

## USD & JPY lower, nfp falls less than expected, stocks rise

- **USD:** Mixed, US February unemployment beats expectations, stocks rise
- **JPY:** Lower, BOJ ease speculation, improving risk sentiment, Japans Libor rate falls below the US
- **EUR:** Higher, Deutsche Bank downgraded, ECB extends some liquidity operations
- **GBP:** Higher, PPI at 14 month high
- **CAD and AUD:** AUD & CAD higher, tracking improving risk sentiment, Canada to freeze spending

### Overview

US February nonfarm payrolls came in better than expected falling by 36k with the unemployment rate unchanged at 9.7%. The USD extended early gains versus the JPY, firmed versus European currencies and the commodity currencies traded higher after the release of today's US February unemployment report. January nonfarm payrolls were revised to -26k from -20k in December and December nonfarm payrolls were revised to -109k from -150k. Temporary employment rose by 48k, jobs were created in healthcare services and government, construction and financial services continued to shed jobs in February. The long-term unemployed, those unemployed for 27 weeks or more was unchanged at 6.1mln. Wages rose 0.2% and the average workweek declined to 33.1 hours. The February unemployment report was expected to be worse because of the impact of snowstorms in February. It is unclear what the impact of the February snowstorms had on today's report. Some analysts argue that if it were not for the bad weather in February US nonfarm payrolls report would have been positive. We may see a significant gain in nonfarm payrolls in the March report due to adjustments for the impact of snowstorms. The divergence in today's Forex price action may reflect interest rate outlook with the JPY pressured by BOJ ease speculation and USD supported by speculation that today's better than expected jobs report may bring the timeframe closer for a Fed rate hike. The better than expected jobs report contributes to improving risk sentiment and revives optimism about the global recovery fueling demand for commodity currencies. US traded lower and European currencies turned higher for the day as stocks rise in reaction to today's unemployment report.

USD traded mixed ahead of today's release of US figure unemployment with the JPY trading lower in reaction to speculation the BOJ may be considering additional monetary policy ease. Uncertainty about the outlook for Greek debt limits demand for the EUR. German press reports that Germany has no plans to financially aid Greece and Thursday ECB President discouraged Greece from seeking IMF aid. It is not clear if the Greek austerity measures will be enough to reduce concern about contagion risk in the EU. GBP traded mixed and declined to 10 month low versus the EUR despite report that UK PPI rose to a 14 month high. GBP remains vulnerable to concern about UK debt outlook. Commodity currencies traded higher supported by improving risk sentiment as global equity markets rally. In addition, the Canadian government announced a five-year plan to reduce its budget deficit.

#### Today's US data:

February unemployment was unchanged at 9.7%, a rating of 9.8% was expected. Nonfarm payrolls dropped by 36k, a decline of 50k was expected.

#### Upcoming US data:

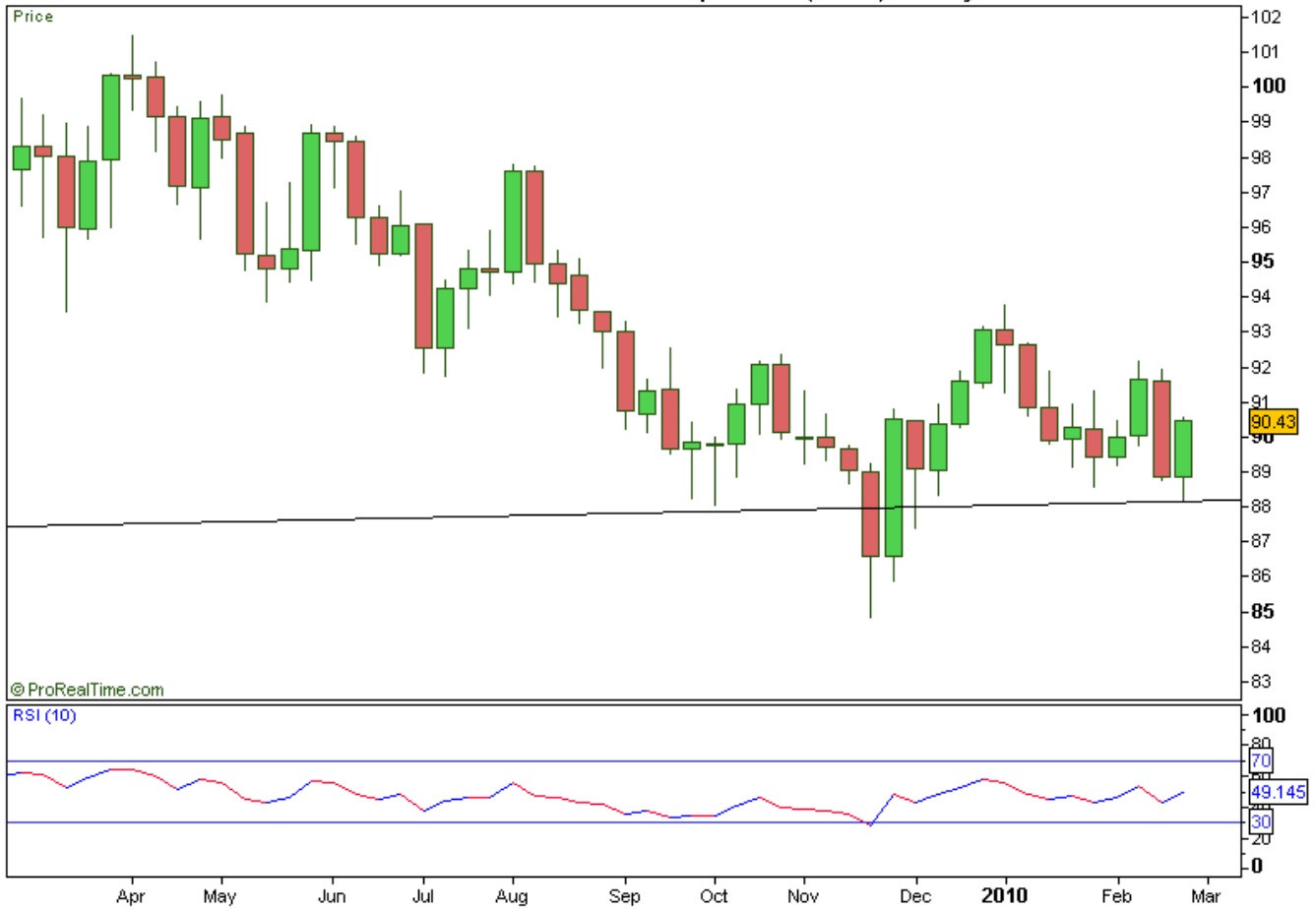
Next week's US economic calendar includes the March 10th release of January wholesale inventories and sales. Wholesale inventories are expected to rise by 0.3% compared to a 0.8% decline last month. Wholesale sales are expected unchanged at 0.8%. The February Treasury budget will also be released on March 10th expected at -200bln compared to -193.9bln last month. On March 11th initial jobless claims for week ending 03/06 will be released expected at 460k compared to 469k last week. January trade deficit also will be released on March 11th expected at -40.3bln compared to -40.2bln last month. On March 12th February retail sales and March University of Michigan consumer sentiment will be released along with January business inventories. Retail sales are expected flat compared to 0.5% rise last month. Michigan consumer sentiment is expected 73.5 compared to 73.6 last month and business inventories are expected to rise by 0.2% compared to 0.2% decline last month.

## **JPY**

JPY traded sharply lower in reaction to a report in Japanese press that the BOJ is considering additional monetary policy ease and liquidity operations. BOJ ease speculation sparked a 2% rally in the Nikkei. JPY was also pressured by the improvement in risk sentiment as the Nikkei rallied. BOJ ease speculation contributes to a steepening of the Japanese yield curve. JPY Libor rates dropped below US rates for the first time since August. The narrowing of the JPY/USD yield differential makes the US less attractive as a funding currency. Yen Libor rates are at 2.51% and US at 2.52%. Japan's Finance Minister Kan says recent strength of JPY is attributed to gains versus the EUR sparked by Greek debt worries and that the BOJ is considering further measures to combat deflation. EUR/JPY cross traded 1% higher Friday. JPY was also pressured by diminished Yuan revaluation speculation as China's PM Wen says that China will not bow to pressure to devalue the Yuan. JPY traded to new lows for the day pressured by reported better than expected US nfp. US yields rose in reaction to the nfp report. Focus turns to next week's release of Japan's 1 GDP.

Next week's Japanese economic calendar includes the March 8th release of January current account expected at ¥0.84trln compared to ¥0.90trln last month. February money supply will also be released on March 8th expected unchanged at 0.2%. On March 9th January leading indicators will be released expected at 3.7% compared to 3.6% last month. On March 10th February CGPI will be released expected to rise by 0.1% compared to 0.3% last month. January machinery orders will be released expected at -5.2% compared to 20.1% last month along with Q4 preliminary GDP expected at 1.1%. On March 12th January revised industrial output will be released expected at 2.5% compared to 1.9% last month.

Key technical levels to watch in USD/JPY include support at 89.15 March 5th low with resistance at 90.55.



## EUR

EUR initially traded lower pressured by report of better than expected US February unemployment, ongoing concerns about sovereign debt risk in Greece and steady ECB policy. German press reports that Germany has no plans to aid Greece. ECB President Trichet discouraged Greece from seeking IMF aid. Tensions between Greece and the EU have yet to fully subside despite the announcement of a new Greek austerity plan and positive reception to this week's Greek ten-year bond auction. Moody's downgraded Deutsche Bank citing continuing fiscal concerns in the EU. The Deutsche Bank downgrade adds to selling pressure of the EUR. Thursday the ECB elected to hold monetary policy steady as expected and announced that it was extending some liquidity measures. This extension of liquidity measures coupled with today's better than expected US employment report fuels speculation that US interest may rise sooner than the ECB. There is speculation that EU sovereign debt risks will constrain ECB monetary policy and delay the ECB exit plans. The ECB will return to a variable rate in its three month auctions next month. The ECB will extend its seven day auctions offering unlimited funds until October. EUR was pressured by the ECB decision to extend the seven day auction for this long a period. The trade ignored report that German January manufacturing orders rose by 4.3%. EUR turned higher midsession as stocks extend early gains. EUR remains vulnerable to concern about EU sovereign debt risk and ECB policy outlook.

Next week's EU economic calendar includes the March 8th release of the March EU Sentix index along with German industrial production. The Sentix index is expected at -7.8 compared to -8.2 last month. January industrial production is expected at -2.8% compared to -2.6% last month. On March 10th EU CPI and current account balance will be released. On March 12th EU January industrial production will be released expected at -1.5% compared to -1.7% last month.

The technical outlook for the EUR is negative. Expect EUR support at 1.3435 the March 2nd low with resistance at 1.3712 the March 4th high.



**GBP**

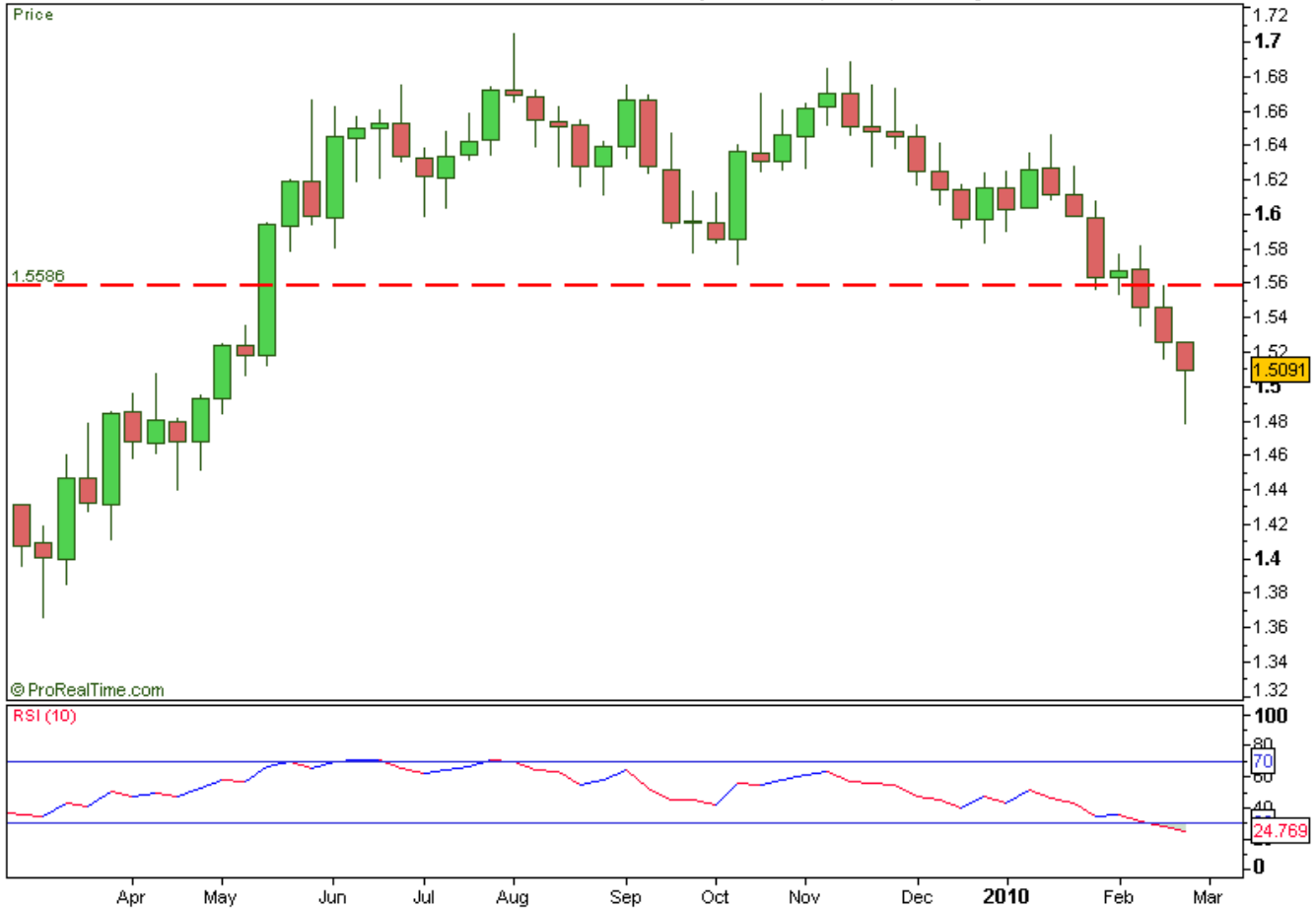
GBP traded mixed to higher supported by report that UK PPI rose to a 14 month high and in reaction to stronger equities. GBP gains were limited by concern about UK debt outlook and report of better than expected US February unemployment. UK February PPI rose by 4.1% y/y. Despite the rise in UK PPI the report is unlikely to alter the outlook for steady BOE policy or reduce the odds of the BOE expanding quantitative ease because the BOE expects inflation pressures to weaken in the months ahead. Thursday the BOE elected to hold monetary policy steady and left the level of asset purchases unchanged. The BOE left the door open for expansion of quantitative ease if needed. Concern about the UK budget deficit and uncertainty about the UK election continues. The latest UK election polls show that the Conservatives will fall 11 seats short of a majority. 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 and uncertainty about the UK economy.

Next week's UK economic calendar includes the March 9th release of the January trade balance expected at -7.4bln compared to -7.2bln last month along with February retail sales expected at -0.5% compared to -1.8% last month. On March 10th January industrial production will be released and NIESR GDP estimate. The January industrial production is expected at 0.3% compared 0.5% last month. NIESR GDP estimate is expected at 0.3%.

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.

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GBPUSD - GBP/USD Spot 1.5091 (+0.40%) Weekly 15:58



### CAD

CAD traded higher supported by improving risk sentiment as equity markets rally in reaction to report of better than expected US February unemployment and in reaction to Thursday's announcement that Canada plans to put a freeze on spending. Thursday Canada's PM Harper announced a five-year plan to cut spending to bring the Canadian budget back in balance by 2016. CAD is also supported by higher energy prices and shift in BOC policy statement. Crude prices are nearing \$82 a barrel. CAD traded higher supported by widening of Canadian and US interest rate swaps. 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.

Next week's Canadian economic calendar includes the March 8th release of February housing starts expected at 188.8k compared to 186.3k last month. On March 11th Q4 capacity use and January trade balance. Capacity use is expected at 67.9 compared to 67.5 last quarter. The trade balance is expected at 0.50bln compared to -0.25bln last month. On March 12th February unemployment will be released expected unchanged at 8.3% with employment growth expected at 30k compared to 43k last month.

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 higher Friday supported by improving risk sentiment sparked by BOJ ease speculation and report of better of better than expected US February unemployment. AUD/JPY cross traded almost 2% higher in reaction to a sharp rally in Asian equity markets and report that the BOJ may ease monetary policy. AUD has been reluctant to rally this week despite Tuesday's RBA rate hike. This reluctance may partly reflect rumors China may be considering another hike on its reserve ratio and possible new tax on property. In Friday's trade focus has shifted back to risk sentiment and re-flation as equity markets rally and if not for bad weather the US may have seen its nonfarm payrolls turn positive last month. 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 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.

Next weeks Australian economic calendar includes the March 8th release of ANZ February jobs ads expected at 1% compared to -8.1% last month. On March 10th January housing finance will be released expected at 2.5% compared to -5.5% last month. On March 11th February unemployment will be released expected at 5.2% compared to 5.3% last month with the participation rate unchanged at 65.3

The technical outlook for the AUD is positive as the AUD trades above 9000. Expect AUD support at 8992 the March 5th low with resistance at 9093 the January 25th high.



**By Michael J. Malpede**

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