

USD higher on Moody's credit warning, weaker crude

- **USD:** Higher, doubt about Greek rescue plans, sovereign rating worries, weaker crude
- **JPY:** Lower, BOJ ease speculation, China's PM says Yuan is not undervalued
- **EUR:** Lower, no quick fix for Greece, employment growth declined
- **CHF:** Lower, producer import prices drop, intervention threat rising as CHF trades at 17 month high vs. EUR
- **GBP:** Lower, election polls suggest a hung parliament, ratings downgrade risk
- **CAD and AUD:** AUD & CAD lower, China's PM warns of the risk of the double dip global recession

Overview

The USD is trading higher to start the week supported by uncertainty about a rescue plan for Greece and fresh concern about sovereign debt ratings. A number of EU finance ministers state that they do not see the need for Greek aid plan at this time. Moody's says that the UK and US are moving closer to risk of losing their AAA sovereign debt ratings but their ratings are safe for now. EUR was also pressured by report of weaker Q4 employment. GBP was pressured by the latest UK election poll which suggests that the UK general election will not produce a government with a parliamentary majority. This increases the risk of a hung parliament and may diminish the chance that the UK will take quick action to reduce its deficit. JPY traded lower pressured by speculation the BOE will elect to expand quantitative ease at this week's BOJ policy meeting. The BOJ is under significant pressure from the Japanese government to take action to combat deflation and there are reports that the BOJ may also consider easing policy to try to weaken the JPY. Commodity currencies traded lower with the AUD pressured by a statement from China's PM Wen warning of a possible risk of a double dip for the global economy. CAD traded lower pressured by weaker crude. US economic data was mixed with the Empire manufacturing survey posting a modest decline and industrial production and capacity use came in close to market expectations. Focus turns to the 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:

March Empire State Manufacturing came in at 22.86, a reading of 22 was expected. March industrial production rose by 0.1%, as expected. March capacity use rose to 72.7, a reading of 72.6 was expected.

Upcoming US data:

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 BOJ ease speculation and diminished threat of Yuan revaluation. The BOJ has been under significant pressure from the Japanese government to take action to combat deflation in Japan. The BOJ will conclude a two-day policy meeting on Wednesday and there is speculation that the BOJ will announce additional easing measures. The BOJ may elect to extend its auctions or buy more Japanese government bonds. Additional easing measures by the BOJ may be targeted at weakening the JPY. China's PM Wen warned US officials not to meddle with Chinese currency policy and said the Yuan is not undervalued. Wen's comments appear to reduce the odds of a near-term Yuan revaluation. JPY sometimes is used as a proxy for Yuan revaluation and diminished Yuan revaluation speculation adds to today's weaker JPY trade. The only economic data out of Japan today was February consumer confidence index rose to 39.8 from 39 last month. JPY was also pressured by increasing risk of intervention. Last Friday Japan's PM said that Japan is ready to act if JPY moves sharply. Focus turns to the BOJ policy meeting on March 16th and 17th.

This 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 at 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 lower pressured by doubt about the effectiveness of any Greek rescue plan and in reaction to report of weaker EU employment growth. European press reports that EU finance ministers have agreed in principle to a rescue plan for Greece if needed but French Finance Minister Lagarde says she sees no need to bail Greece at this time. The German finance minister said he expects no decisions on Greek aid Monday. EUR was also pressured by concern that the sovereign debt crisis in the EU may not be limited to Greece. ECB's Nowotny calls on the economies in the EU to consolidate debts because he fears the risk of a debt spiral. According to Nowotny if the EU economies do not roll back deficits it will make it more difficult to deal with the fiscal situation in the future. He went on to say that the EU growth situation remains tense. EU Q4 employment fell by 0.2% with manufacturing payrolls posting the largest decline. Weaker EU employment growth will likely encourage the ECB to maintain steady policy outlook as the EU recovery remains uneven and pressure to reduce budget deficits in peripheral European countries will likely be a drag on growth. EUR traded to new lows for the day in reaction to a statement from the EU's Junker that Greece probably does not need a bailout. Focus turns to Tuesday's release of the ZEW index.

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 9.4mln last month. EU January foreign trade will 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 1.3776 the March 15th high.



CHF

CHF traded lower versus the USD with downside limited by a rally to a 17 month high versus the EUR. CHF was pressured by report that February producer import prices declined by 0.3%. CHF cross gain versus the EUR was sparked by fresh concern about the Greek debt outlook. Last week the SNB elected to hold rate policy steady and maintain its intervention policy. In its policy statement the SNB said it would act decisively to stop CHF appreciation. Today's CHF rally versus the EUR may encourage the SNB to intervene. The SNB also dropped its liquidity promise and the SNB's Hildebrand said that expansive monetary policy cannot continue forever. Hildebrand expressed concern about a possible housing market bubble. The SNB dropped its pledge to supply the economy with generous liquidity and said that it saw the risk that inflation would rise above its 2% target by end of 2010. The combination of Hildebrand's comments and the SNB's higher inflation forecast suggest that the SNB is nearing the end of its ease cycle and a tightening of monetary policy may emerge before year end. This week's Swiss economic calendar includes Tuesday's SECO March 2010 economic forecast. On March 18th March ZEW Index will be released expected at 53 compared to 52.5 last month. Expect USD/CHF support at 1.0477 the January 28th low with resistance at 1.0795 the March 10th high.

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EURCHF - EUR/CHF Spot 1.4514 (-0.34%) Weekly 15:12



GBP

GBP traded sharply lower giving back much of last week's gains pressured by concern about the outlook for the UK economy and budget deficit. BOE's Barker said she sees the possibility of another negative quarter of UK GDP. Barker ruled out the risk of a double dip recession for the UK but her comments generate concern about the UK economy and may revive speculation that the BOE will be forced to expand quantitative ease to boost growth. The Moody's ratings agency says that for now the AAA debt ratings of the major nations are safe but that the US and UK are moving closer to losing their AAA sovereign rating. A YouGov election poll printed in the Sunday

Times suggests that the upcoming UK general election will not produce a government with a parliamentary majority. The absence of a parliamentary majority will diminish the odds that the UK government will take quick action to reduce its fiscal deficit. The ratings agencies warn 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. GBP has been underperforming because of concern about the UK economy and election uncertainty. 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 and expand quantitative ease.

This 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 at -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 holds above 1.5000. Expect near-term support at 1.4947 the March 11th low with resistance at 1.5218 the March 15th high.



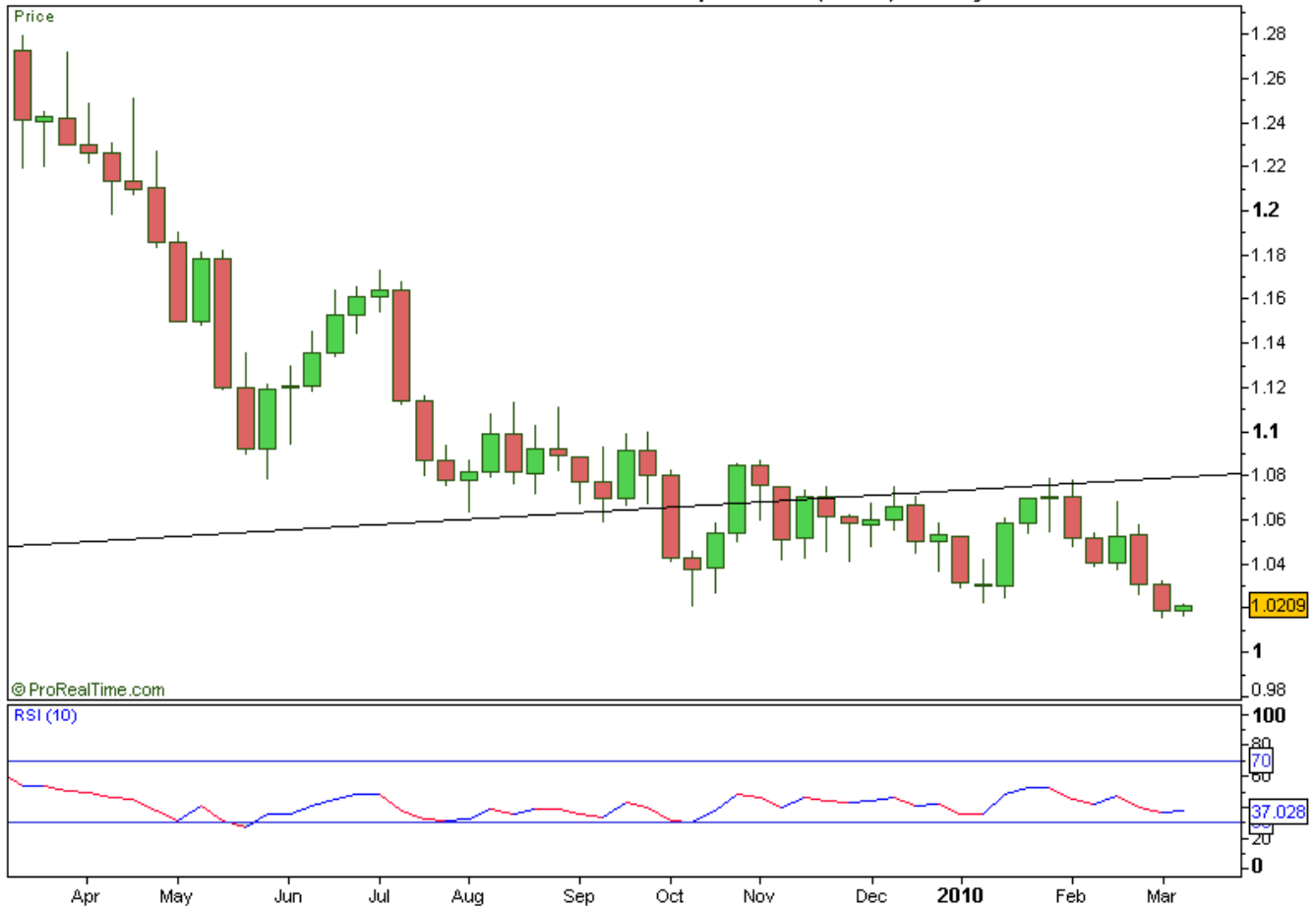
CAD

CAD traded lower pressured by weaker equity markets, a decline in the price of crude oil and concern about global recovery. A statement from China's PM Wen warning of a possible double dip for the global economy

coupled with Moody's warning that the US and UK are moving closer to losing their AAA debt ratings sparked selling of equities and a downtick in risk appetite. CAD ended last week's trade at its highest level versus the USD since July 2008. CAD was 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. 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 15,000 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. 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. This week's main focus is the CPI report due for release Friday.

This 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 along with February CPI. CPI is expected at 0.4% compared to 0.3%.

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 1.0334 the March 5th high.



AUD

AUD traded lower pressured by weaker commodity and equity prices and concern about the outlook for the global economy. The China Daily carried an article which warned that the Chinese economy could suffer a double dip recession. China's PM Wen said that there are risks for the global recovery. Wen specifically expressed concern about fluctuations of the USD and he warned US officials that foreign pressure will not force China to revalue the Yuan. China's is a major export destination for Australia and concern about China's economy sparked selling of the commodity based currencies in Monday's trade. AUD may also be vulnerable to uncertainty about RBA policy outlook. Last week, Australia reported weaker than expected employment growth. Thursday Australia reported that February unemployment rose by just 400 with unemployment unchanged at 5.3%. The weaker Australian employment growth may dampen RBA rate hike speculation. The RBA paused in its rate hike cycle during February and attributed China's efforts to curb lending as one reason for the pause. At the beginning of the month 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.

This 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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