

USD mixed as stocks weaken

- **USD:** Mixed, better than expected nfp, consumer credit rises, specs on the IMM halve USD long positions
- **JPY:** Lower, Nikkei rallies 2.9%, BOJ ease speculation
- **EUR:** Lower, Sarkozy says EU will help Greece, investor sentiment improves
- **GBP:** Mixed, BOE policy and UK election uncertainty
- **CHF:** Higher, Swiss unemployment rate improves, retail sales strong
- **CAD and AUD:** AUD & CAD higher, tracking improving risk sentiment, Canadian housing starts rise 6.1%

Overview

USD starts the week mixed to lower pressured by a modest improvement in risk sentiment. The improvement in risk sentiment is attributed to Friday's release of better than expected US unemployment and stronger consumer credit, a statement from French President Sarkozy that the EU is ready to help Greece and in reaction to a Financial Times report which suggests that China is ready to shift its currency policy and break its USD peg. US January consumer credit rose for the first time in over a year and posted its largest increase since July 2008. The Nikkei surged 2.9% adding to the improvement in risk sentiment but European equities and US equities struggled which limited the downside for the USD. European economic data was generally positive with EU investor sentiment improving and Swiss unemployment and retail sales coming in better than expected. There was no major UK economic released today and GBP consolidated recent gains. Commodity currencies traded higher supported by the improvement in risk sentiment with the AUD trading at a six-month high. AUD was also supported by M&A news that Royal Dutch Shell and Petro China are bidding for Australia's Arrow Energy. CAD traded higher in reaction strong Canadian housing starts report and BOC rate hike speculation. There was limited reaction to an NABE report which says that business economists see a Fed rate hike within the next six months. CFTC commitment of traders for the IMM shows that speculators cut USD speculative long positions in half last week. The CFTC report suggests that speculative sentiment towards the USD is turning less positive. There were no major US economic reports released in today's trade. Focus turns to this week's release of US jobless claims retail sales and consumer sentiment.

Today's US data:

No major US economic data was released in today's trade.

Upcoming US data:

This 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 Michigan University of Michigan consumer sentiment will be released along with January business inventories. Retail sales expected flat compared to 0.5% rise last month. Michigan consumer sentiment is expected at 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 mixed to lower pressured by BOJ ease speculation and an improvement in risk sentiment as the Nikkei rallies 2.9%. Last week Japanese press reported that the BOJ is considering easing monetary policy to combat deflationary pressures and boost the Japanese domestic economy. The Nikkei rallied to its highest level since January 26th supported by BOJ ease speculation and in reaction to better than expected US employment data. JPY was also pressured by demand for the EUR/JPY cross with the EUR supported by report that the French PM said that the EU will rescue Greece if necessary. JPY downside was limited by a Financial Times report which says that China is considering breaking its USD peg and shifting currency policy in response to the global financial crisis. If China allows the Yuan to be revalued the stronger Yuan could boost demand for Asian currencies. JPY sometimes trades as a proxy for the Yuan. Japanese economic data was mixed with the current account surplus for January widening to ¥899.8bln in February M2 reported to have risen by 2.7%. JPY remains vulnerable to improving risk sentiment and BOJ ease speculation. Focus turns to this week's release of Japan's Q4 GDP. The GDP report will be important to the outlook for BOJ policy. A stronger GDP report may dampen BOJ ease speculation.

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 the March 5th low with resistance at 91.00.



EUR

EUR traded higher supported by easing fears over Greece as French President Zarkozy says that the EU is prepared to help Greece if necessary and former Fed Chairman Volcker says that he expects the EUR to survive the Greek budget crisis. Zarkozy made his statement after meeting with the Greek prime minister on Friday. EUR was also supported by report of improving investor sentiment. EU March Sentix improved to -7.5 from 8.2 last month. The Sentix index was expected at -8.8. Sentiment towards the EUR has turned mixed as investors aren't sure if the passing of the Greek budget crisis is temporary or if the investment community is going to look beyond sovereign debt risks and Europe and trade on improving risk sentiment. Despite today's report of improvement in EU investor sentiment the ECB is expected to remain on hold and maintain a dovish policy bias. There is speculation that EU sovereign debt risks will constrain ECB monetary policy and delay the ECB exit plans. EUR remains vulnerable to concern about EU sovereign debt risk and speculation the Fed may hike rates before the ECB. Speculation of an earlier Fed rate hike is fueled by last Friday's release of better than expected US employment report and today's NABE report which says that economists expect the Fed to hike rates within the next six months. Focus turns to this week's release of EU CPI. The ECB is expected to remain on hold because of continued subdued EU inflation and uncertain outlook for EU sovereign debt risk.

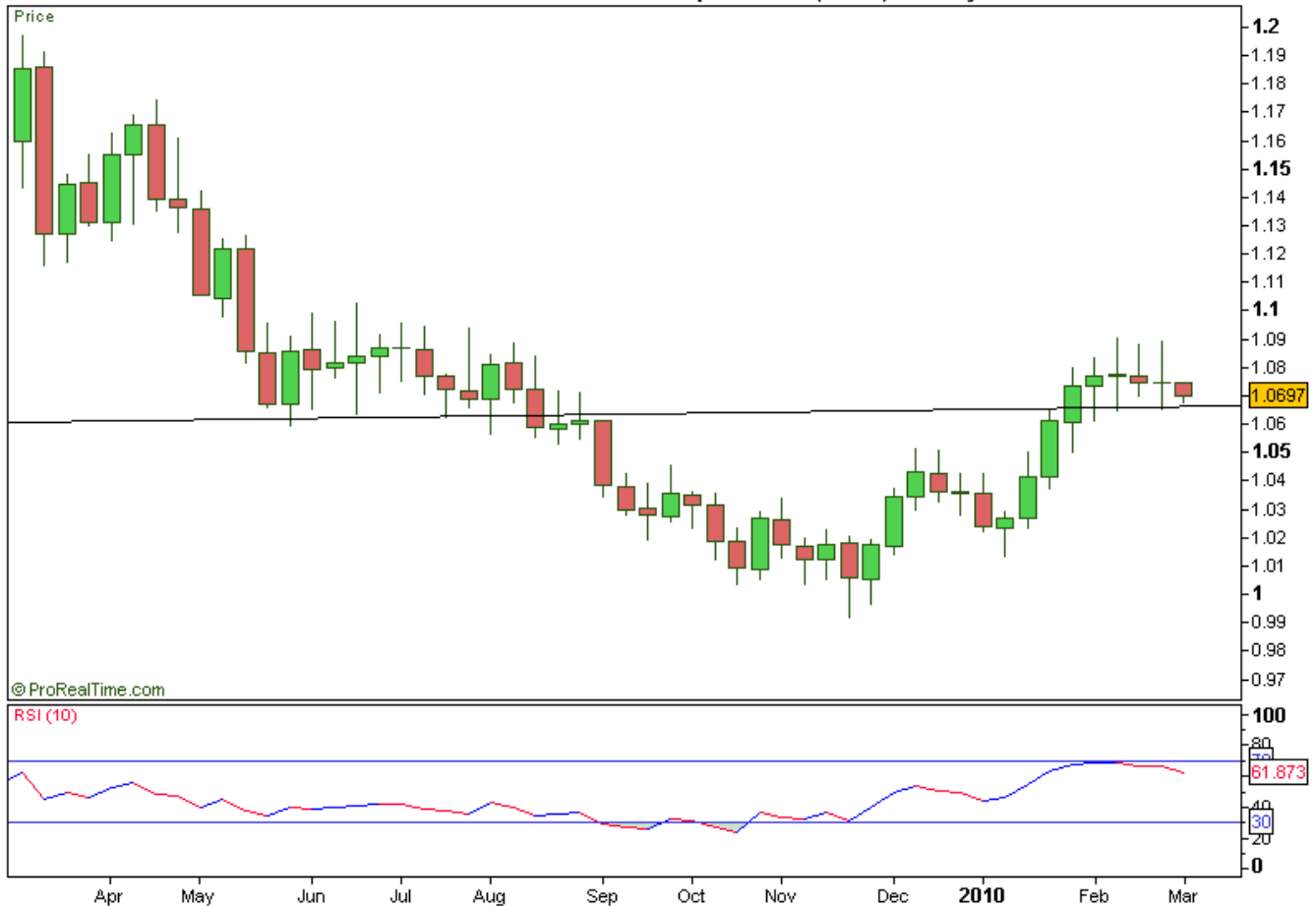
On March 10th EU CPI and current account balance will be released. On March 12th EU January industrial production will be released expected at -1.5% compared to -1.7% last month.

The technical outlook for the EUR is negative. Expect EUR support at 1.3530 the March 5th low with resistance at 1.3712 the March 4th high.



CHF

CHF traded higher supported by report of strong Swiss economic data and an improving risk sentiment as Asian equity markets rally in reaction to better than expected US employment data and easing concern about the Greek fiscal crisis. Swiss February unemployment improved to 4.4% from 4.5% last month and January retail sales rose by 4.4%. The SNB will hold a policy meeting Thursday and are expected to hold monetary policy steady but there could be increased discussion of an exit strategy by the SNB in light of improving Swiss economic outlook and diminishing fears about EU sovereign debt risks. Focus turns to Tuesday's release of February CPI expected unchanged at 1% and SNB policy meeting. SNB officials will be monitoring closely the CPI figure to gauge the impact of recent CHF price action on inflation. Thursday the SNB is expected to hold its target rate unchanged at 0.25%. EUR/CHF cross continues to trade in narrow range holding above the March intervention lows with the cross supported by threat of SNB intervention. Expect USD/CHF support at 1.0648 the March 3rd low with resistance at 1.0810 the March 5th high.



GBP

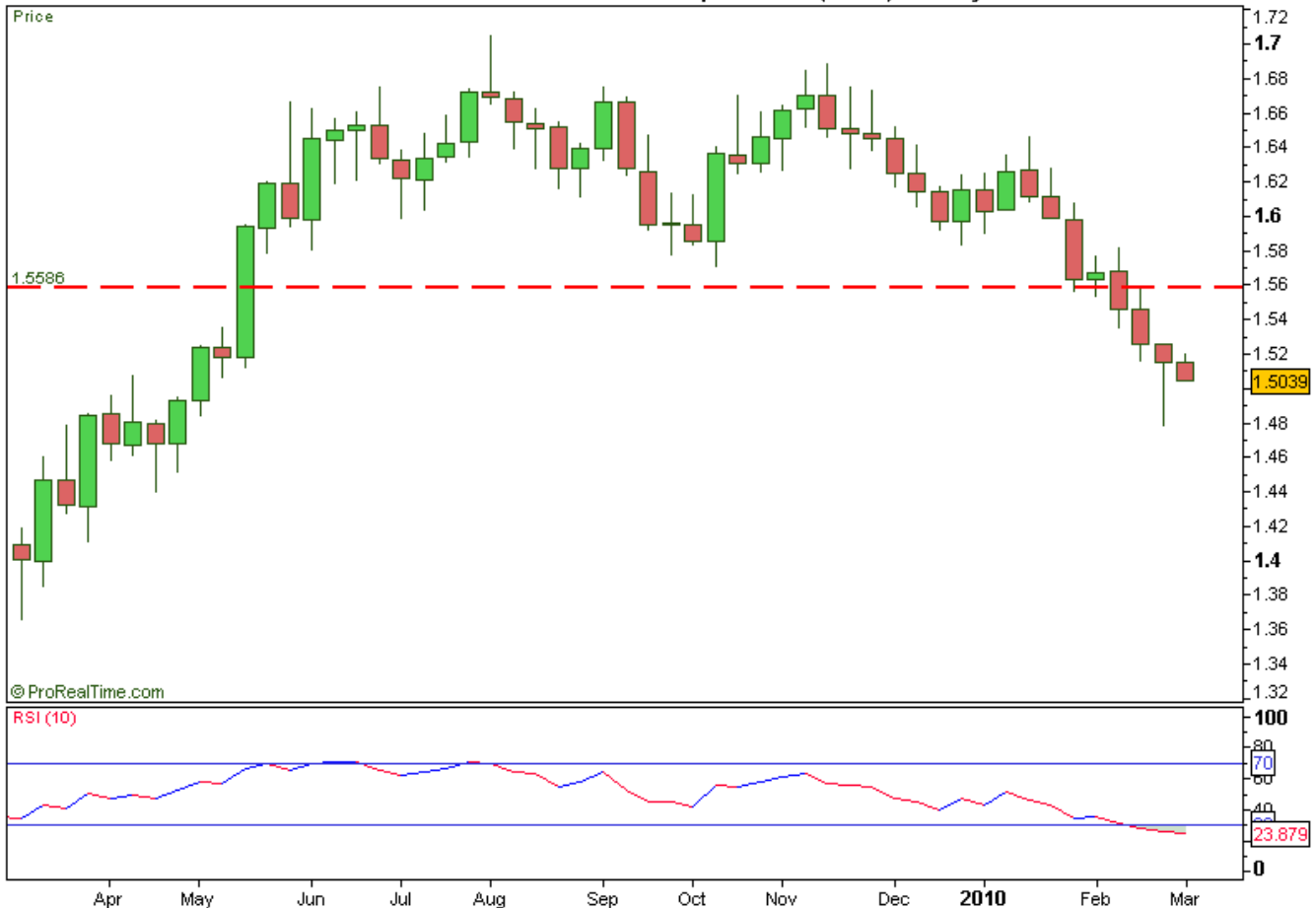
GBP traded sideways after rebounding from a 10 month low set versus the USD last week. GBP has experienced a short covering rally sparked by the BOE's decision to hold monetary policy unchanged and maintain the current level of asset purchases and in reaction to Friday's report of a sharp rise in UK PPI. UK February PPI rose to a 14 month high at 4.1% y/y. In addition last week the UK reported that consumer confidence rose to two year high. The rise in the consumer confidence contrasts with report of weaker mortgage approvals and lending. UK economic data paints a mixed picture for the UK recovery and generates concern about the strength of the UK economy. Concern about the strength of the UK recovery and uncertainty about upcoming UK elections should limit the GBP rally. UK elections are expected to be held on May 6th. The UK election polls suggest that neither the Conservative or Labor party will win a significant majority in parliament and this could lead to a hung parliament. The latest ICM opinion poll shows that the Tories will fall six seats short of an overall majority in parliament. A hung parliament may reduce the chance of the new UK government taking action to reduce the UK budget 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. Focus turns to this week's release of UK retail sales and industrial production.

This week's UK economic calendar includes the March 9th release of the January trade balance expected at -7.4bn compared to -7.2bn 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 1.4960 the March 3rd low with resistance at 1.5205 March 2nd high.

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GBPUSD - GBP/USD Spot 1.5039 (-0.70%) Weekly 16:17



CAD

CAD traded higher supported by strong housing data and firmer or equity market trade. Canada's February housing starts came in much higher than expected reported at 196.7k, the trade had expected a reading of 189.5k. The 6.1% rise in its Canadian housing starts supported the CAD along with rising commodity prices and improving risk sentiment. Crude prices traded above \$82 a barrel and the CRB rallied in reaction to stronger global equity market trade. CAD has been outperforming supported by last week's decision by the BOC to maintain steady monetary policy and signal a shift in its policy bias. In the BOC policy statement the BOC dropped reference to inflation risks being to the downside. This has encouraged speculation that the BOC may hike interest rates sooner than the Fed and that the BOC rate hike could come as early as August. Canadian interest rate swaps widened to a two year high versus US last Wednesday. The widening of the swap spread reflects increased speculation that the BOC will hike interest rates before the Fed. Today's Canadian housing data follows last week's strong Canadian GDP report and adds to BOC rate hike speculation. Canada's Q4 GDP rose at its fastest pace in nine years. The BOC has confirmed that it plans to maintain steady rate policy through June 2010 but the odds of the BOC rate hike before year end are rising. CAD also is benefiting from improving fiscal outlook in Canada. Last week Canada announced its fiscal budget and Canada's PM Harper pledged to bring the Canadian budget back in balance by 2016. Canada's fiscal outlook stands in stark contrast to the US, Japan and Europe. This week's main focus will be Friday's release of Canada's unemployment rate for February. Consensus is that Canada's jobs creation slowed in February. A weaker than expected Canadian unemployment report may take some of the steam out of BOC rate hike speculation. As the CAD approaches parity it may

increase the risk of verbal intervention from the BOC and Canadian officials. The BOC noted in its policy statement concern about the potential drag for the Canadian economy from strong CAD.

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 -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 1.0225 the January 14th low with resistance at 1.0368 the March 3rd and high.



AUD

AUD traded at a six-week high versus the USD supported by improving risk sentiment as Asian equities rally and the NASDAQ trades at an 18 month high. The improvement in global equity markets is attributed to last Friday's release of better than expected US employment, diminishing concern about the Greek fiscal crisis, and BOJ ease speculation. AUD/JPY has rallied over 3% over the last two trading sessions. AUD was also supported by M&A news with report that Royal Dutch Shell and Petro China are bidding for Australia's Arrow Energy. The deal is estimated to be worth \$3bln. A report that China may be considering breaking its USD peg adds support to the AUD. If China breaks its peg to the USD it may help to reduce global trade imbalances and boost the global recovery outlook. Last 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. Last week Australia reported strong manufacturing data and improving domestic growth. Focus turns to this week's release of Australia's February unemployment. A strong employment report would add fuel to RBA rate hike speculation. AUD price direction will focus on risk sentiment and the direction of equity markets.

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 9100. Expect AUD support at 8985 the March 5th low with resistance at 9200.



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.

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