

USD off lows, retail sales beat expectations

- **USD:** Lower, Yellen appointed to the Fed, retail sales post unexpected rise, consumer sentiment dips
- **JPY:** Lower, BOJ may double QE, threat of intervention
- **EUR:** Higher, Greek debt fears fade, talk of German/French Greek rescue package, industrial output surged
- **GBP:** Higher, house prices jump, Conservatives expand lead in the polls
- **CAD and AUD:** AUD mixed & CAD higher, Canada's employment growth beats expectations

Overview

The USD traded at a three week low Friday pressured by announcement that President Obama will nominate Janet Yellen as vice chair of the Federal Reserve. Yellen is a policy dove and her appointment will likely mean that the Fed will keep interest rates low for much of 2010. USD was also pressured by improving risk appetite as global equity markets rally. The EUR traded higher supported by diminishing concern about the Greek debt crisis and in reaction to report that Germany and France may be considering a \$55bln rescue plan for Greece. GBP traded higher supported by report of a jump in UK house prices. Commodity currencies traded higher supported by stronger equity markets and improving risk sentiment with CAD supported by report of stronger than expected Canadian employment and BOC rate hike speculation. AUD gains were limited by speculation the RBA will pause in April. JPY traded lower pressured by report that the BOJ may double the size of its quantitative ease to ¥20trln and in reaction to increasing threat of BOJ intervention. US economic data was mixed with retail sales reported stronger than expected, Michigan consumer confidence posted a slight drop. Business inventories were unchanged. USD came off its lows as US equities turned lower after the release of today's data. Focus turns to next weeks Fed policy meeting on March 16th. No Fed policy change is expected. Investors will be looking to see whether the Fed makes any changes in its policy statement in regard to the language of "extended period" for low rates.

Today's US data:

February retail sales rose 0.3%, a reading of -0.2% was expected. Ex. autos retail sales rose 0.8%. March Michigan sentiment came in at 72.5, a reading of 73.6 was expected. January business inventories were unchanged with sales up 0.6%.

Upcoming US data:

Next week's US economic calendar includes the March 15th release of March Empire State Manufacturing expected at 22 compared to 24.9 last month along with February industrial production, capacity use and March NAHB index. Industrial production is expected to rise by 0.1% compared to 0.9% last month. Capacity use is expected unchanged at 72.6. The NAHB Index is expected unchanged at 17. On March 16th February housing starts and building permits will be released along with February import prices. Housing starts are expected at 580k compared to 591k last month and building permits are expected at 610k compared to 621k last month. Import prices are expected flat. On March 17th February PPI will be released expected at -0.2% compared to 1.4% last month. On March 18th February CPI will be released expected at 0.1% compared to 0.2% last month. Q4 current account, initial jobless claims for week ending 03/13, leading indicators for February and March Philly Fed will also be released on March 18th. The current account is expected at -120bln compared to -108bln last

quarter. Initial claims are expected at 457k compared to 462k last week. Leading indicators are expected to rise by 0.2% compared to 0.3% last month. Philly Fed is expected at 18 compared to 17.6 last month.

JPY

JPY traded lower pressured by firmer equity market trade, report that the BOJ may ease policy next week and by increasing threat of intervention. JPY downside was limited by repatriation flows ahead of Japan's fiscal year end on March 31st and news of the appointment of Janet Yellen to the Federal Reserve Board. The Yellen appointment increases the odds that the Fed will maintain low interest rates throughout 2010 as she is seen as a policy dove. JPY experienced initial selling pressure in reaction to a Nikkei report that the BOJ may double the size of its quantitative ease at next week's policy meeting to ¥20trln. JPY was also pressured by increasing risk of intervention. Japan's PM said that Japan is ready to act if JPY moves sharply. Analysts at Morgan Stanley suggest that Japan is likely to intervene soon and sell JPY. Japan's Finance Minister Kan said excessive JPY strength is undesirable but the value of the JPY should be decided by the markets as long as the rate is stable. Kan went on to say that intervention can be used against excessive Forex price moves. Japan's economic data was generally positive with January industrial production revised up to 2.7% from 2.5% in the preliminary report and capacity utilization rose by 3.9%. JPY turned lower for the day after the release of stronger than expected US retail sales. Focus turns to next week's BOJ policy meeting on March 16th and 17th.

Next week's Japanese economic calendar includes the March 17th release of January tertiary activity expected at 0.4% compared to -0.9% last month. On March 18th January revised leading indicators will be released expected 2.5% compared to 3.8% in the original report. On March 19th January all industry activity will be released expected at 0.8% compared to -0.3% last month.

Key technical levels to watch in USD/JPY include support at 90.17 the March 12th low with resistance at 91.30 the February 23rd high.



EUR

EUR traded higher supported by improving risk sentiment sparked by BOJ ease speculation, speculation that the appointment of Janet Yellen to the Fed will encourage the Fed to maintain low yields throughout 2010 and in reaction to a surge in EU industrial output. Last month Yellen said that the US economy still needs extraordinarily low rates. EU economic data was positive with January industrial output reported to have surged by 1.7%. This was the biggest monthly surge in EU industrial production in almost 20 years. EUR was supported by gains in cross trade to the JPY with JPY pressured by BOJ ease speculation. EUR was also supported by diminished concern about the Greek fiscal crisis and a report that Germany and France may be considering a \$55bn rescue plan for Greece. There is a growing sense that the Greek debt crisis may have passed. Sovereign debt risks in Europe remain and are likely to resurface in the future. This means that diminished concern about Greece may not last. A number of analysts are looking for a short-term rally in the EUR and a test of 1.4000 as focus shifts to improving risk sentiment and the risk of an imminent Greek debt default have significantly diminished.

Next week's EU economic calendar includes the March 15th release of Q4 employment expected at -0.4% compared to -0.5% percent last month. On March 16th EU ZEW index for March will be released expected at 44.8 compared to 45.1 last month along with February HICP expected at -1.4% compared to -1.3% last month. On March 17th EU Q4 labor costs and wages will be released expected at 3.3% and 3% respectively. On March 18th EU January current account will be released expected at 9.1bn compared to 9.4bn last month. EU January foreign trade also be released on March 18th expected at 3.8bn compared to 4.4bn last month.

The technical outlook for the EUR is mixed as support holds above 1.3600. Expect EUR support at 1.3620 the March 11th low with resistance at 1.3840.



GBP

GBP traded higher supported by report of a sharp jump in UK house prices and UK election polls which indicate that the Conservative lead over Labor is growing. Research Academetrics Ltd. said that UK house prices rose at their fastest pace in seven years in February. The rise in UK house prices follows Thursday's report that UK inflation expectations rose to a two-year high. These reports may discourage speculation that the BOE will expand its asset purchases and with a significant large short position in GBP, GBP may be ripe for a technical rally. The latest UK election poll shows that the Conservative party has a 13 point lead over Labor. The Conservative party has pledged to take action to reduce the UK deficit. If the conservative party can gain majority control of the parliament it would reduce the odds of a hung parliament and increase the odds of the UK government taking action to reduce 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 this was credit rating. The UK election is expected to be held on May 6th. GBP has been underperforming because of concern about the UK economy and election uncertainty. Today's UK house price data and election polls may help to reduce some of the concern about the UK election and UK recovery. Focus turns to Wednesday's release of the BOE policy minutes for the March policy meeting. The trade will be looking at the minutes for clues to whether the BOE is considering a change in its asset purchases.

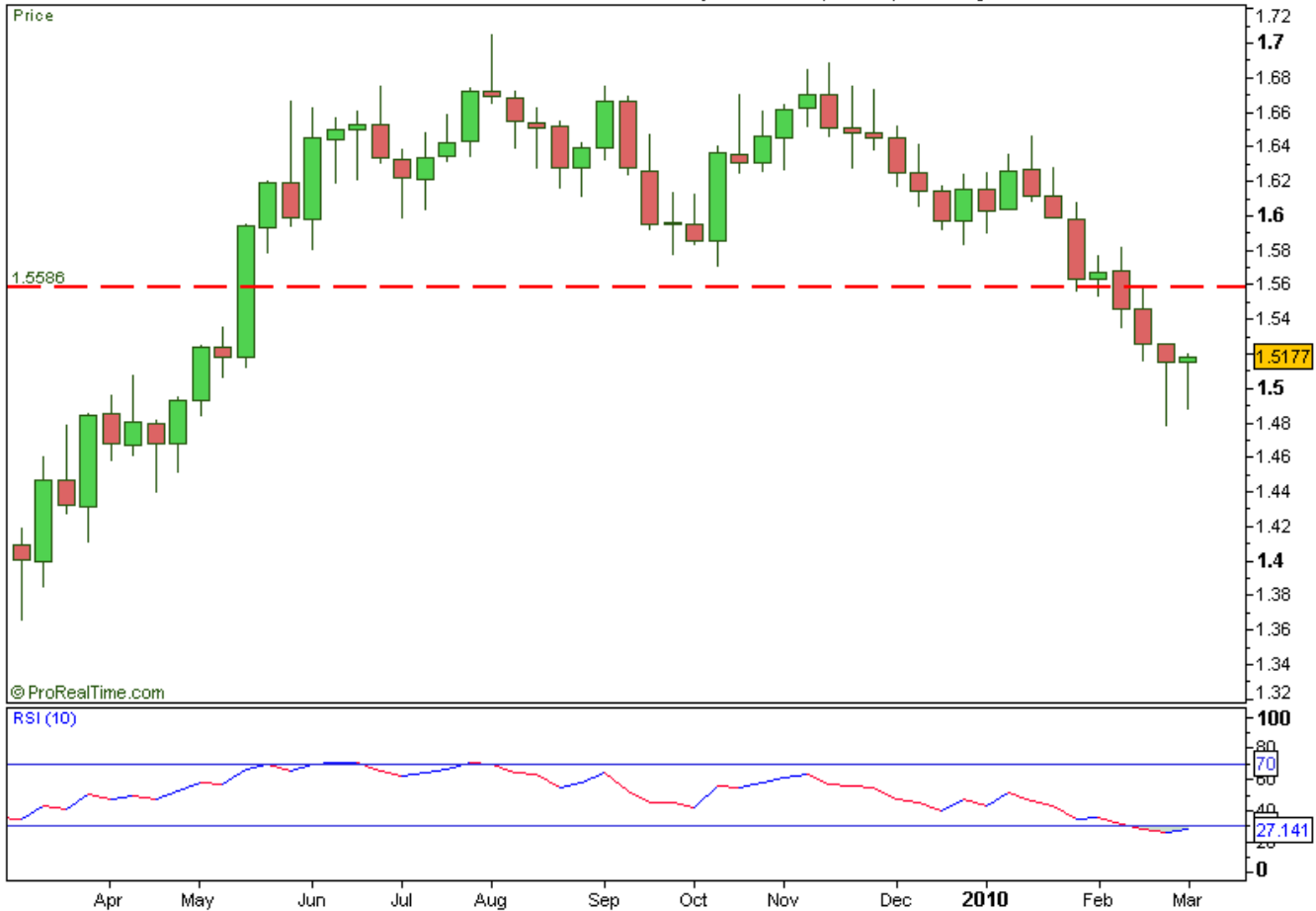
Next week's UK economic calendar includes the March 17th release of January unemployment weekly earnings and the February claimant count. Unemployment is expected at 7.9% compared to 7.8% last month with the average earnings unchanged at 0.8% and claimant count at 27k compared 23.5k last month. BOE policy minutes will be released on Wednesday. On March 18th February money supply and public-sector borrowing will be released. Money supply is expected at 0.8% compared 0.6% last month. Net public-sector borrowing is expected

-13bln compared to -11.7bln last month. Also on March 18th March CBI orders will be released expected at -34 compared to -36 last month.

The technical outlook for GBP is mixed as GBP trades back above 1.5000. Expect near-term support at 1.5027 the March 12th low with resistance at 1.5327 the February 26h high.

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GBPUSD - GBP/USD Spot 1.5177 (+0.74%) Weekly 16:00



CAD

CAD traded at its highest level versus the USD since July of 2008 supported by report of stronger than expected Canadian employment data, improving risk sentiment as equity markets rally and in reaction to speculation that the Fed will maintain low yields for an extended period in light of today's appointment of Janet Yellen to the Federal Reserve board. Canada created 22,900 new jobs in February and the unemployment rate declined to 8.2% from 8.3%. The trade had expected Canada to create just 15k new jobs with the unemployment rate expected to be unchanged. Stronger Canadian employment growth follows recent Canadian economic reports which show increased manufacturing activity and higher inflation. Improving economic outlook in Canada will increase pressure on the BOC to consider an earlier rate hike. 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. The appointment of Yellen to the Fed may increase speculation that the BOC will act on rates before the Fed. A BOC rate hike could come as early as August. CAD is expected to test parity to the USD in the weeks ahead. As the CAD approaches parity it may increase the risk of verbal intervention from the BOC and Canadian officials. Canada's Finance Minister Flaherty says he is always worried about CAD volatility.

Next week's Canadian economic calendar includes the March 16th release of Q4 labor productivity expected at 0.1% compared to -0.2% last month. January manufacturing shipments will be released on March 16th expected at 1.3% compared to 1.6% last month. On March 17th January wholesale trade will be released expected at 0.4% compared to 0.7% last month. On March 18th January net foreign investment will be released expected at 8bln compared to 11.2bln last month. On March 19th January retail sales will be released expected at 0.7% compared 0.4% last month.

The technical outlook for CAD is positive as USD/CAD trades below 1.0200. Look for near-term support at 1.0130 the July 25th low with resistance at 1.0248 the March 12th high.



AUD

AUD traded mixed despite improving risk sentiment and firmer commodity prices. AUD underperformed with gains limited by selling in cross trade to the CAD. CAD was supported by report of stronger than expected Canadian employment and BOC rate hike speculation. AUD gains were also limited by concern about the growth outlook in China. China announced additional measures to try and slow the pace of the real estate asset market appreciation. China raised the down payment requirement on real estate purchases to 50% of the purchase price to try and reduce the risk of a real estate bubble. Earlier in the week there were reports that China may be considering an earlier rate hike to try to slow what is perceived to be an overheating of the Chinese economy. Speculation about an earlier Chinese rate hike may dampen demand for the AUD because of concern the rate hike could hurt the global economic outlook. In addition, Chinese rate hike speculation could reduce the risk of the RBA hiking interest rates at next month's policy meeting. The RBA paused in its rate hike cycle during February and attributed China's efforts to curb lending as one reason for the pause. 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. The outlook for RBA policy will be key to the direction of the AUD. Thursday Australia reported that February unemployment rose by just 400 with unemployment unchanged at 5.3%. Slower Australian jobs growth may dampen RBA rate hike speculation. AUD price direction will remain linked to risk sentiment and the direction of equity markets.

Next week's Australian economic calendar includes the March 17th release of Q4 dwelling unit starts expected at 7% compared to 9.4% last quarter.

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 9260.



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