

USD higher, consumer prices flat, continuing claims rise

- **USD:** Higher, Greek fiscal worries and tensions with China over Yuan revaluation, Philly Fed rises
- **JPY:** Mixed, manufacturing sentiment improves, gains limited as US equities rally
- **EUR:** Lower, Greece may seek IMF aid as EU aid to Greece appears less likely
- **GBP:** Lower, February budget deficit smaller than expected, CBI orders decline
- **CAD and AUD:** AUD & CAD lower, Canadian net foreign investment flows rise

Overview

The USD traded higher Thursday supported by concern about the Greek fiscal outlook and in reaction to increasing tensions between the US and China over the value of the Yuan. EUR was pressured by a Dow Jones report that Greece may seek IMF aid as aid from the EU seems less likely. Greek PM says it will give the EU one month to decide on an aid plan. US officials tell China that the value of the Yuan is a real concern. There is a movement in U.S. Congress to name China as a currency manipulator. Chinese officials continue to push back against pressure to revalue the Yuan and state that a rise in the Yuan would be a disaster for Chinese exports. US and Chinese rift over the Yuan dampens risk appetite and sparked selling of the commodity currencies. CAD outperformed supported by report of strong net foreign investment flows to Canada and diminished threat of BOC intervention. JPY traded higher in reaction to today's drop in risk appetite and by report of improving manufacturing sentiment in Japan. GBP traded lower in reaction to a decline in UK CBI orders with downside limited by report of smaller than expected UK February budget deficit. Today's US economic data was mixed with February CPI unchanged and jobless claims came in slightly higher than expected. Continuing claims unexpectedly rose by 12k. The US current account deficit widened by less than expected in the fourth quarter. LEI was reported a bit weaker than expected and the Philly Fed came in above expectation. Today's US economic data points to a slow US recovery with low inflation and USD consolidated early gains.

Today's US data:

February CPI was unchanged, a reading of 0.1% was expected. Initial jobless claims for the week ending 03/13 declined by 5k to 457k, a reading of 455k was expected. February LEI rose by 0.1%, a reading of 0.2% was expected. March Philly Fed came in at 18.9, a reading of 18 was expected. US current account deficit widened to \$115.59bln.

Upcoming US data:

No major US data is due for release Friday.

JPY

JPY traded mixed to higher supported by report of improving manufacturing sentiment in Japan and by gains in cross trade sparked by concern about the Greek fiscal outlook and growing rift between the US and China over the value of the Yuan. Japan's March Reuters manufacturing index rose to its highest level since June of 2008. The rise in Japan's manufacturing sentiment index follows recent economic data from Japan which suggests Japan's economy is improving. JPY gained in cross trade versus the EUR supported by safe haven demand and in reaction to report that a rift over Greek aid between Germany and Greece has deepened. The Greek prime minister warns that the Greek debt may spiral higher because of rising costs to finance the debt. JPY traded

higher versus the AUD with the AUD pressured by concern that the US rift with China over the Yuan value could increase the risk protectionism. Protectionism would add additional risk to the global recovery outlook. Wednesday 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. Today's report of stronger manufacturing sentiment from Japan will also reduce the risk of additional monetary ease from the BOJ. Diminished the BOJ ease speculation may be a modest positive for the JPY.

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 89.63 the March 9th low with resistance at 91.30 the February 23rd high.



EUR

EUR traded lower pressured by worries about the Greek fiscal outlook. It's becoming less likely that the EU will agree to an aid package for Greece. European press reports that the rift between Germany and Greece has deepened and Greece may turn to the IMF for help. If Greece is forced to go to the IMF for aid it would generate concern that the EU does not have a plan to deal with sovereign debt risk in the other peripheral EU nations. This means that the Greek fiscal crisis may turn into a contagion and spread to other parts of Europe. The Greek fiscal crisis is seen as a challenge to the unity of European Monetary Union and a possible threat to the EU economic recovery. EUR was also pressured by report of widening of the EU trade deficit. The January trade balance

widened to -8.9bln a reading -4bln was expected. Concern about the Greek debt crisis impact on the EU economy is a major focus for EUR trade. New York University economist Roubini says that he sovereign debt crisis in Europe increases the risk of a double dip recession for the EU. The risk of weaker economic outlook in the EU will encourage the ECB to maintain steady rate policy and delay its exit strategy. The EUR may be vulnerable widening of yield and growth differential as the US recovery appears to be on track and the Fed is believed to be closer to a shift in monetary policy.

The technical outlook for the EUR is mixed as support holds above 1.3600. Expect EUR support at 1.3530 the March 5th low with resistance at 1.3740 the March 18th high.



GBP

GBP traded lower but outperformed supported by report the UK February net government borrowing was less than expected. UK public borrowing rose by 12.4bln in February, a 14bln deficit was expected. Despite the fact that the February deficit was smaller than expected it still set a new record for UK monthly borrowing in February. Recent weakness of the GBP has partly reflected concern that rising UK budget deficit increases the risk that the UK could lose its AAA sovereign debt rating. GBP was pressured by report that January net lending to businesses declined by 6.5bln compared to 3.5bln in December and in reaction report that March CBI orders dropped to -37 from -36 last month. In addition, mortgage approvals in February declined to a nine-month low. The weak lending and mortgage approvals data and weaker CBI orders may encourage speculation that the BOE will be forced to expand quantitative ease to boost the UK economy. Recent weakness of the GBP has partly reflected BOE ease speculation. GBP experienced a sharp rally Wednesday sparked by report of a sharp drop in UK claimant count and in reaction to the BOE minutes for the March policy meeting which suggest that the BOE is becoming concerned with increasing inflation pressures in the UK. The claimant count report and BOE minutes dampened

BOE ease speculation. In light of today's weaker than expected UK data this BOE policy uncertainty may encourage new selling of the GBP.

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.

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GBPUSD - GBP/USD Spot 1.5278 (-0.23%) Weekly 15:09



CAD

CAD traded mixed initially supported by report of strong investment flows to Canada and in reaction to diminished threat of BOC intervention. January net investment flows to Canada were 11.83bln, a reading of 8bln was expected. Canada's PM Harper downplayed recent strength of the CAD. His comments appear to reduce the risk that Canada is considering intervention to try to slow the rate of the CAD rally. Harper said that Canada is competitive with CAD at parity with the USD. CAD is consolidating near a two year 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. Today's benign US CPI and as expected jobs data will encourage the Fed to continue to hold monetary policy steady as the US recovery appears to be weak. 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. A higher than expected inflation reading would fuel speculation of an earlier BOC rate hike.

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 1.0071 the March 17th low with resistance at 1.0334 the March 5th high.



AUD

AUD traded lower mainly pressured by selling in cross trade to the JPY. JPY was supported by repatriation flows ahead of Japan's fiscal year end on March 31st, stronger Japanese manufacturing sentiment and safe haven demand sparked by a growing rift between the US and China over the value of the Yuan. As noted above, tensions between the US and China over the value of the Yuan have intensified. US officials believe that the Yuan is undervalued and that this undervaluation contributes to widening global trade imbalances. There is a movement in the U.S. Congress to label China as a currency manipulator. If the rift between the US and China over the Yuan escalates it could generate concern about trade protectionism and the outlook for the global recovery. Today's Australian economic data was mixed with Q1 industrial trends reported up 6.3 points to 56.7 and February merchandise imports rose by 2%. The RBA confirmed that it sold A\$424mln in February compared to A\$295mln in January. AUD has held firm but remains reluctant to build on recent strength as uncertainty about the outlook for China's economy and RBA policy limit demand. RBA watcher McCrann said 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. The trade will be closely monitoring developments in regard to the Yuan and China's efforts to curb lending and slow growth.

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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