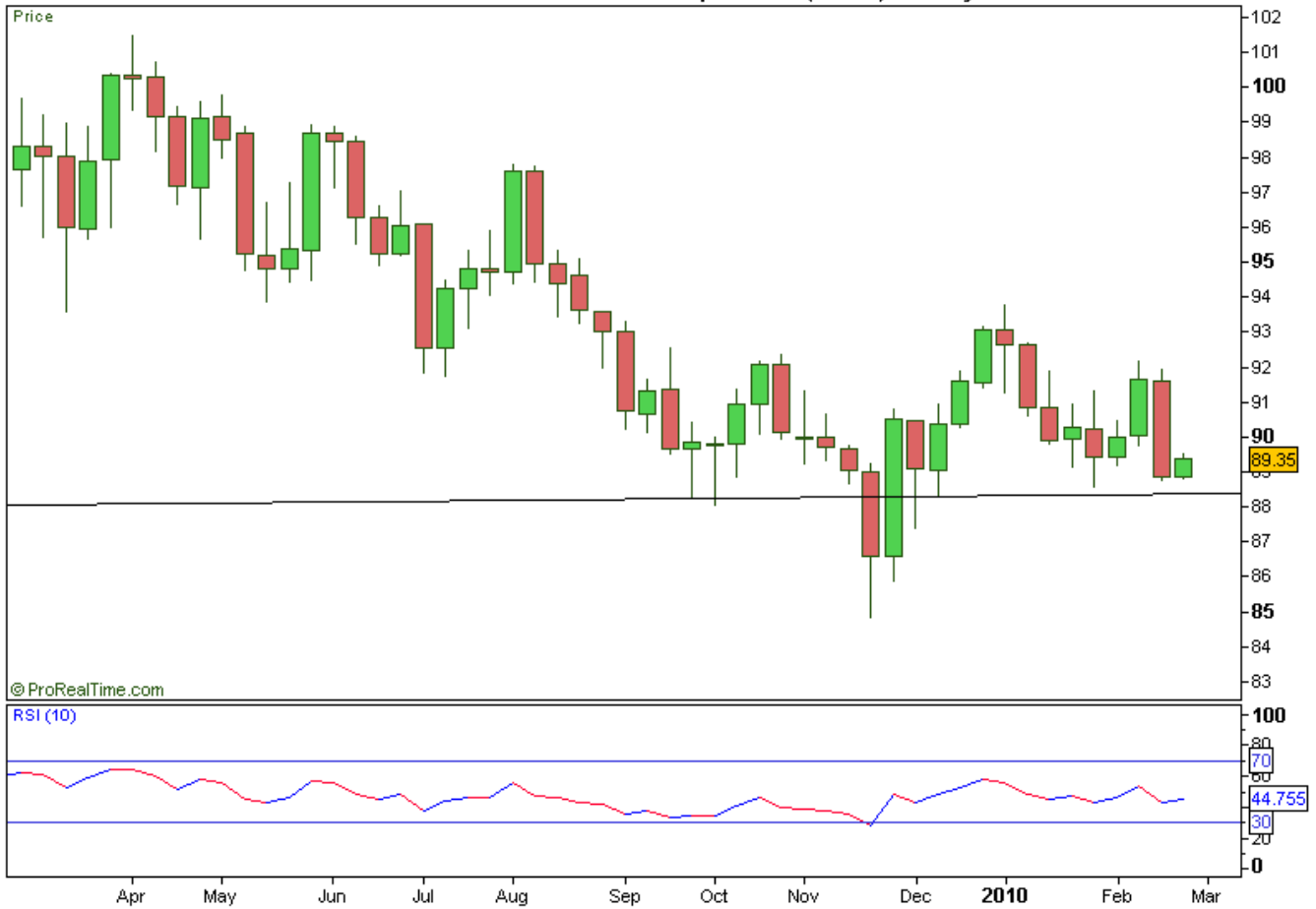
released expected at 490k compared to 496k last month. Q4 productivity, unit labor costs, January pending home sales and factory orders will also be released on March 4th. Q4 productivity is expected unchanged at 6.2%, unit labor costs are expected unchanged at -4.4%, factory orders are expected unchanged at 1% and pending home sales are expected at 98.4 compared to 96.6 last month. On March 5th February unemployment and nonfarm payrolls will be released along with January consumer credit. The unemployment rate is expected to rise 0.1% to 9.8%, nonfarm payrolls are expected unchanged at -20k and consumer credit is expected at -3.1bln compared to -1.7bln last month.

JPY

JPY traded lower pressured by a rebound in global equity markets and in reaction to report that the Japanese government wants the BOJ to directly purchase Japanese government debt. The rebound in global equity markets was a bit surprising as manufacturing PMI data from China came in weaker than expected and debt jitters continue with uncertainty about a possible Greek bailout plan and new worries about the outlook for the UK debt. JPY traded higher last week supported by safe haven demand sparked by concern about sovereign debt risk in Europe and weaker equity market trade. GBP/JPY cross traded sharply lower with GBP pressured by UK election polls which suggest that the UK may face a hung parliament. A hung parliament will make it difficult for the UK to take action to reduce its deficit and the UK sovereign debt rating is at risk for a downgrade. Japan's Financial Services Minister Kamei said that the BOJ should consider directly purchasing government debt as a way to boost growth and combat deflation. Friday Japan reported that CPI fell by 1.3% in January. This marks the 11th straight monthly decline for Japan's CPI.

This week's Japanese economic calendar includes the March 2nd release of January household spending expected at -0.5% compared to 1% last month. The January unemployment rate will also be released on March 2nd expected unchanged at 5.1%. On March 3rd Q4 capital spending will be released expected at -18.4% compared to -24.8% last month

Key technical levels to watch in USD/JPY include support at 88.55 the February 4th low with resistance at 90.33 the February 25th high.



EUR

EUR traded sharply lower dragged down by the collapse of the GBP and in reaction to German denials of an imminent Greek bailout. GBP traded sharply lower pressured by concern that the UK will be the next European country to face a downgrade because of the UK government debt. German Chancellor Merkel denied a report of an imminent bailout for Greece. EUR traded lower despite report that EU manufacturing PMI rose to a 30 month high and unemployment was steady in January. EU manufacturing PMI was reported at 54.2 compared to 54.1 at the flash estimate. January unemployment was unchanged at 9.9%. Despite better than expected EU manufacturing PMI and employment data the ECB is expected to hold rate policy unchanged at this Thursday's policy meeting. Market consensus is that the potential drag on the EU recovery from the impact of sovereign debt risks in peripheral Europe will prevent the ECB from an early exit from nonconventional monetary measures. Reuter's reports that a number of economists expect the ECB to announce the continuation of its steps for withdrawal of liquidity in Q2. Focus turns to Thursday's ECB policy meeting. No policy change is expected as the ECB is restricted by concern that the sovereign debt risk in Europe will be a drag on the EU recovery. Analysts at Deutsche Bank suggest that the EUR could decline to 1.2750 in the months ahead pressured by speculation the Fed will raise rates before the ECB. In contrast analysts at Royal Bank of Scotland suggested EUR could rise to 1.4000 in reaction to an announcement of a Greek aid plan. According to the RBS the EUR may be supported because the record amount of short positions taken against the EUR makes the EUR vulnerable to a short squeeze. EUR remains vulnerable to concern about EU sovereign debt risk and ECB policy outlook.

On March 2nd February HICP will be released expected at 1.1% compared to 1% last month. On March 3rd EU February services PMI will be released expected at 52.3 compared to 52.5 last month along with January retail

sales. January retail sales are expected at 0.2% compared to flat last month. ECB policy meeting will be held on March 4th, no change is expected.

The technical outlook for the EUR is negative. Expect EUR support at 1.3451 the February 23rd low with resistance at 1.3693 the February 23rd high.



GBP

GBP traded sharply lower pressured by UK election polls and concern about UK debt. The Sunday Times reports that the Conservative's lead over the Labor Party has fallen to just two percentage points. The UK general election is expected to be held on May 6th. The election polls raise the risk of a hung parliament and the possibility of a minority government in the UK for the first time since 1974. The combination of a hung parliament and a minority government would increase the risk of gridlock and hamper efforts of the UK government to reduce the UK deficit. Rating agencies have put the UK on notice that if credible action is not taken to reduce the UK deficit the UK AAA sovereign debt rating is at risk for downgrade. Analysts at Bank of Tokyo have cut their GBP forecast to 1.4000 because of the election polls show the UK in may find itself with a minority government. GBP was also pressured by mixed UK economic data with mortgage approvals coming in much weaker than expected. February mortgage approvals rose by 48,198 compared to 58,223 last month and mortgage lending slowed to 1.529bln compared to 1.196bln last month. This week's main focus will be Thursday's BOE policy meeting. The BOE is expected to hold rate policy unchanged and may consider expanding quantitative ease. Concern about the UK government debt outlook and uncertainty about the UK's recovery may encourage the BOE to expand quantitative ease. Last week a number of BOE officials including BOE Governor King said the BOE may expand quantitative ease if needed. GBP remains vulnerable to concern about the rising unit UK Budget deficit, concern about the UK recovery and speculation that the BOE may be considering expanding quantitative ease. It's a close

call whether the BOE will elect to expand quantitative ease at Thursday's meeting. Most analysts expect the BOE to take a continued wait and see approach leaving the door open for quantitative ease if necessary

On March 3rd February consumer confidence index will be released expected at 68 compared to 69 last month along with February services PMI expected at 54 compared to 54.5 last month. BOE policy meeting will be held on March 4th, no policy change is expected but there is increased pressure on the BOE to expand quantitative ease.

The technical outlook for GBP is negative as GBP trades below 1.5000. Expect near-term support at 1.4702 the April 30th low with resistance at 1.5000 the range breakout.



CHF

CHF traded lower pressured by broad USD gains sparked by the collapse of the GBP. CHF weakened despite report of strong Swiss manufacturing PMI. Swiss February PMI rose to 57.4 from 56 last month. Report that the EU is closer to forming a bailout plan for Greece was denied by the German Chancellor Merkel and this added selling pressure to the CHF. EUR/CHF cross has stabilized near the March intervention lows above 1.4600. CHF has been benefiting in cross trade by safe haven flows related to sovereign debt risks in Europe. The SNB is rumored to have intervened last week in support of the cross near the 1.4600 level. The only remaining Swiss economic data this week is Tuesday's release of Q4 GDP expected at 0.6% compared to 0.3% last quarter. Expect USD/CHF support at 1.0691 the February 26th low with resistance at 1.0955 the July 6th high.



CAD

CAD traded higher supported by report of stronger than expected Q4 GDP growth and firmer equity markets. Canada reported that Q4 growth was 5%. The trade had expected a reading of 4.1% for Canada's Q4 GDP. The Canadian GDP rise was the strongest quarterly growth since Q3 2000 supported by strong consumer spending and an uptick in exports. Exports rose 3.7% and consumer spending rose by 0.9%. Canada's industrial price index for January rose by 0.3%, a 0.4% rise was expected and the raw materials price index jumped to 3.3%, a 2.1% rise was expected. This week's main focus is Tuesday's BOC policy meeting. The BOC is expected to maintain steady rate policy but there is increased risk of a more hawkish bias from the BOC in light of the strong Q4 GDP report and recent report of higher than expected Canadian inflation. The BOC has pledged to maintain record low yields through June of 2010 provided inflation remains in check. Last week Canada reported above expectation inflation with CPI rising close to the 2% BOC target. A more hawkish bias from the BOC could prompt additional CAD gains. Canada will release its federal budget on March 4th. Canada is expected to forecast a deficit of less than 3% of GDP and confirm relatively strong financial conditions in Canada. Canada's fiscal outlook stands in stark contrast to rising fiscal deficits in Europe, Japan and the US.

BOC policy meeting will be held on March 2nd, no policy change is expected. On March 4th January building permits and Canada's budget will be released.

The technical outlook for CAD is positive as USD/CAD trades below 1.0500. Look for near-term support at 1.0315 the January 18th low with resistance at 1.0680 the February 25th high.



AUD

AUD traded mixed with direction torn between improving risk sentiment as equity markets rally and positive Australian economic data and weaker manufacturing PMI from China and the collapse of the GBP. Equity markets rallied in Asia, Europe and the US supported by report of potential purchase of AIG's Asia life insurance business for 35.5bln. This purchase may help AIG more quickly pay back government bailout funds. Equity markets rallied despite report of an unexpected decline in China's manufacturing PMI. China's February manufacturing PMI declined 52, a reading of 55.4 was expected. Slower growth in China may generate concern about the Australian economic recovery. Australian domestic data was strong with new home sales reported to have risen by 9.5%, February PMI rose by 2.8% to 53.8 in Q4 company profits rose by 2.2%. Despite the broad USD gains versus Europe the high yield commodity currencies continue to outperform. Focus turns to Tuesday's RBA policy meeting. Last week Australia reported a sharp increase in Q4 business investment and a modest increase in public-sector credit. The strong private sector credit rise and CAPEX spending coupled with today's strong Australian and housing manufacturing reports revive RBA rate hike speculation and tilt the odds in favor of an RBA rate hike at Tuesday's policy meeting. Concern about the global recovery has overshadowed RBA rate hike speculation and RBA rate hike speculation has been less supportive for the AUD. Focus turns to Tuesday's RBA policy meeting. RBA watcher McCrann says there's nothing standing in the way of the RBA from hiking rates 25 bps at Tuesday's policy meeting.

On March 2nd January building approvals will be released expected at -4% compared to 2.2% last month along with January retail sales expected at 1% compared to -0.7% last month. RBA policy meeting will be held on March 2nd. A 25bps rate hike to 4% is expected. On March 3rd Q4 GDP will be released expected at 0.3% compared to 0.2% last quarter. On March 4th January trade balance will be released expected at -2.5bln compared to -2.25bln last month.

The technical outlook for the AUD is mixed as the AUD failed to hold above 9000. Expect AUD support at 8863 the February 26th low with resistance at 9073 the February 23rd high.



By Michael J. Malpede

Michael J. Malpede is Chief Market Analyst with Easy-Forex® and has previously been featured on Bloomberg TV, Bloomberg radio, Reuters, MarketWatch, Wall Street Journal, Chicago Tribune, Chicago Sun Times, Toronto Star and Nikkei press. In analyzing the markets, he draws from 29 years of Foreign Exchange Research as a Foreign Exchange Analyst.

Please note that Forex trading (OTC Trading) involves substantial risk of loss, and may not be suitable for everyone. This report is provided by Easy-Forex® for informative purposes only. In no way it is a recommendation by Easy-Forex® for you to engage in any trade. It is your sole responsibility and you will have no claims with regards to this report against Easy-Forex®. If you do not agree to this, you are strongly advised not to use this report. Hence, Easy-Forex® shall not be held responsible for any outcome of trading decisions, in regards with this report or similar reports.