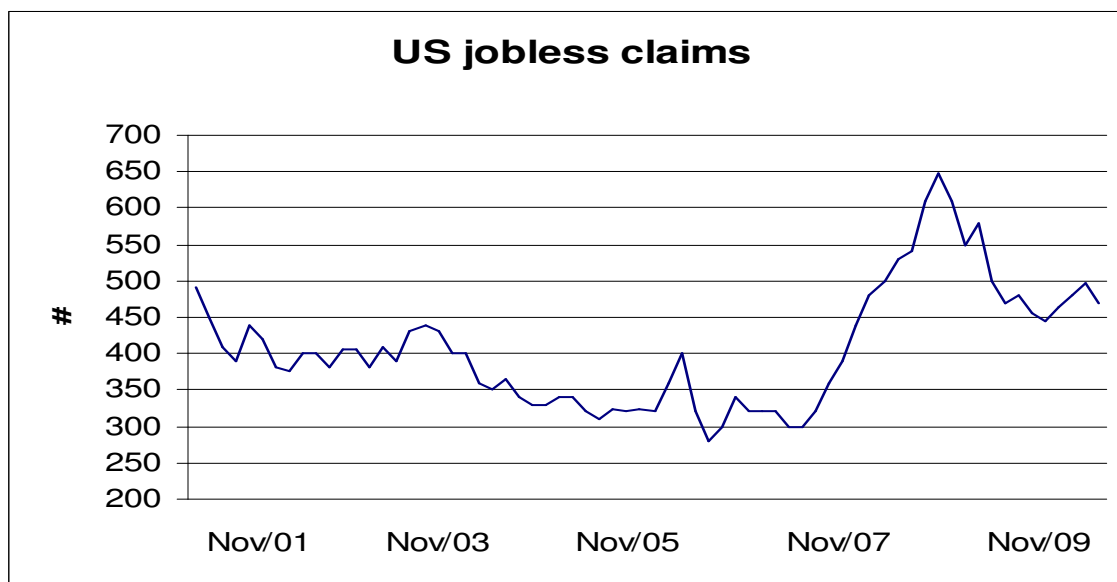


Preview of US jobless claims and retail sales

Jobless claims

The Fed's Evans ties US monetary policy outlook to the labor market. According to Evans, the Fed will need to keep monetary policy accommodative for quite some time because of the weak US labor market. Evan's specifically cited the length of unemployment as indicative of a weak labor market. He also appeared to leave the door open for possible future asset purchases by the Fed as a way of trying to boost growth and combat the magnitude of US unemployment. Thursday March 11th initial jobless claims for week ending 03/06 will be released expected at 460k compared to 469k last month. Jobless claims spiked to 498k at the beginning of February. The spike in jobless claims reflects the impact of two major February snowstorms that blanketed the US during the month of February. The impact of the snowstorms for the labor market appears to have passed with last week's jobless claims posting a sharp drop to 469k. Investors will be looking to see whether last week's improvement signals the resumption of a downtrend in jobless claims setting the stage for jobs growth to return in March. There is speculation that the Fed may be moving closer to a decision to raise interest rates. A growing divide on the Federal Reserve Board between the hawks and doves about the timing and need for potential rate hike maybe developing. Evans' comments suggest that a rate hike is off in the distant future and not a near term risk. Recent comments by the Fed's Lacker suggest that the Fed may have to raise rates even with unemployment elevated. Lacker says that risk of a relapse to recession has diminished quite substantially since several months ago and the Fed may need to raise rates when the recovery is firmly in place even if unemployment remains near 10%. Yesterday the New York Fed said it will expand the number of counterparties to drain cash when the time is right. The New York Fed is preparing for the withdrawal of monetary stimulus and a Fed rate hike although the timing of the rate hike remains uncertain. The jobless claims report is a key to the outlook for the US recovery and Fed policy. Improvement in the jobless claims report will increase optimism generated by last Friday's better than expected February unemployment report that US jobs growth lies ahead.



Retail sales

The Conference Board's Consumer Confidence index declined sharply in February to 46 from 56.5 in January. The present situation index dropped to 19.4 from 25.2 and the expectations index declined to 63.8 from 77.3 last month. The decline in the Conference Board Consumer Confidence index reflects consumer concern about the labor market. The Conference Board Consumer Confidence index decline contrasts with a relatively stable Michigan Consumer Sentiment index. The February Michigan Consumer Sentiment index was near unchanged at 73.6. The March Michigan Consumer Index will be released this Friday and is expected to come in near 73.6 level. If the Conference Board Consumer Confidence index reflects the true level of consumer sentiment it suggests that February retail sales will be weak. February retail sales are expected to fall by 0.2% compared to a 0.5% rise last month. Ex. autos, retail sales are expected to rise by 0.1% compared to 0.6% last month. February retail sales are also expected to be weak because the bad weather that hit the US during February likely discouraged shoppers. In addition, the February retail sales will be weak because of weaker auto sales. US auto sales declined to 10.4mln vehicles from 10.8mln in January. The decline in auto sales is expected to subtract 0.3% from the February retail sales. According to a Bloomberg survey of 56 economists the consensus is that February retail sales declined by 0.2% because of the bad weather in February. The decline in February retail sales may be partly limited by stronger February chain store sales. US Department store chain sales rose by 4.1% in February with companies like J.C. Penney, Target, Kohl's T.J. Maxx and Marshalls all experiencing increased sales during February despite the bad weather. The increase in February chain store sales may mean February retail sales could see a slightly better than expected reading than the current market consensus. This would be similar to what took place in last week's release of US nonfarm payrolls which despite the bad February weather posted a smaller decline than market expectations. Strong retail sales and consumer demand are needed for jobs growth and a self sustaining US recovery. A weak February retail sales report would increase concern about the strength of the US recovery.

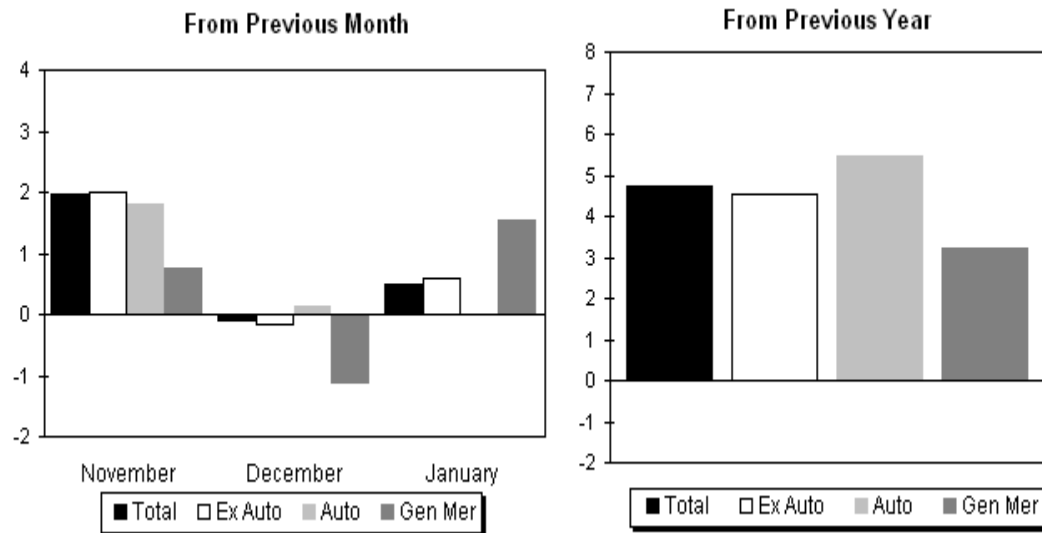


Figure 1 Percent change in US retail sales (Source US Census Bureau)

By Michael J. Malpede,

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