

USD higher, EUR and GBP pressured by credit warnings

- **USD:** Higher, risk aversion re-emerges on European debt worries
- **JPY:** Higher, supported by a return of risk aversion, leading index rose more than expected
- **EUR:** Lower, concern about Greek debt troubles, ECB's Stark says debt places strains on monetary policy
- **GBP:** Lower, Moody's and Fitch warnings on banks and debt, weak housing data, trade deficit widened
- **CAD and AUD:** AUD & CAD higher, Australia's job ads strong, tracking equities, gains versus Europe

Overview

USD traded higher Tuesday supported by a return of risk aversion sparked by the re-emergence of concern about European and UK debt. Fresh worries over European debt were triggered by statements from Moody's and Fitch ratings agencies. The EUR traded lower ahead of today's meeting with Greek Prime Minister Papandreou and President Obama. Bloomberg reports that this meeting is unlikely to produce any significant offer of US aid for Greece. Papandreou says that Greece needs EU and US help to prevent speculative selling of Greek bonds and that borrowing at high rates will not be sustainable. GBP was pressured by a Moody's warning that it may cut UK bank ratings as bailout support is withdrawn and in reaction to Fitch concern about UK deficit. GBP was also pressured by disappointing UK housing and trade data and election polls which suggest that the UK is headed for a hung parliament. Commodity currencies continued to outperform despite a sharp decline in the price of crude and a spike in risk aversion as equity markets traded lower. AUD downside was limited by strong jobs ads report and a rebound in US equities. JPY traded higher supported by today's return of risk aversion. There were no major US economic reports released in today's trade. The NFIB small business optimism index lost 1.3 points in February and Manpower says that hiring plans are in a holding pattern as a net 5% of employers said they expect to hire new workers in Q2. 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 March 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 higher supported by a spike in risk aversion sparked by fresh concerns over European debt problems. Moody's warned that it may cut UK bank ratings as bailout support is withdrawn and Fitch expressed concern

about the UK deficit. The Greek PM said that borrowing at high rates was not sustainable and that Greece needs help from the EU and the US to rein in speculative attacks on the Greek bond market. Equity markets traded lower in reaction to European debt risk. JPY posted sharp gains in cross trade to the EUR and GBP in reaction concern that European debt ratings may be cut. JPY was also supported by report that the January leading index rose by 2.4% and by Yuan revaluation speculation. The IMF says that the Yuan may have to be revalued in the coming months as China adapts to the changing global economic outlook. JPY sometimes trades as a proxy for the Yuan and Yuan revaluation would likely boost demand for Asian currencies. Risk sentiment and the direction of equities is key to the outlook for the JPY. Investors will also be closely monitoring BOJ policy outlook. There is increased speculation that the BOJ may soon ease monetary policy to combat deflationary pressures in Japan. Focus turns to Wednesday's release of Japan's corporate goods prices Thursday's release of Japan's Q4GDP. The corporate goods prices report will be a key indicator of deflationary pressures in Japan. The GDP report will be important to the outlook for BOJ policy. A stronger GDP report may dampen BOJ ease speculation.

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 on March 11th 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 90.69 the March 8th high.



EUR

EUR traded lower ahead of today's Greek-US meeting pressured by fresh concern about European debt outlook. Greek officials seek US support of Greek austerity measures. The Moody's and Fitch ratings agencies issued new warnings about possible downgrades of the UK debt rating and this sparked selling of equities and the European currencies. EUR outperformed gaining versus the GDP but uncertainty about the outcome of today's meeting between the Greek prime minister and president Obama revived concern about the Greek debt outlook. The US is not expected to offer much in the way of substantial aid to Greece. Greek officials want the EU and US to help prevent speculative selling of Greek bonds because the selling of Greek bonds substantially raises the cost of Greek funding of its deficit. EUR was also pressured by statements from the ECB's Stark and Weber. Stark warned of the risk of global stagflation and that high levels of public debt will place additional strains on monetary policy. Stark's comments suggest that the European debt crisis may delay the implementation of ECB exit strategies. Weber says that he sees a weak EU recovery. Weber's comments fuel investor fears that the sovereign debt crisis in peripheral European nations would be a drag on the EU economy. EUR remains vulnerable to concern about EU sovereign debt risk and ECB policy. 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 and 1.3433 the March 2nd low with resistance at 1.3712 the March 4th high.



GBP

GBP traded lower pressured by fresh concern about the UK debt outlook and sovereign debt rating and in reaction to disappointing housing and trade data. Moody's said that it may cut UK banks ratings as bailout support is withdrawn and Fitch said that the UK must accelerate cutting its budget deficit or face a sovereign debt downgrade. UK February RICS house price balance came in at 17 compared to 31 in January, a reading of 30 was expected. This marks the lowest UK house price balance since August of 2009. RICS's house balance report suggests that the recovery in the UK housing market has slowed. GBP was also pressured by report of a widening of the UK trade deficit. The UK trade deficit widened to 7.9bn from 7.01bn last month. UK trade deficit is at its highest level since August 2008. These reports overshadowed report that February BRC retail sales rose by 2.2%. GBP was also pressured by the latest UK election polls which show that the Conservatives and Labor party are running neck and neck. 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. This could lead to a hung parliament. A hung parliament may reduce the chance of the new UK government taking fast 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. Concern about the strength of the UK recovery and uncertainty about upcoming UK elections should limit demand for GBP. Focus turns to Wednesday's release of UK industrial production.

On March 10th January industrial production and NIESR GDP estimate will be released. 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 negative as GBP trades back below 1.5000. Expect near-term support at 1.4854 the March 2nd low with resistance at 1.5197 the March 8th high.



CAD

CAD traded mixed initially pressured by weaker equity market trade, tumbling crude prices and a spike in risk aversion sparked by the re-emergence of concern about European debt. CAD downside was limited by gains versus Europe. CAD traded at seven week high versus the USD in Monday's trade supported by a report of a sharp rise in Canadian housing starts, firmer equity market trade and a rally in the CRB index led by stronger crude prices. Canada's February housing starts came in much higher than expected reported at 196.7k, the trade had expected a reading of 189.5k. 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. A 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. 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. 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 mixed to firm with initial selling pressure sparked by a spike in risk aversion offset by strong Australian domestic economic data. Today's AUD strength was impressive in light of weaker crude oil prices and rising risk aversion. Australia's February NAB business conditions index rose to +8 compared to +3 in January and the confidence index rose to +19 from +15 last month. February job ads rose by 19.1% this marked the highest level for Australian job ads in over a year. These reports suggest that Australia's domestic economy is picking up strength. Stronger domestic data will increase pressure on the RBA to hike interest rates next month. 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. This AUD downside is also limited by Yuan revaluation speculation. Monday Reuters reported that China may be considering breaking its USD peg and Tuesday the IMF says that the Yuan may have to be revalued coming months. If China breaks its peg to the USD it may help to reduce global trade imbalances and boost the global recovery outlook. One note of caution, Chinese officials said they are wary about the outlook for gold. AUD price direction has a high correlation to the direction of the price of gold and Chinese demand for gold has been one of the major factors supporting the rise in the price of gold. 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.



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