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Daily Forex Report

10 March 2010
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USD lower, JPY pressured by BOJ ease speculation

- **USD:** Lower, inventories drop more than expected, stocks rally
- **JPY:** Lower, BOJ ease speculation, weak machinery orders
- **EUR:** Higher, German exports drop sharply, industrial production rises in Italy and France
- **GBP:** Lower, industrial production posted an unexpected decline, concern about UK debt rating
- **CAD and AUD:** AUD & CAD higher, strong Chinese trade data, stocks and crude rally

Overview

USD traded in a narrow range gaining versus JPY and GBP, and drifting lower versus the EUR and commodity currencies. JPY was pressured by BOJ ease speculation. Reuters reports that the BOJ may ease monetary policy next week. GBP traded lower in reaction to report of an unexpected decline in UK industrial production. EUR erased early loses sparked by report of a sharp drop in German exports. EUR rebounded in reaction to report of stronger industrial production data from Italy and France and gains versus the JPY. The commodity currencies continue to outperform trading higher in reaction to strong trade data from China. China's exports rose 45.7% in February. The Chinese trade data generates optimism about the strength of the global recovery. Dovish comments from the Fed's Evans had limited impact on the trade. Evans said the weak labor market will make the Fed keep accommodative policy for some time. The Bloomberg Professional Global Confidence Index finds that optimism about the USD is an 18 month high as the US economy shows signs of recovery. According to the survey, investors expect the US economy to grow faster than Japan and Europe and the Fed is expected to hike rates before the ECB and BOJ. Growth and yield differentials are moving in favor of the USD. The Bloomberg survey also states that investors have turned negative the EUR because of fallout from the Greek debt crisis. Jeremy Siegel a finance professor at University of Pennsylvania Wharton school of business says the US recovery is certain but the EU may splinter. A fresh sign that the US economy is recovering is a report that US job openings are at an 11 month high. This report suggests that US employers may be ready to start hiring new workers. US economic data was mixed with wholesale sales coming in higher than expected and wholesale inventories lower than expected. USD traded to the days lows pressured by a surge in the price of crude sparked by report of lower crude inventories. Focus turns to Thursday's release of US jobless claims and retail sales and Friday's release of Michigan consumer sentiment.

Today's US data:
January wholesale inventories declined by 0.2%, a rise of 0.3% was expected and wholesale sales rose by 1.3%, a rise of 0.8% was expected.

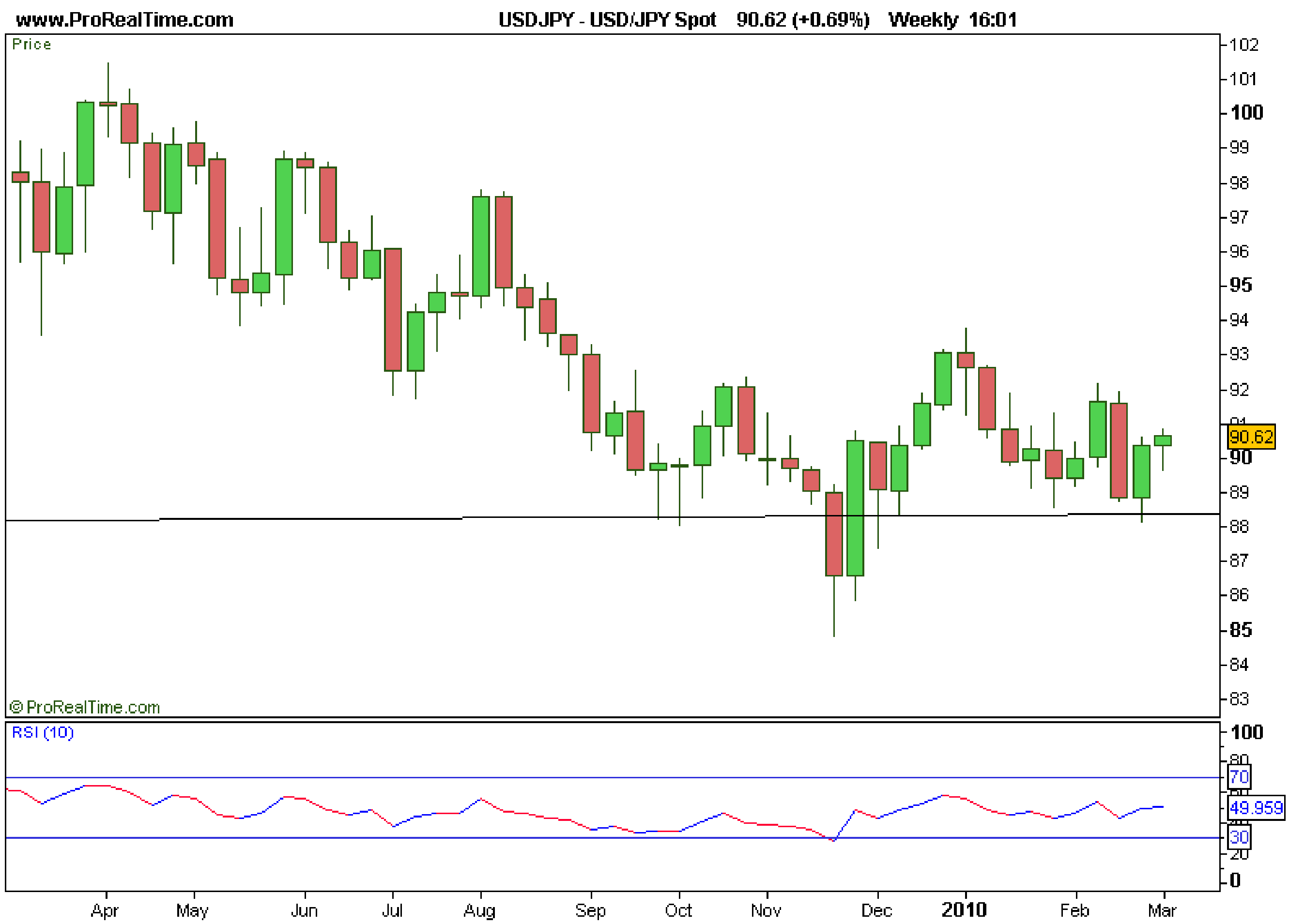
Upcoming US data:
On March 11th initial jobless claims for week ending 03/06 will released expected at 460k compared to 469k last week. January trade deficit also will be released on March 11th expected at -40.3bln compared to -40.2bln last month. On March 12th February retail sales and March University 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 lower pressured by BOJ ease speculation, report of a decline in core machinery orders and stable corporate goods prices. Reuters reports that the BOJ is leaning towards easing monetary policy next week. According to the Reuters report BOJ board members are divided about how to justify the ease. The BOJ is under intense pressure from the Japanese government to take action to combat deflation. The BOE policy board will meet on March 16th and 17th. Japan's January core machinery orders declined by 3.7%, this was slightly better than the market expectation of a 4.1% decline. The Japanese government raised its assessment of this sector. Recent improvement in Japanese economic data may make it more difficult for the BOJ to justify an ease next week but deflationary pressures continue with February domestic corporate goods prices reported at 0.1%. The annual rate of corporate goods prices fell by -1.5%. Risk sentiment and the direction of equities are 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 Thursday'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. JPY may benefit from repatriation flows ahead of Japan's fiscal year ended March 31st.

Q4 preliminary GDP will be released on March 11th 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 89.94 the March 10th low with resistance at 91.30 the February 23rd high.



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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 weaker than expected UK industrial production, concern about UK debt and uncertain outlook for the UK election. UK January industrial production was reported down 0.4%, a 0.3% rise was expected. The decline in the UK industrial production generates concern about the outlook for the UK recovery and may encourage speculation that the BOE will be forced to expand quantitative ease to boost growth. The weaker than expected industrial production report follows yesterday's report of weaker UK house prices and a

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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 1.5064 the March 9th high.

CAD

CAD traded mixed consolidating near a seven week high versus the USD. CAD was supported by a rebound in the price of crude and in reaction to report of strong trade data from China. CAD has been outperforming supported by stronger than expected Canadian economic data, rising crude prices and improving risk appetite. Candidate reported stronger than expected February housing starts and faster than expected Q4 GDP growth. Crude prices have been approaching the $82 a barrel despite stronger USD. CAD price direction maintains a strong correlation to the price of crude. Widening of China's trade balance contributes to improving risk sentiment and optimism about strength of the global recovery. Equity market gains however have slowed which limited demand for the CAD in Wednesday's 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. A BOC rate hike could come as early as August. Canadian interest

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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 1.0175 the July 28th low with resistance at 1.0368 the March 3rd and high.

AUD

AUD traded mixed with initial support attributed to report of strong Chinese trade data and gains limited by mixed Australian economic data and sideways price action in global equity markets. China reported that February exports rose by 45.7% and imports were up by 44.7%. China's February trade surplus was reported at 7.6bln. The strong Chinese trade data generates optimism about the global recovery and fuels speculation that China may soon allow the Yuan to gradually appreciate. A gradual appreciation of the Yuan would be a way for China to

try to slow its rapid economic growth. Earlier in the year China raised its reserve ratios and an implemented restriction on bank's to try and curb lending. Because the Yuan is pegged to the USD the Chinese central bank has limited tools to control money supply and economic growth. Today's Chinese trade report may encourage Chinese officials to consider Yuan revaluation as a tool to try to moderate growth and prevent the creation of asset bubbles in China. Australia's March Westpac consumer confidence index rose by 0.2% and the Q4 NAB small business index rose by eight points to +13. January housing finance however dropped by 7.9%. Today's Australian data follows yesterday's report of a sharp increase in February job ads and strong NAB business conditions index. 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. Focus turns to Thursday'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 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 9056 the March 9th 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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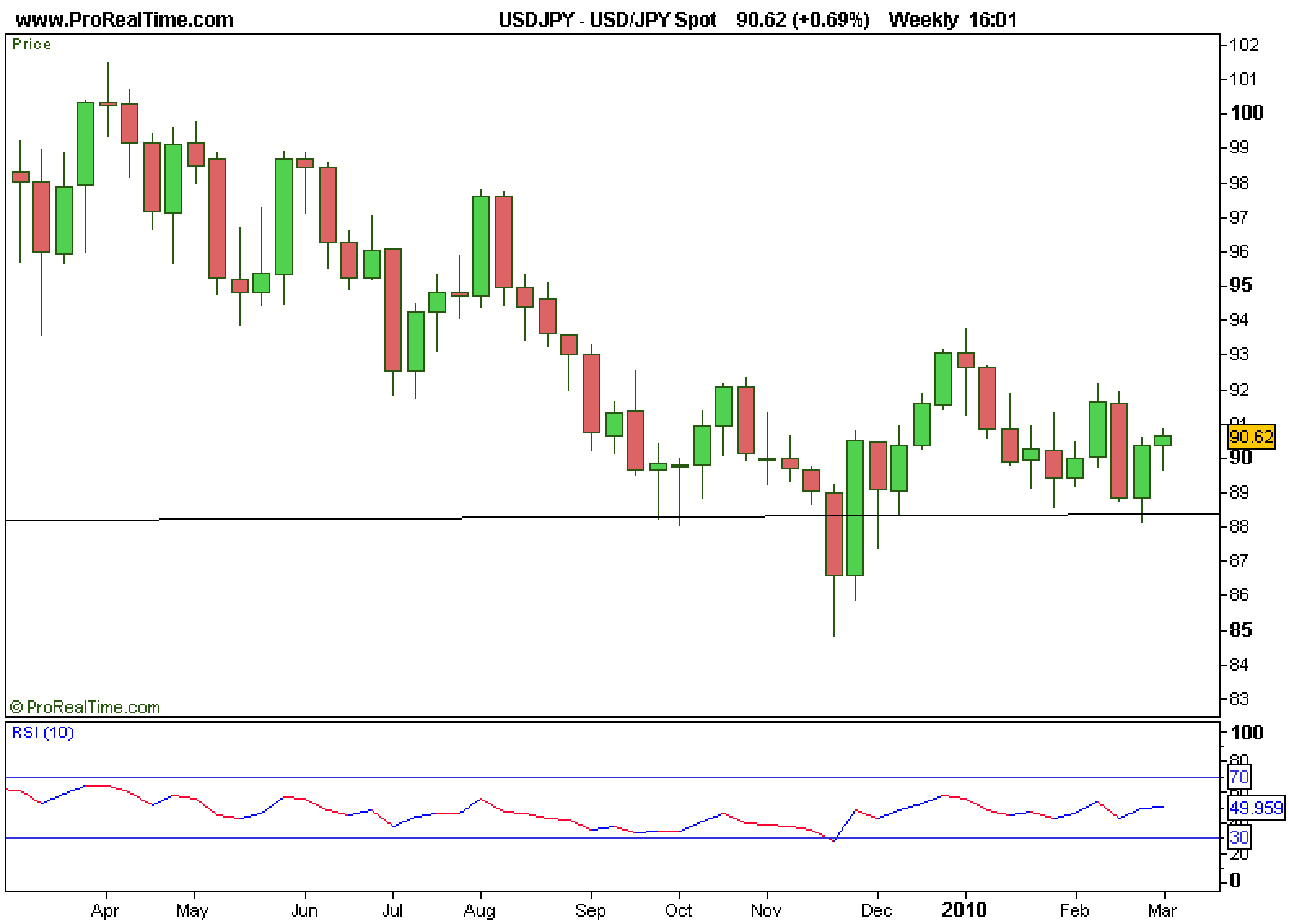

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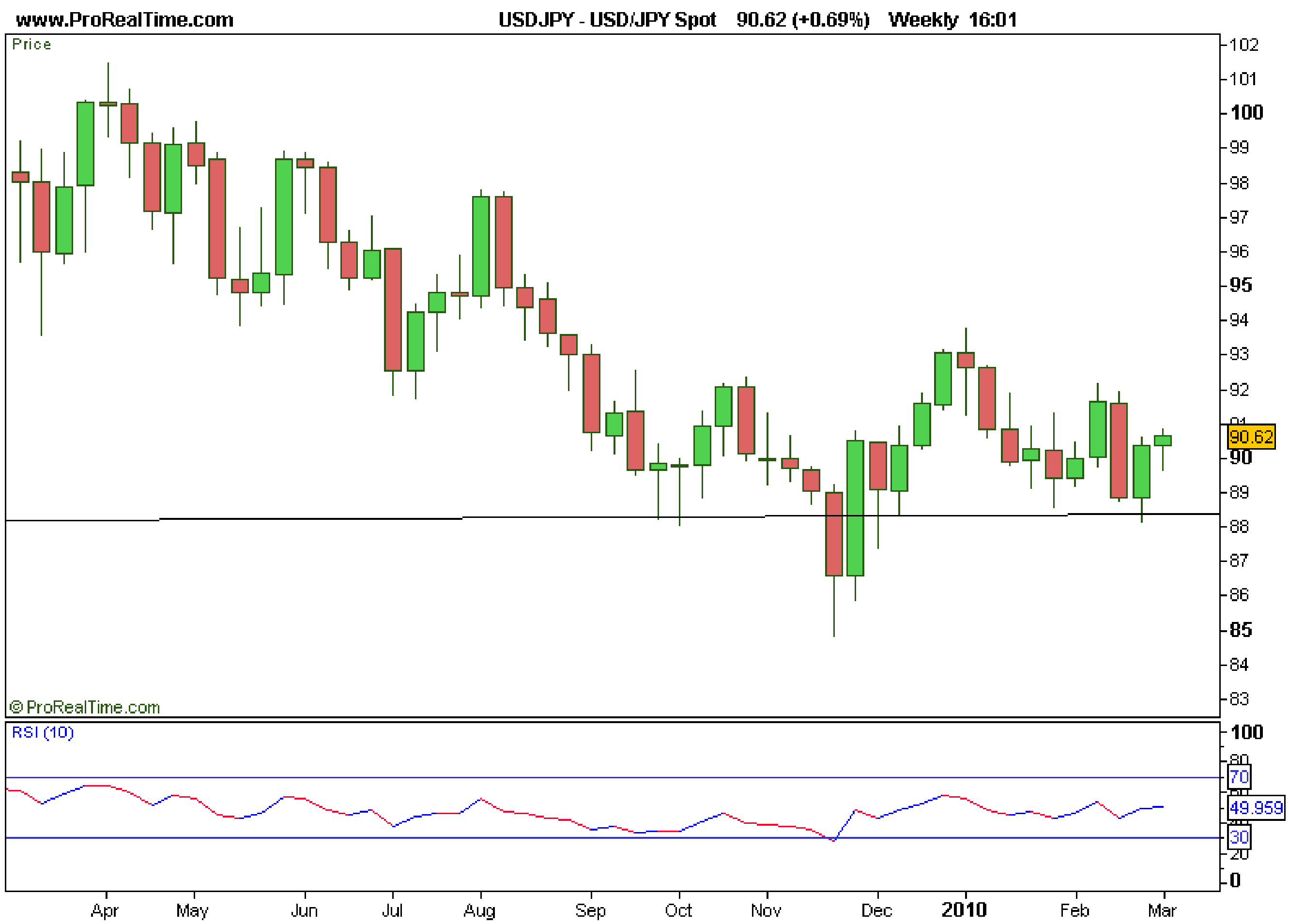

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AUD traded mixed with initial support attributed to report of strong Chinese trade data and gains limited by mixed Australian economic data and sideways price action in global equity markets. China reported that February exports rose by 45.7% and imports were up by 44.7%. China's February trade surplus was reported at 7.6bln. The strong Chinese trade data generates optimism about the global recovery and fuels speculation that China may soon allow the Yuan to gradually appreciate. A gradual appreciation of the Yuan would be a way for China to

try to slow its rapid economic growth. Earlier in the year China raised its reserve ratios and an implemented restriction on bank's to try and curb lending. Because the Yuan is pegged to the USD the Chinese central bank has limited tools to control money supply and economic growth. Today's Chinese trade report may encourage Chinese officials to consider Yuan revaluation as a tool to try to moderate growth and prevent the creation of asset bubbles in China. Australia's March Westpac consumer confidence index rose by 0.2% and the Q4 NAB small business index rose by eight points to +13. January housing finance however dropped by 7.9%. Today's Australian data follows yesterday's report of a sharp increase in February job ads and strong NAB business conditions index. 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. Focus turns to Thursday'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 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 9056 the March 9th low with resistance at 9200.

By Michael J. Malpede

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Daily Forex Report

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USD lower, JPY pressured by BOJ ease speculation

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- **JPY:** Lower, BOJ ease speculation, weak machinery orders
- **EUR:** Higher, German exports drop sharply, industrial production rises in Italy and France
- **GBP:** Lower, industrial production posted an unexpected decline, concern about UK debt rating
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Overview

USD traded in a narrow range gaining versus JPY and GBP, and drifting lower versus the EUR and commodity currencies. JPY was pressured by BOJ ease speculation. Reuters reports that the BOJ may ease monetary policy next week. GBP traded lower in reaction to report of an unexpected decline in UK industrial production. EUR erased early loses sparked by report of a sharp drop in German exports. EUR rebounded in reaction to report of stronger industrial production data from Italy and France and gains versus the JPY. The commodity currencies continue to outperform trading higher in reaction to strong trade data from China. China's exports rose 45.7% in February. The Chinese trade data generates optimism about the strength of the global recovery. Dovish comments from the Fed's Evans had limited impact on the trade. Evans said the weak labor market will make the Fed keep accommodative policy for some time. The Bloomberg Professional Global Confidence Index finds that optimism about the USD is an 18 month high as the US economy shows signs of recovery. According to the survey, investors expect the US economy to grow faster than Japan and Europe and the Fed is expected to hike rates before the ECB and BOJ. Growth and yield differentials are moving in favor of the USD. The Bloomberg survey also states that investors have turned negative the EUR because of fallout from the Greek debt crisis. Jeremy Siegel a finance professor at University of Pennsylvania Wharton school of business says the US recovery is certain but the EU may splinter. A fresh sign that the US economy is recovering is a report that US job openings are at an 11 month high. This report suggests that US employers may be ready to start hiring new workers. US economic data was mixed with wholesale sales coming in higher than expected and wholesale inventories lower than expected. USD traded to the days lows pressured by a surge in the price of crude sparked by report of lower crude inventories. Focus turns to Thursday's release of US jobless claims and retail sales and Friday's release of Michigan consumer sentiment.

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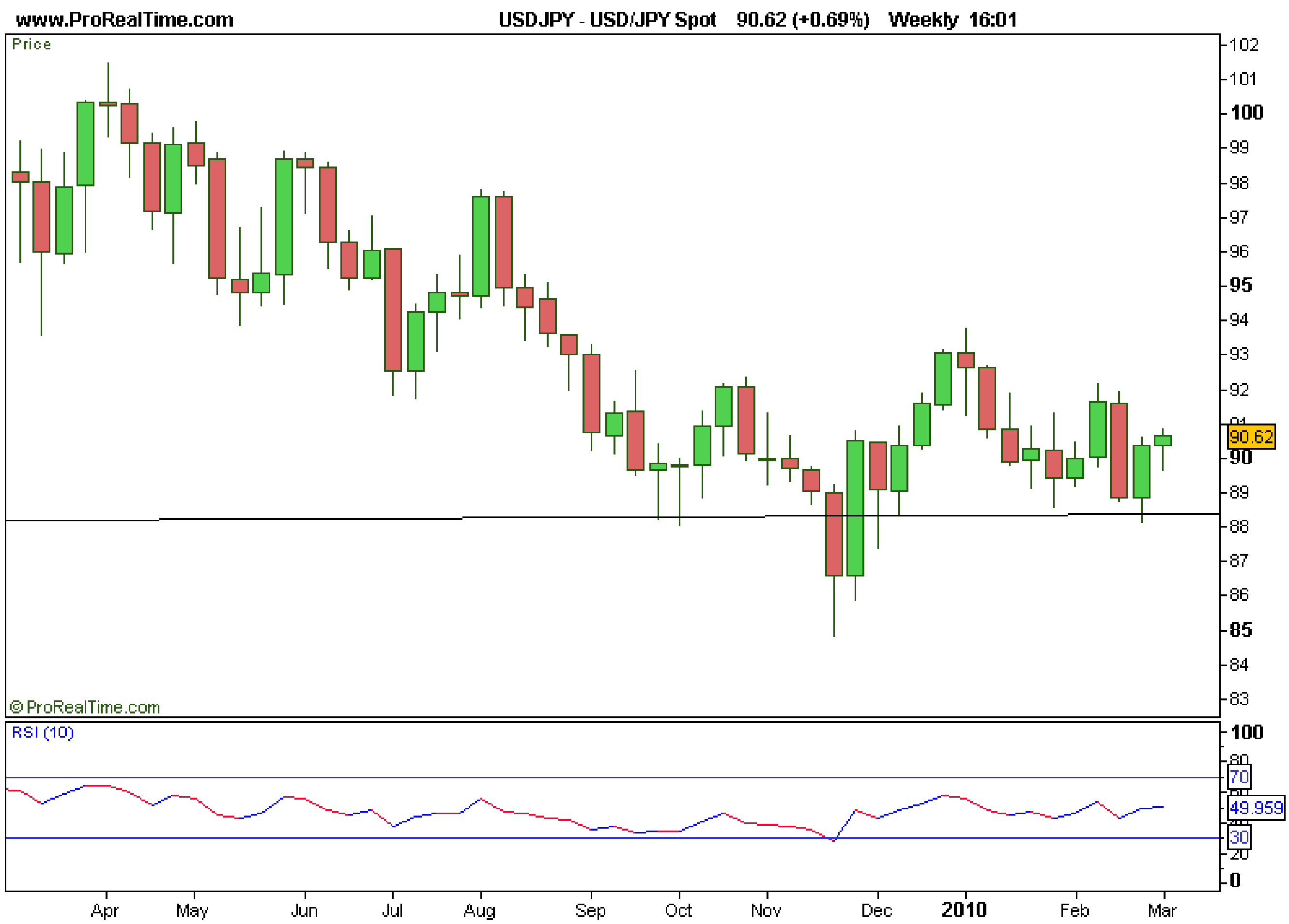
JPY

JPY traded lower pressured by BOJ ease speculation, report of a decline in core machinery orders and stable corporate goods prices. Reuters reports that the BOJ is leaning towards easing monetary policy next week. According to the Reuters report BOJ board members are divided about how to justify the ease. The BOJ is under intense pressure from the Japanese government to take action to combat deflation. The BOE policy board will meet on March 16th and 17th. Japan's January core machinery orders declined by 3.7%, this was slightly better than the market expectation of a 4.1% decline. The Japanese government raised its assessment of this sector. Recent improvement in Japanese economic data may make it more difficult for the BOJ to justify an ease next week but deflationary pressures continue with February domestic corporate goods prices reported at 0.1%. The annual rate of corporate goods prices fell by -1.5%. Risk sentiment and the direction of equities are 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 Thursday'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. JPY may benefit from repatriation flows ahead of Japan's fiscal year ended March 31st.

Q4 preliminary GDP will be released on March 11th 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 89.94 the March 10th low with resistance at 91.30 the February 23rd high.



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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.

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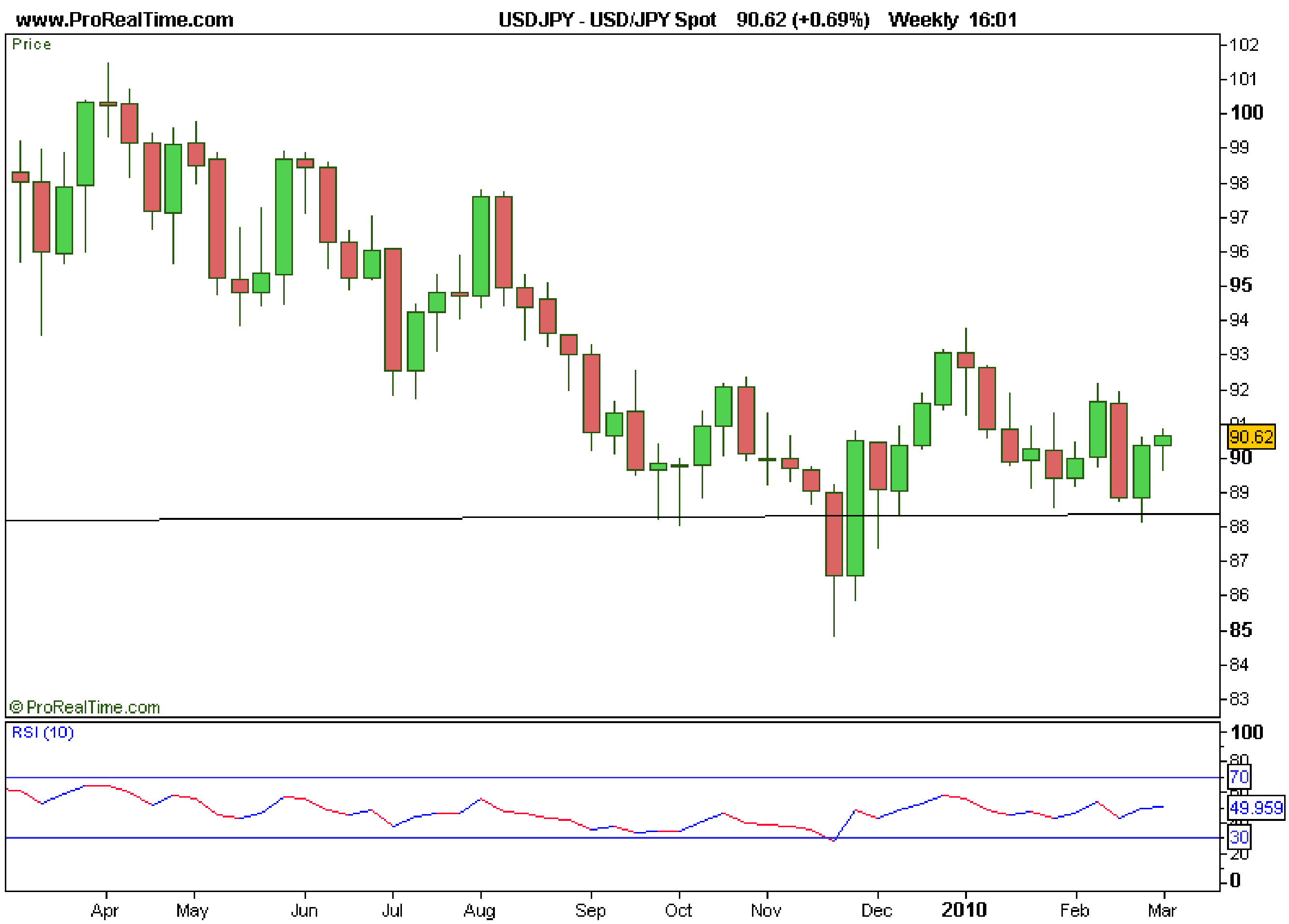

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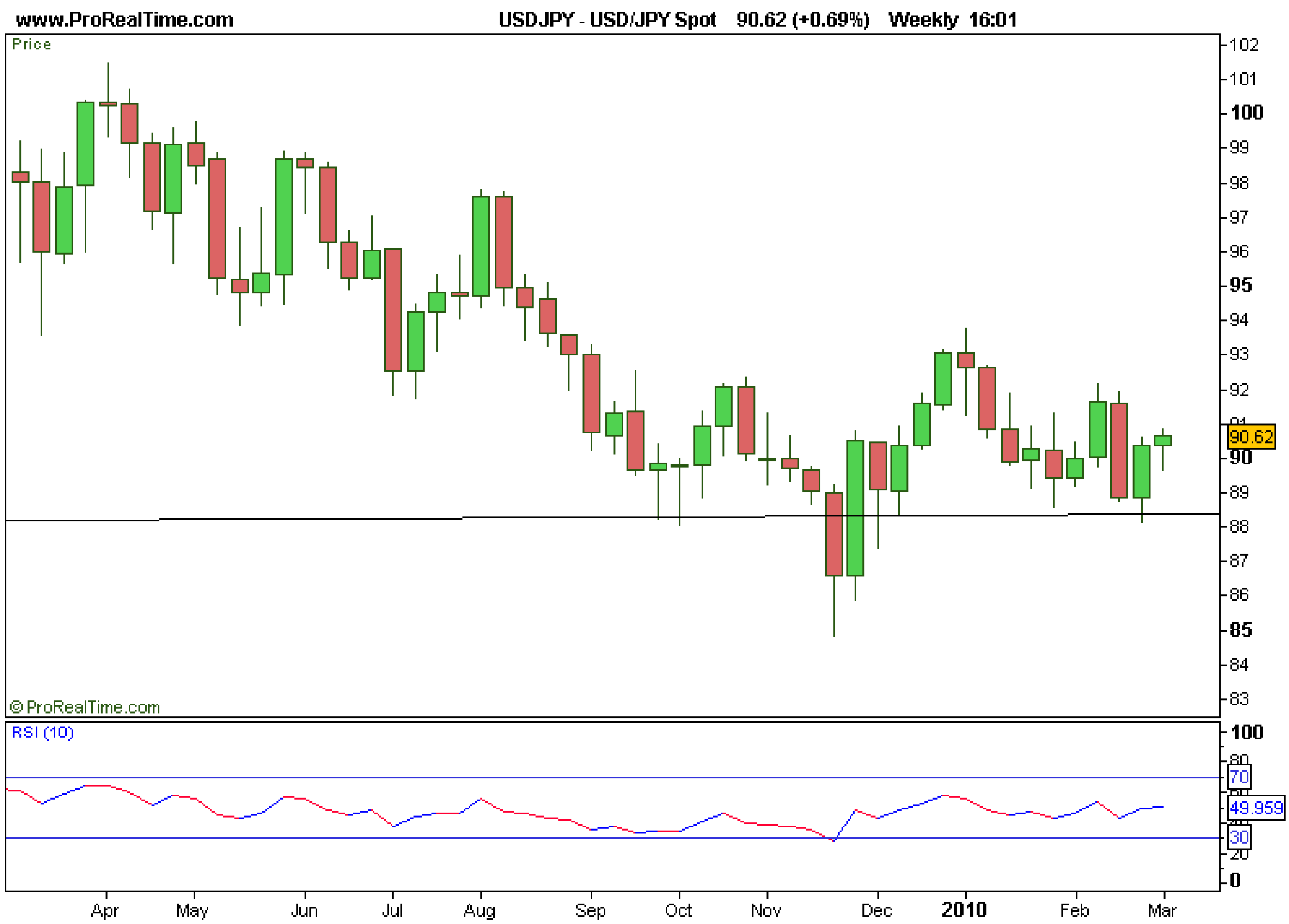

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The technical outlook for GBP is negative as GBP trades back below 1.5000. Expect near-term support at 1.4854 the March 2nd low with resistance at 1.5064 the March 9th high.

CAD

CAD traded mixed consolidating near a seven week high versus the USD. CAD was supported by a rebound in the price of crude and in reaction to report of strong trade data from China. CAD has been outperforming supported by stronger than expected Canadian economic data, rising crude prices and improving risk appetite. Candidate reported stronger than expected February housing starts and faster than expected Q4 GDP growth. Crude prices have been approaching the $82 a barrel despite stronger USD. CAD price direction maintains a strong correlation to the price of crude. Widening of China's trade balance contributes to improving risk sentiment and optimism about strength of the global recovery. Equity market gains however have slowed which limited demand for the CAD in Wednesday's 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. 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. 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. Comments from the Canadian Finance Minister Flaherty seemed to reduce the risk of intervention. Flaherty said that the CAD strength reflects the outperformance of the Canadian economy and a strong CAD helps Canadian companies buy equipment more cheaply. The BOC on the other hand noted that strong CAD may be a drag on the Canadian recovery.

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 1.0175 the July 28th low with resistance at 1.0368 the March 3rd and high.

AUD

AUD traded mixed with initial support attributed to report of strong Chinese trade data and gains limited by mixed Australian economic data and sideways price action in global equity markets. China reported that February exports rose by 45.7% and imports were up by 44.7%. China's February trade surplus was reported at 7.6bln. The strong Chinese trade data generates optimism about the global recovery and fuels speculation that China may soon allow the Yuan to gradually appreciate. A gradual appreciation of the Yuan would be a way for China to

try to slow its rapid economic growth. Earlier in the year China raised its reserve ratios and an implemented restriction on bank's to try and curb lending. Because the Yuan is pegged to the USD the Chinese central bank has limited tools to control money supply and economic growth. Today's Chinese trade report may encourage Chinese officials to consider Yuan revaluation as a tool to try to moderate growth and prevent the creation of asset bubbles in China. Australia's March Westpac consumer confidence index rose by 0.2% and the Q4 NAB small business index rose by eight points to +13. January housing finance however dropped by 7.9%. Today's Australian data follows yesterday's report of a sharp increase in February job ads and strong NAB business conditions index. 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. Focus turns to Thursday'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 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 9056 the March 9th low with resistance at 9200.

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