

USD lower, China rate hike fears, UK inflation expectations

FX Highlights

- The USD is trading mixed to lower as a temporary boost from report of a surprise rise in China's inflation and strong Chinese industrial production and retail sales data fades, strong Chinese economic data raises the risk of earlier rate hike from China and stocks drifted lower save for the Nikkei, the Chinese economic data dampened risk appetite, JPY is trading lower pressured by report of a downward revision in Japan's Q4 GDP and BOJ ease speculation, GBP gains in reaction to a BOE inflation survey which says inflation expectations are at a two year high, AUD traded higher despite weaker than expected Australian employment report and speculation that strong Chinese data will increase the risk of rate hikes in China
- Focus turns to today's US jobless claims and US and Canadian trade balance, and Canada's capacity use and New Housing Price Index
- China's February CPI rose by 2.7%, industrial production rose by 20.7% and retail sales rose by 17.9%
- Japan's Q4 GDP revised down to 0.9% from 1%, CAPEX spending revised to 0.9% from 1.1%, JPY lower
- Australia's February unemployment rose by 400 with unemployment unchanged at 5.3%, March and MI inflation expectations were unchanged, AUD higher
- BOE survey says that inflation expectations are the highest level since November 2008, GBP higher
- A recent survey of hedge funds finds that 57% of the fund managers favor the USD, with the Brazilian real and AUD in second place and GBP favored by just 3%, the main reason for USD support is fear the economy may take a double dip
- S&P says that the USD reserve currency dominance has not been challenged by the credit crunch but warned that the US cannot take the USD reserve role for granted
- US February budget deficit was \$221bln, US budget has been in deficit for 17 straight months
- Treasury Geithner says US on the verge of creating jobs and there is no risk the US will be like Greece
- US equity markets set to open lower, European equities 0.25% lower, Nikkei closed 101 points higher

Upcoming Events

- **US** - Thursday, initial jobless claims for week ending 03/06 will be released expected at 460k compared to 469k last month along with January trade balance expected at -41bln compared to -40.2bln last month

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- **CAN** - Thursday, January New House Price Index will be released expected unchanged at 0.4% along with January trade balance expected at 0.10bln compared to -0.25bln last month and Q4 capacity utilization expected at 69.9 compared to 67.5 last month

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