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- **JPY:** Lower, Q4 GDP revised lower, BOJ ease speculation
- **EUR:** Higher, rumor of Russian intervention, SNB reaffirms its intervention policy
- **GBP:** Higher, inflation expectations at a two-year high
- **CAD and AUD:** AUD & CAD lower, China rate hike fears, Canada's capacity use and trade balance improve

Overview

The USD and JPY opened lower Thursday despite weaker equity market trade and a modest dip in risk appetite as European and US equity markets traded lower. The USD received a temporary boost after the release of economic data from China which showed any unexpected rise in inflation and strong retail sales and industrial production. China's inflation rate rose to a 16 month high accelerating by 2.7% in February. The Chinese inflation report generates speculation that China will raise interest rates sooner than expected as the Chinese economy may be overheating. Chinese rate hike fears dampened risk appetite, pressured equities and supported the USD. USD erased early gains with GBP supported by a BOE inflation survey which shows that inflation expectations in the UK are at a two-year high. Rising UK inflation expectations may dampen speculation that the BOE will expand its asset purchases. EUR traded mixed and remained range bound. The EUR was initially supported by report of Russian intervention to slow ruble gains and the SNB's reaffirmation of its intervention policy. Commodity currencies were mixed with AUD gains limited by risk of a rate hike from China and report of weaker than expected Australian employment data. CAD traded lower despite report of stronger than expected Canadian capacity use and a bigger than expected Canadian trade surplus. JPY traded lower pressured by report of a downward revision in Japans Q4 GDP and by BOJ ease speculation.

S&P says that the USD will maintain its reserve role status as long as US financial markets are sound and government spending is sustainable. S&P went on to say that the US reserve currency status cannot be taken for granted. According to S&P foreign investors could begin to reduce USD holdings if the US fails to address its fiscal deficit and debt. S&P said that the US could lose its AAA credit rating if the government did not address the fiscal outlook. There was limited reaction to report that US February foreclosures were up but were the smallest in four years. US economic data was mixed with jobless claims posting a modest decline and the US trade deficit unexpectedly narrowed in January. The narrowing of the US trade gap reflects a bigger drop in imports than exports. Exports declined for the first time in eight months. USD traded higher after the release of the US trade balance as the report generates concern the global recovery may be slowing. Focus turns to Friday's release of Michigan consumer sentiment.

Today's US data:

US jobless claims for week ending 03/06 declined by 6k to 462, a reading of 460k was expected. January trade balance narrowed to -37.3bln, a reading of -40.3bln was expected. Exports fell by 0.3% and imports fell by 1.7%.

Upcoming US data:

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 both sides of settlement with initial selling pressure attributed to report of a downward revision in Japan's Q4 GDP, BOJ ease speculation and stronger Nikkei. JPY edged higher in reaction to strong economic data from China and mixed US economic data. China reported a sharp rise in inflation and stronger than expected retail sales and industrial production last month. The rise in China's inflation and strong data increases the risk of an earlier rate hike from China. Chinese rate hike speculation sparked light selling of European and US equities and dampened risk appetite. US jobless claims declined by slightly less than expected and the US trade balance narrowed sharply as US exports declined for the first time in eight months. US imports also declined last month. The US trade balance report may generate concern about the strength of the US recovery and the global economy. Japan's Q4 GDP was revised down to 0.9% from 1%. Japan's annual GDP growth rate was revised to 3.8% from 4.6%, a reading of 4.1% was expected. Forex wires are filled with articles about the increased risk that the BOJ will ease monetary policy next week. The BOJ is under intense pressure from the Japanese government to take action to combat deflation. Q4 GDP deflator was revised to 2.8% from 3%. The downward revision in the deflator may add pressure on the BOJ to ease policy. The BOE policy board will meet on March 16th and 17th.

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 with resistance at 1.3706 the March 9th high.



GBP

GBP traded higher supported by a BOE survey which says that UK inflation expectations are at a two-year high. The rise in UK inflation expectations may dampen speculation that the BOE will soon expand quantitative ease. It's important to note that the BOE also indicated that despite the rise in UK price expectations inflation risks remain muted. The BOE must balance the risk of inflation versus uncertainty about the outlook for the UK recovery. Wednesday, the UK reported an unexpected decline in industrial production. The decline in industrial production follows reports earlier this week of weaker UK housing price index and a widening of the UK trade gap. GBP gave back some of its early overseas gains after the release of a sharp narrowing of the US trade deficit. GBP remains vulnerable to concern about the UK general election and UK government debt. Tuesday the Fitch rating agency said that the UK must take faster action to reduce its deficit or risk a downgrade of the UK credit rating. The UK election is expected to be held on May 6th. The latest UK election polls indicate that the UK is likely to be confronted with a hung parliament. A hung parliament will make it difficult for the new UK government to piece together a strong enough coalition to agree to take action to reduce the UK deficit. Concern about the strength of the UK recovery and uncertainty about upcoming UK elections should limit demand for GBP.

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.



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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.

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AUD

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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 9193 the March 10th high.



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USDCAD - USD/CAD Spot 1.0289 (+0.32%) Weekly 15:50



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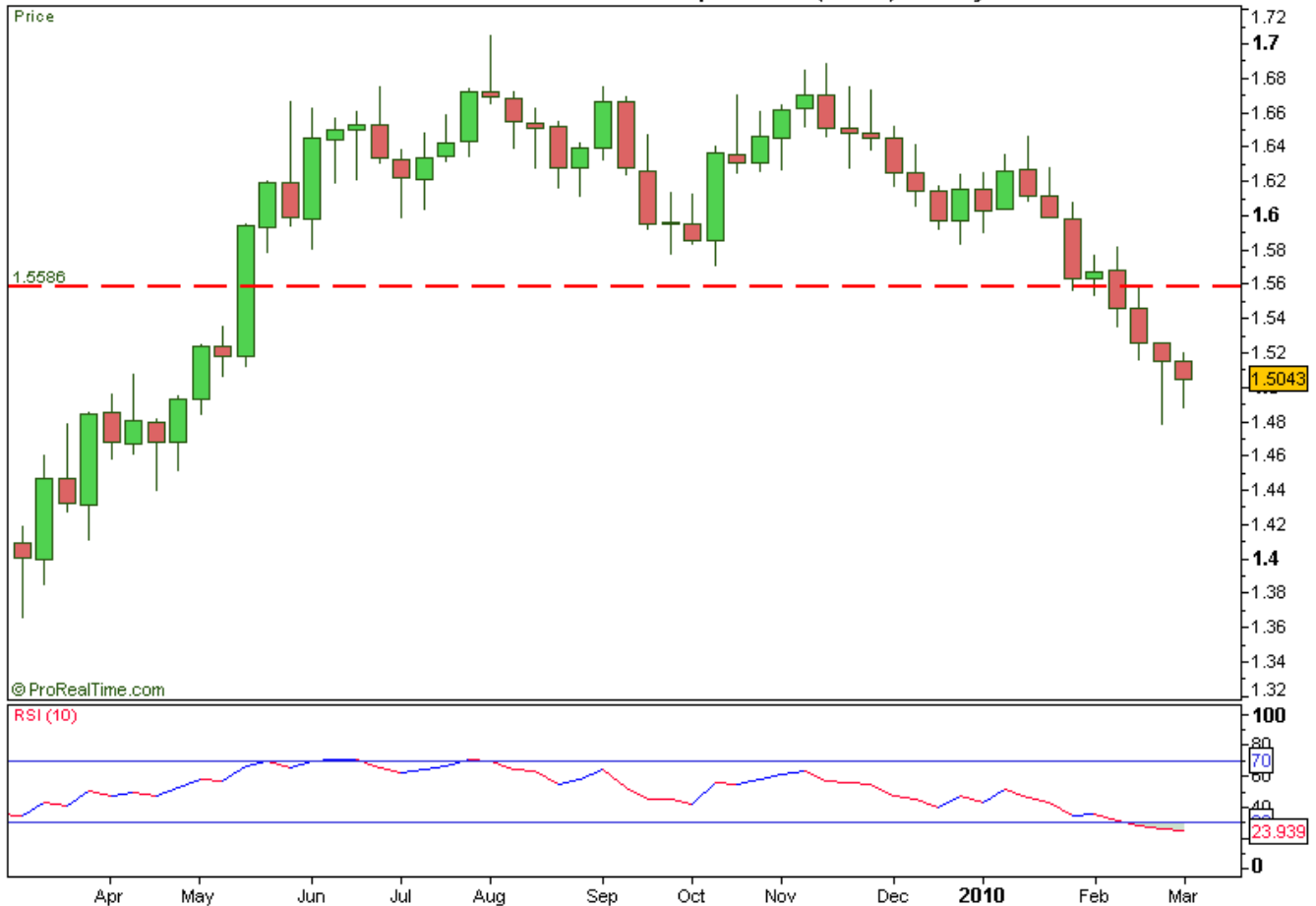
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JPY traded both sides of settlement with initial selling pressure attributed to report of a downward revision in Japan's Q4 GDP, BOJ ease speculation and stronger Nikkei. JPY edged higher in reaction to strong economic data from China and mixed US economic data. China reported a sharp rise in inflation and stronger than expected retail sales and industrial production last month. The rise in China's inflation and strong data increases the risk of an earlier rate hike from China. Chinese rate hike speculation sparked light selling of European and US equities and dampened risk appetite. US jobless claims declined by slightly less than expected and the US trade balance narrowed sharply as US exports declined for the first time in eight months. US imports also declined last month. The US trade balance report may generate concern about the strength of the US recovery and the global economy. Japan's Q4 GDP was revised down to 0.9% from 1%. Japan's annual GDP growth rate was revised to 3.8% from 4.6%, a reading of 4.1% was expected. Forex wires are filled with articles about the increased risk that the BOJ will ease monetary policy next week. The BOJ is under intense pressure from the Japanese government to take action to combat deflation. Q4 GDP deflator was revised to 2.8% from 3%. The downward revision in the deflator may add pressure on the BOJ to ease policy. The BOE policy board will meet on March 16th and 17th.

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.



EUR

EUR traded mixed with early gains attributed to report of Russian intervention to weaken the ruble and SNB reaffirmation of its intervention policy. EUR gains were limited by diminishing risk appetite sparked by China rate hike fears and in reaction to report of a surprise narrowing of the US trade deficit. The Russian intervention and threat of SNB intervention helped to boost the EUR in cross trade. EUR gains were capped by selling pressure in cross to the GBP with GBP supported by report of higher UK inflation expectations. The threat of an earlier Chinese rate hike and the narrowing of the US trade balance sparked selling of equity markets and a dip in risk appetite. A breakdown of the US trade balance shows that exports declined for the first time in eight months. The export decline could be a reflection of weaker global demand and it also may be a reflection of the impact of the recent strengthening of the USD. Wednesday Germany reported a sharp narrowing of its trade surplus largely due to a 6.3% drop in exports. The drop in the German exports raises concern about the strength of the EU recovery because most of the recent rebound in economic activity has been driven by export sales. An earlier Chinese rate hike could dampen optimism about the global recovery. EUR gains were also limited by a statement from the ECB that interest rates are appropriate and that large fiscal deficits add additional burden on monetary policy. EUR remains vulnerable to concern about EU sovereign debt risk and ECB policy. The ECB is expected to remain on hold because of continued subdued EU inflation and uncertain outlook for EU sovereign debt risk. The ECB reconfirmed its commitment to provide liquidity to the banking system. EU sovereign debt risk reduces the risk of an earlier ECB exit from non-conventional monetary policy measures.

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 1.3706 the March 9th high.



GBP

GBP traded higher supported by a BOE survey which says that UK inflation expectations are at a two-year high. The rise in UK inflation expectations may dampen speculation that the BOE will soon expand quantitative ease. It's important to note that the BOE also indicated that despite the rise in UK price expectations inflation risks remain muted. The BOE must balance the risk of inflation versus uncertainty about the outlook for the UK recovery. Wednesday, the UK reported an unexpected decline in industrial production. The decline in industrial production follows reports earlier this week of weaker UK housing price index and a widening of the UK trade gap. GBP gave back some of its early overseas gains after the release of a sharp narrowing of the US trade deficit. GBP remains vulnerable to concern about the UK general election and UK government debt. Tuesday the Fitch rating agency said that the UK must take faster action to reduce its deficit or risk a downgrade of the UK credit rating. The UK election is expected to be held on May 6th. The latest UK election polls indicate that the UK is likely to be confronted with a hung parliament. A hung parliament will make it difficult for the new UK government to piece together a strong enough coalition to agree to take action to reduce the UK deficit. Concern about the strength of the UK recovery and uncertainty about upcoming UK elections should limit demand for GBP.

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 lower despite report of stronger than expected Canadian capacity use and a larger widening of Canada's trade surplus. Canada's Q4 capacity utilization rose to 70.9, a reading of 69.9 was expected. Canada's January trade surplus came in at 799mln, a surplus of 100mln was expected. Canada's New Housing Price Index rose by 0.4% as expected. CAD decline was attributed to concern about a possible earlier rate hike in China and reaction to today's US data. Stronger than expected Chinese data and higher Chinese inflation generates risk of an earlier Chinese rate hike. A Chinese rate hike may dampen optimism about the global recovery and could chill global export demand. US jobless claims fell slightly less than expected and the US reported a sharp narrowing of its trade deficit in January. These reports generate concern about the strength of the US recovery and dampen risk appetite. 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. 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.

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.

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USDCAD - USD/CAD Spot 1.0289 (+0.32%) Weekly 15:50



AUD

AUD traded mixed to lower with overseas gains erased in the US trading session. AUD initially traded higher despite report of weaker than expected Australian employment report and threat of an earlier rate hike from China. Australia's February unemployment rose by just 400 with unemployment unchanged at 5.3%. Asian equity markets except for Japan traded lower in reaction to report of strong Chinese industrial production and retail sales data and an unexpected rise in China's inflation. AUD also shrugged off a dovish policy statement from the RBNZ Governor Bollard. Bollard said that the New Zealand central bank could take a wait and see attitude before deciding whether rate hikes are needed and that rates may not have to rise as high as they did in the previous cycle. AUD turned lower in the US trading session pressured by a modest dip in risk appetite as equity's weaken in reaction to today's mixed US economic data. As noted above, US jobless claims came in slightly weaker than expected and the US trade deficit narrowed sharply last month. The narrowing of the deficit reflected a drop in exports and a sharp drop in imports. The combination of weaker US export sales and Chinese rate hike fears could dampen optimism about the global recovery and reduce demand for high yield currencies. 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. Today's Australian employment report may increase speculation that the RBA will pause in its rate hike cycle next month. AUD price direction will focus on risk sentiment and the direction of equity markets.

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 9193 the March 10th high.



By Michael J. Malpede

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