

USD higher, jobless claims fall, pending home sales tank

- **USD:** Higher, jobless claims fall, productivity revised higher, pending home sales tank, stocks erase gains
- **JPY:** Lower, BOJ's Noda rejects government pressure to buy JGB bonds and expand QE
- **EUR:** Lower, Greek budget euphoria fades, ECB holds rates policy study, exit plan continues, weak Q4 GDP
- **GBP:** Mixed, BOE holds interest rates and asset purchases unchanged, house prices decline
- **CAD and AUD:** AUD & CAD lower, Australian trade deficit widens, Canadian building permits fall

Overview

The USD traded higher Thursday supported by ongoing concern about the Greek fiscal outlook and in reaction to mixed US economic data. USD extended its early rally after the release of an unexpected decline in pending home sales. Equity markets gave back all the morning's early gains after the release of the pending home sales data. The pending home sales report appeared to inject more risk aversion into the trade. The ECB elected to hold rate policy unchanged as expected. In the press conference following the ECB policy decision ECB President Trichet said that the recovery is on track and will remain uneven, current ECB rates are appropriate, and inflation expectations remain anchored. Trichet went on to say that adverse weather could impact first quarter growth. The ECB expects EU 2010 GDP growth of 0.4% to 1.2%. The ECB expects EU 2010 CPI at 0.8% to 1.6%. Trichet said that the ECB welcomes Greece's fiscal plan and signaled that the ECB would continue with the current gradual pace of withdrawal of liquidity. Trichet also said that it is not appropriate for the IMF to aid Greece. This comment sparked selling of the EUR and generates concern that Greece could be left out in the cold if the EU fails to agree to aid for Greece. EU officials will discuss the need for Greek aid Friday. GBP traded mixed initially supported by the BOE's decision to hold interest rates and asset purchases unchanged. GBP turned lower in reaction report of a decline in UK house prices. Commodity currencies were mixed with a CAD continuing to outperform. AUD traded lower pressured by concern about the global growth outlook and in reaction to report that the Australian trade deficit widened in January. JPY traded a three month high versus the USD supported by a decline in risk appetite as Asian equity markets decline. JPY was also supported by comments from the BOJ Noda rejecting Japanese government calls for the BOJ who purchase more JGB's. JPY turned lower after the release of better than expected US jobless claims and productivity data. Jobless claims posted a larger than expected decline, productivity rose more than expected and unit labor costs declined by more than expected. USD edged higher after the release of these reports. Pending home sales posted a sharp decline and factory orders rose more than expected. USD traded to the highs for the day after the report of the pending home sales drop and erasing of early US equity market gains.

Focus turns to Friday's release of US February unemployment and nonfarm payrolls. The trade expects a modest uptick in the US unemployment rate and a fairly sharp drop and nonfarm payrolls partly because of bad weather and snow storms that blanketed much of the US during February.

Today's US data:

Jobless claims for the week ending 02/ 27 decline by 29 to 469k, a reading of 476k was expected. Q4 productivity rose by 6.9% and unit labor costs fell by 5.9%. Productivity was expected to have risen by 6.3% and unit labor costs were expected to have declined by 4.4%. January pending home sales declined by 7.6% to 90.4, a reading of 98.4 was expected. January factory orders rose by 1.7%, a reading of 1% was expected.

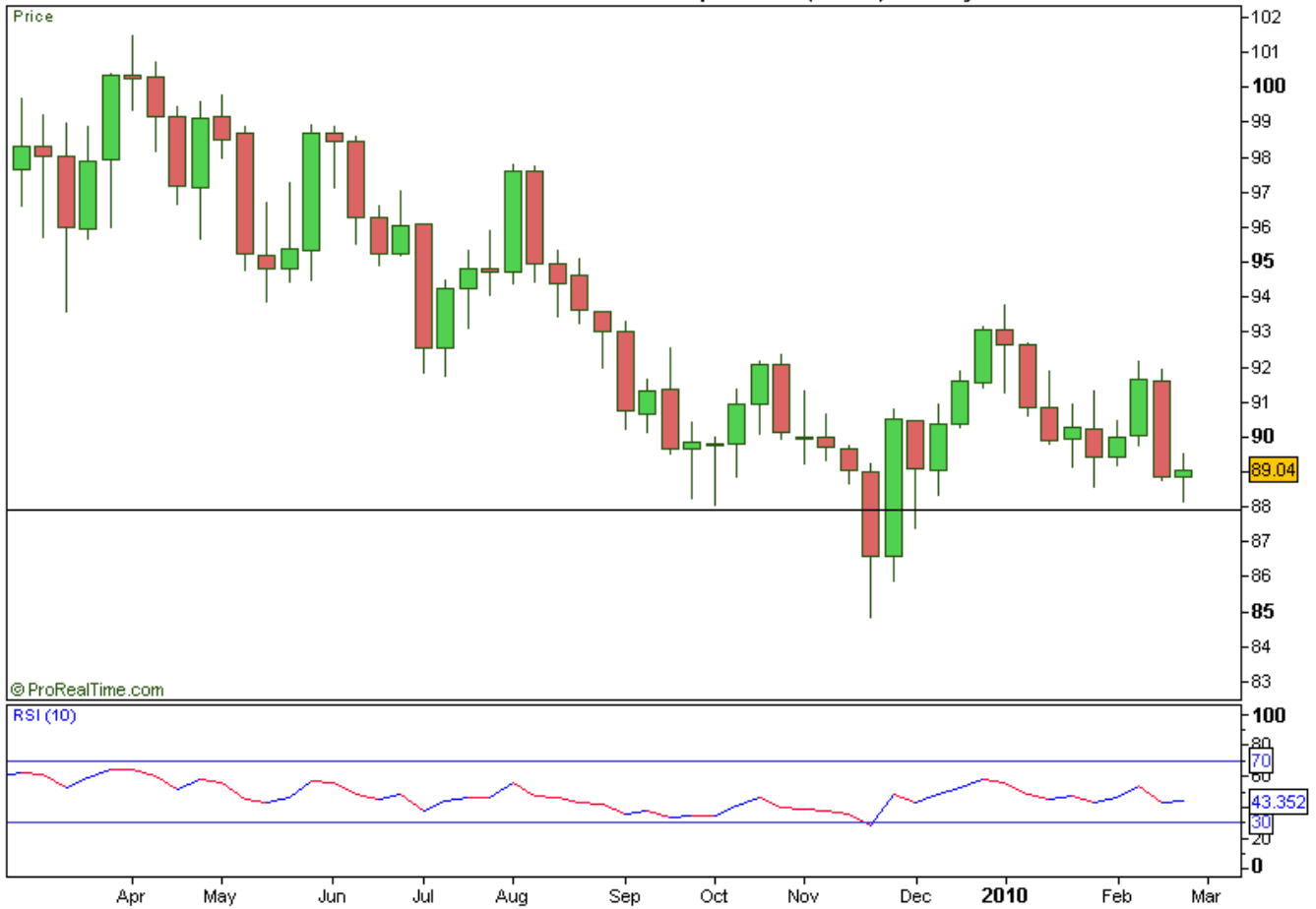
Upcoming US data:

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 -50k and consumer credit is expected at -3.1bln compared to -1.7bln last month.

JPY

JPY traded at a three month high versus the USD supported by a drop in risk appetite as Asian equity markets decline and in reaction to comments from the BOJ's Noda. The initial euphoria on news of the Greek austerity plan has faded and concern about the global economic recovery sparked selling of Asian equities. The BOJ's Noda rejected calls from the Japanese government to increase purchase of JGB bonds. The Japanese government wants the BOJ to buy bonds and expand quantitative ease to combat deflation and to boost the Japanese economy. According to Noda, if the BOJ were to buy more bonds they could push long bond yields higher and additional quantitative ease would not lift prices. JPY was supported by Noda's less dovish comments. The only economic data released from Japan today was report that Japan's Q4 CAPEX spending declined at a slower rate than a year ago. Q4 CAPEX spending declined by 17.3%. Recurring profits rose for the first time in more than two years and this points to a potential upward revision and Japan's GDP. The improvement IN recurring profits reflects stronger export sales. Recent economic data from Japan suggests that the domestic economy is strengthening. Wednesday Japan reported a modest rise in cash earnings in January and earlier in the week Japan reported a decline in the unemployment rate. Recent JPY strength is attributed to gains versus European currencies sparked by concern about debt default risks in Europe, repatriation flows ahead of Japan's fiscal year which ends on March 31st and rising risk aversion sparked by uncertainty about the global recovery. JPY traded lower after the release of a larger decline in US jobless claims and an upward revision of US Q4 productivity pressured by a rise in US bond yields.

Key technical levels to watch in USD/JPY include support at 87.35 the December 9th low with resistance at 89.51 the February 26th high.



EUR

EUR traded lower pressured by ongoing concern about the Greek fiscal outlook and in reaction to steady ECB policy. Despite yesterday's announcement of the Greek austerity plan investors wait to see the results of today's Greek bond auction and EU response to the Greek budget plan. It remains uncertain whether Greece has taken enough action to reduce its deficit that would encourage EU aid for Greece. The French finance minister said that Greece does not need any EU help at this time. EU officials are expected to discuss possible aid for Greece in meetings on Friday. There is concern that the Greek fiscal troubles may delay the ECB exit strategy. The ECB elected to hold rate policy unchanged at today's meeting. ECB President Trichet sounded quite pleased with Greek austerity plans. The ECB signaled that the central bank will continue the current pace of withdrawal of liquidity. It does not appear that the ECB will delay its exit strategy because of Greek fiscal troubles. EUR was also pressured by weak EU Q4 GDP. EU Q4 GDP was reported to have risen by 0.1%. The GDP report follows Wednesday's release of weaker than expected EU January retail sales and report of a decline in EU services PMI. Even if Greece and other EU countries cut debt, fiscal problems will continue if the EU recovery remains weak. Weak growth means lower revenues. EUR traded lower after the release of a larger than expected decline in US jobless claims and in reaction to an unexpected drop in pending home sales. Strong Greek bond auction failed to support the EUR. EUR remains vulnerable to concern about EU sovereign debt risk and ECB policy outlook.

The technical outlook for the EUR is negative. Expect EUR support at 1.3435 the March 2nd low with resistance at 1.3789 the February 17th high.



GBP

GBP traded mixed initially supported by the BOE's decision to hold interest rates and asset purchases unchanged. There had been some concern that the BOE would elect to expand its asset purchases plan at today's policy meeting. An expansion of BOE's QE would send GBP sharply lower. The BOE left the door open for future expansion of quantitative ease if needed. UK February Halifax house price index declined by 1.5%. The decline in the Halifax price index generates concern that the UK housing market recovery may have stalled. Concern about the UK budget deficit and uncertainty about the UK election continues. The conservative party has pledged to take early action to reduce the UK budget deficit. The Labor Party warns that if spending is cut it would increase the risk of a double dip recession in the UK. GBP traded sharply lower Tuesday pressured by the latest UK election polls which suggest that the UK may be faced with a hung parliament and may have its first minority government since 1974. A hung parliament may prevent the UK from taking credible action 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 or downgrade. GBP may find modest short-term support from the BOE steady policy decision but GBP remains vulnerable to concern about UK debt outlook in uncertainty about the UK economy.

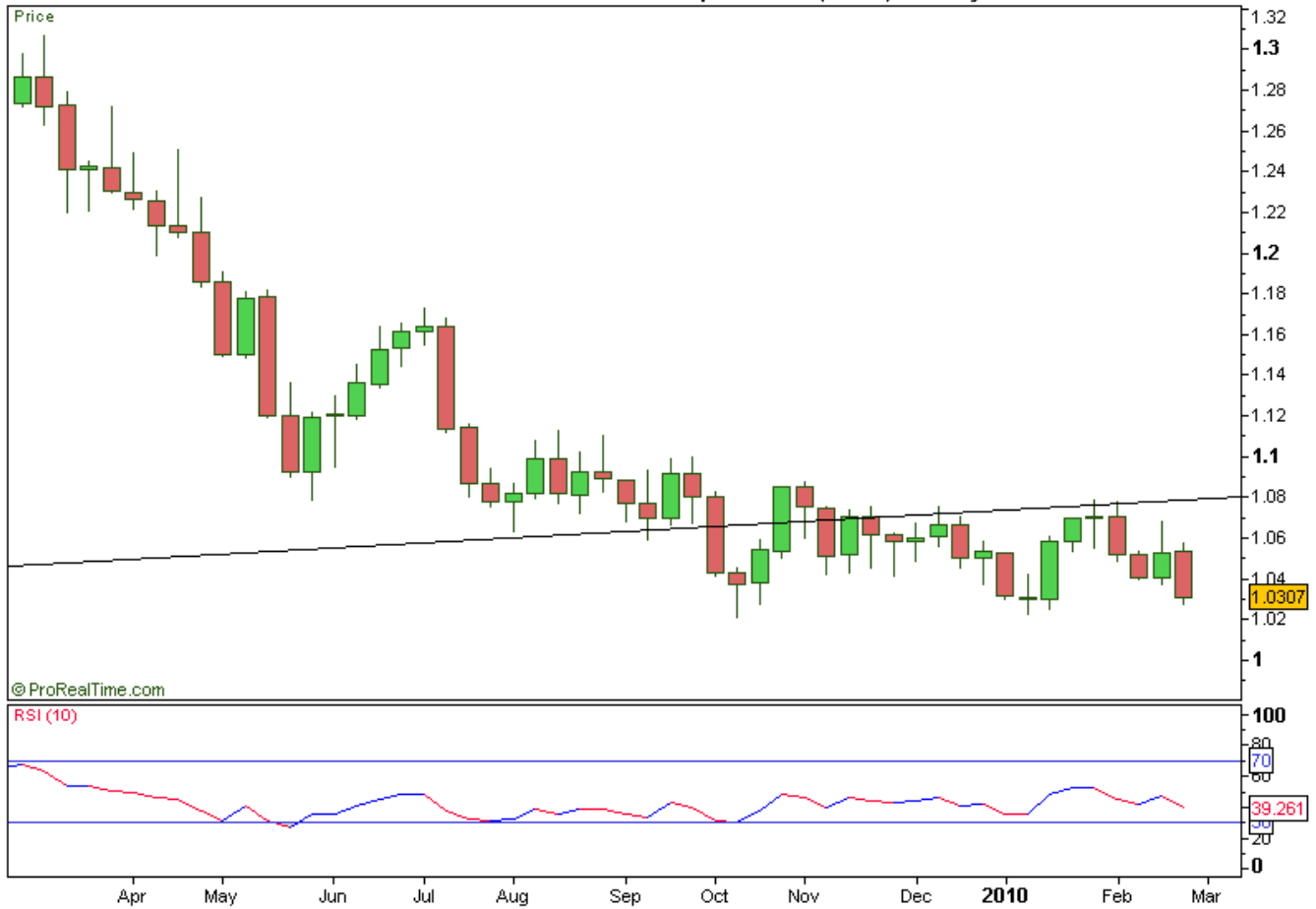
The technical outlook for GBP is mixed as GBP trades back above 1.5000. Expect near-term support at 1.4854 the March 2nd low with resistance at 1.5205 March 2nd high.



CAD

CAD edged higher supported by widening of Canadian and US interest rate swaps and positive US jobless claims and productivity data. Canadian interest rate swaps widened to a two year high versus US Wednesday .The widening of the swap spread reflects increased speculation that the BOC will hike interest rates before the Fed. BOC rate hike speculation is fueled by last week's report of stronger than expected Canadian Q4 GDP and Tuesday's BOC policy statement which downgraded the risk of deflation in Canada. Fed official's state US rates will remain low for an extended period and the Fed maintained the "extend period" language in its February policy statement. CAD rally was limited by report that Canada's January building permits posted an unexpected 4.9% decline, a 1% rise was expected. The impact of the building permits report was partly offset by a 4.1% surge in residential building permits. February Ivey Manufacturing PMI came in at 51.9, a reading of 57 was expected.

The technical outlook for CAD is positive as USD/CAD trades below 1.0500. Look for near-term support at 1.0249 the January 19th low with resistance at 1.0443 the March 2nd high.



AUD

AUD traded lower pressured by report of widening of the Australian trade deficit and in reaction to weaker Asian equity market trade. Australia's January trade deficit widened to 1.176bln, a 1.5bln deficit was expected. Exports rose by just 1% and imports declined by 3%. The trade balance report generates concern about the strength of the Australian recovery with a decline in imports suggesting slower domestic demand. RBA policy uncertainty may also be contributing to weaker AUD trade. Tuesday the RBA hiked interest rates 25bps to 4%. In the statement accompanying the RBA rate hike the RBA appeared to have a balanced outlook towards inflation, growth and future policy decisions. This has sparked speculation that the RBA may pause its rate hike cycle in April. RBA watcher McCrann said that the RBA is likely to pause its rate hike cycle in April. McCrann however still expects the RBA to hike rates to 5% by year end. AUD price direction will focus on risk sentiment in the direction of equity markets.

The technical outlook for the AUD is positive as the AUD trades above 9000. Expect AUD support at 8935 the March 1st low with resistance at 9093 the January 25th high.



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