

## USD lower, inflation subdued

- **USD:** Lower, PPI falls the most in seven months, steady Fed policy
- **JPY:** Lower, BOJ expands quantitative ease and raised its lending auctions to ¥20trln
- **EUR:** Lower, annual rate of labor cost rise the slowest in four years
- **GBP:** Higher, UK claimant count posts biggest drop in 13 years, BOE minutes note increased inflation risk
- **CAD and AUD:** AUD & CAD higher, strong Australian housing data, easy money from the Fed and BOJ

### Overview

The USD traded mostly lower Thursday pressured by the Fed's decision to hold monetary policy steady and signal that interest rates will remain low for an extended period. GBP surged in reaction to report that UK jobless claims declined the most in 13 years. GBP was also supported by the minutes from the BOE's March policy meeting which state that the central bank is growing more concerned about inflation risk. EUR traded lower with gains limited by report of slowing rise of labor costs in the EU and selling pressure in cross to the GBP. The commodity currencies traded higher in reaction to firmer equity market trade with the AUD supported by hawkish comments from the RBA's DeBelle and strong Australian housing. DeBelle said rates may have to rise a bit more. CAD was supported by report of a surge in Canada's whole sale trade. JPY traded lower in reaction to the BOJ's decision to expand quantitative ease from ¥10trln to ¥20trln. Today's US economic data was mixed with PPI posting a bigger than expected decline. The PPI report supports the Fed's forecast that US inflation pressures will likely remain subdued. With the US economic recovery uneven and inflation subdued the Fed will be in no hurry to tighten monetary policy. Focus turns to Thursday's release of US CPI.

### Today's US data:

February PPI declined by 0.6%, reading of -0.2% was expected. PPI posted its biggest decline since July of 2009. Core PPI rose by 0.1% compared to 0.3% in January.

### Upcoming US data:

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, improving risk for sentiment as equity markets rally and by selling in cross trade to the GBP and AUD. The BOJ kept interest rates unchanged at 0.1% and announced a plan to double its lending program. The BOJ will expand its lending program to ¥20trln from ¥10trln announced in December. The vote to expand the BOJ's lending operation was split with two board members opposing expansion of quantitative ease. The fact that the vote was split may reduce the risk of future BOJ monetary ease. Prior to the BOJ policy announcement there had been debate over whether the BOJ would initiate policy action to target the JPY. BOJ Governor Shirakawa says that the latest policy by the BOJ is not directed at Forex. It's unclear whether today's action by the BOJ will slow deflationary pressures in Japan. The BOJ did not announce a

plan to buy Japanese government bonds. Increased purchase of Japanese government bonds by the BOJ would likely spark more significant selling pressure of the JPY and would be seen as a more aggressive ease. Today's BOJ policy decision to expand its lending auctions may not be enough to get the Japanese government to back off on BOJ pressure to do more to combat deflation and weaken the JPY. GBP surged in cross to the JPY with GBP supported by report of a sharp drop in UK claimant count. AUD rallied in cross trade to the JPY supported by RBA rate hike speculation as the RBA's DeBelle says that rates may need to rise a bit more. The only economic data released from Japan today was report that January tertiary index rose by 2.9%.

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 89.99 the March 16th low with resistance at 91.30 the February 23rd high.



## EUR

EUR drifted lower in reaction to report of weaker EU labor costs and selling in cross trade to the GBP. EU Q4 labor costs rose at the slowest annual rate in four years. Lack of wage pressure in the EU points to continued subdued inflation risk. Low inflation will likely encourage the ECB to maintain steady rate policy. EUR selling in cross trade to the GBP is attributed to report of a sharp improvement in UK employment outlook. EUR was also pressured by the uncertain outlook for Greek fiscal debt. Tuesday Standard & Poor's took Greece off its sovereign debt negative watch but there is concern Greece may not follow through on its deficit reduction. EUR failed to find

much support from Tuesday's decision by the Fed to maintain steady rate policy and there was little reaction to today's report of a sharp drop in US February PPI. There is an interesting report on Bloomberg report which states that UBS expects the EUR to drop to 1.3000 to the USD in the next three months pressured by the divergence in Fed and ECB policy outlook. According to UBS the Fed is expected to soon gradually begin raising interest rates and the ECB is not expected to raise rates until it the earliest the end of Q4.

On March 18th EU January current account will be released expected at 9.1bln compared to 9.4mln last month. EU January foreign trade will also be released on March 18th expected at 3.8bln compared to 4.4bln last month.

The technical outlook for the EUR is mixed as support holds above 1.3600. Expect EUR support at 1.3717 the March 16th low with resistance at 1.3818 the March 17th high.



**GBP**

GBP traded higher supported by report that UK claimant count posted its biggest monthly decline in 13 years. UK February claimant count declined by 32,300. This was the largest decline since November of 1997 and the report suggests that the UK labor market outlook has improved. GBP was also supported by the release of the BOE minutes for the March policy meeting. The BOE minutes state that the board voted 9 to 0 in favor of leaving rates and quantitative ease unchanged. The minutes also indicate that the board members are becoming more concerned about rising inflation risk in the UK. BOE focus on inflation risk may reduce the risk the BOE will expand quantitative ease. Sentiment towards the GBP remains extremely negative because of UK election uncertainty, and concern about UK debt. There has been substantial buildup of short positions in the GBP. The combination of today's better than expected UK employment report, BOE minutes and the most recent UK election polls which suggest the Conservatives could gain a majority in parliament sparked short covering of the

GBP. GBP may extend today's rally supported by diminished speculation that the BOE will expand quantitative ease. Focus turns to tomorrow's release of UK net borrowing report.

On March 18th February money supply and public-sector borrowing will be released. Money supply is expected at 0.8% compared to 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 positive as GBP trades above 1.5300. Expect near-term support at 1.5209 the March 17th low with resistance at 1.5475 the February 23rd high.



## CAD

CAD traded higher supported by the Fed's decision to maintain steady rate policy, stronger equity and commodity markets and report of better than expected Canadian wholesale trade. CAD is trading at a 28 month high versus the USD supported by improving Canadian economic outlook and speculation that the BOC may hike interest rates ahead of the Fed. Canadian wholesale trade surged by 3%, a 0.5% rise was expected. The surge in wholesale trade follows yesterday's release of strong Canadian manufacturing shipments and productivity data. Canada's January manufacturing shipments surged by 2.4% and Q4 productivity increased by 1.4%. The stronger manufacturing shipments and productivity data follows last week's report of better than expected employment growth in Canada. These reports may encourage speculation that the BOC will hike interest rates earlier than expected. 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 BOC pledged to maintain low yields through June of 2010 provided inflation remains in check. This week's main focus is the CPI report due for release Friday.

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 to 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 1.0000 with resistance at 1.0334 the March 5th high.



### AUD

AUD traded higher supported by hawkish comments from the RBA's DeBelle and strong Australian housing data. DeBelle said that interest rates may need to rise a bit more and that the RBA is monitoring house prices. AUD is supported by RBA rate hike speculation. The AUD rallied despite a statement from RBA watcher McCrann that the odds slightly favor a RBA positive April. At the beginning of the month the RBA hiked interest rates 25bps to 4%. The RBA is expected to raise interest rates to 5% by the end of the year so a pause in April should not be a major deterrent to demand for the AUD. Australia's Q4 dwelling unit starts rose 15.1%, a 0.6% rise was expected. The jump in the dwelling unit starts suggests that the Australian housing market is strong. Westpac leading index was also strong with the coincident index rising at its fastest pace since July of 2007. AUD was also supported by the BOJ's decision to expand quantitative ease. This sparked demand for the AUD in cross trade from to the JPY. Wednesday's decision by the Fed to hold rate policy steady adds to today's AUD rally as yield differential remains in favor of the AUD. The World Bank raised its forecast for China's 2010 GDP to 9.5% from 8.7% and its inflation forecast of 3.7% from 2%. The World Bank encourages China to revalue the Yuan. Continued strong growth outlook in China is a positive for the AUD. The outlook for RBA policy will be key to the direction of the AUD.

The technical outlook for the AUD is positive as the AUD trades above 9200. Expect AUD support at 9175 the March 17th low with resistance at 9378 the November 17th high.



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