

USD mixed, EUR pressured by Greek debt worries

- **USD:** Mixed, re-emergence of concern about the Greek debt crisis
- **JPY:** Higher, BOJ expected to hold rate policy steady, gains in cross trade to Europe
- **EUR:** Lower, Greece may seek to amend the IMF/EU aid plan, investor confidence rises
- **GBP:** Lower, election polls point to increased risk of a hung parliament
- **CAD and AUD:** AUD & CAD higher, RBA hikes rate and signals more rate hikes are coming

Overview

USD traded mixed Tuesday firming against European currencies and weakening versus the commodity currencies and the JPY. USD gains versus Europe are attributed to fresh concern about the Greek fiscal outlook and UK election uncertainty. EUR traded lower pressured by report that Greece may seek to amend the IMF/EU aid plan and bypass the IMF. Greek officials have denied this report and the EUR stabilized at lower levels. GBP was pressured by the latest UK election polls which suggest the election could result in a hung parliament. Positive EU Sentix and improving UK construction PMI failed to boost demand for the EUR or GBP as focus returns to Greek fiscal troubles and UK election uncertainty. The commodity currencies traded higher with AUD supported by report that the RBA hiked rates 25bps to 4.25% and signaled that more rate hikes are coming. CAD tested parity versus the USD as crude oil prices trade at a 19th month high. JPY traded higher supported by spike in risk aversion sparked by weaker equities and today's negative news from Greece. No major US economic data was released in today's trade.

This week's main focus will be central bank policy meetings in Japan Wednesday and Europe Thursday. The BOJ is expected to leave monetary policy unchanged in reaction to recent weakness of the JPY. The ECB and BOE are expected to remain on hold.

Today's US data:

No major US economic data was released in today's trade.

Upcoming US data:

On April 7th February consumer credit will be released expected 2.8bln compared to 5bln last month. On April 8th initial jobless claims for week ending 04/03 will be released expected at 432k compared to 439k last week. On April 9th March wholesale inventories and sales will be released. Wholesale inventories are expected to rise by 0.3% compared to -0.2% last month. Wholesale sales are expected to rise by 0.1% compared to 1.3% last month.

JPY

JPY traded higher Tuesday supported by gains in cross trade versus the European currencies and in reaction to its spike in risk aversion sparked by weaker equity market trade. The Nikkei closed 56 points lower. There were numerous negative reports concerning the Greek fiscal outlook. One report suggests that Greece will seek to amend the IMF EU aid deal. Another report suggests that Greek banks are being hit by a wave of redemptions from wealthy Greeks and corporations. Concern that the cost of funding the Greek debt will continue to rise and that the current aid plans for Greece are insufficient sparked selling of the EUR/JPY cross. GBP/JPY traded lower pressured by UK election uncertainty as latest UK election polls suggest the election could result in a hung

parliament. JPY was also supported by a statement from Japan's Finance Minister Kan. Kan says that the BOJ is doing a good job and that the government and the BOJ are working together to combat deflation. Kan's comments current contrast with recent Japanese government pressure on the BOJ to take more action to combat deflation and boost the economy. Kan's comments reduce political pressure on the BOJ to ease policy at Wednesday's policy meeting. The BOJ is widely expected to hold rate policy steady partly in reaction to the recent weakness of the JPY and in response to report of improving Japanese business sentiment. Weaker JPY helps to combat deflationary pressures and the improvement in Japan's business sentiment confirms improving outlook for the Japanese recovery. At the February BOJ policy meeting the BOJ elected to expand its auctions but the policy board was split on the vote to expand monetary policy with some board members expressing concern that as the economy strengthens and Japan it makes it more difficult to justify monetary ease. The only economic data released from Japan today was the February leading indicator which rose to +1 with the coincident indicator at +0.4. Focus turns to the conclusion of the BOJ policy meeting on Wednesday. No policy change is expected but the BOJ may upgrade its economic assessment. Steady BOJ policy decision may lend temporary support to the JPY but JPY remains vulnerable to improving risk sentiment, strengthening US economic recovery and rising US bond yields.

BOJ will hold a two-day policy meeting starting on Tuesday, April 6th. No policy change is expected. On April 8th February current account will be released expected at ¥1.62trln compared to ¥0.90. On April 9th February machinery orders will be released expected at 3.7% compared to -3.7% last month.

Key technical levels to watch in USD/JPY include support at 93.55 the April 2nd low with resistance at 95.10 the August 24th high.



EUR

EUR traded lower pressured by concern about the Greek fiscal outlook sparked by report that Greece may seek to amend the IMF/the EU aid plan and bypass the IMF. Bloomberg reports that Greece wants to bypass IMF involvement in the aid plan because the IMF restrictions are too stringent. There were additional worries about the Greek debt outlook as the Daily Telegraph reports that Greek banks are being hit by a wave of redemptions from wealthy Greeks and corporations. These redemptions will weaken the Greek banking system and could lead to even higher costs to finance the Greek debt. EUR stabilized in reaction to statement from Greek officials denying that Greece will seek to amend the IMF/EU aid plan. Today's Greek news overshadowed positive economic data from the EU. EU April Sentix index rose to its highest level since June of 2008 reported at 2.5 compared to -7.5 last month, a reading of -6 was expected. This week's main focus will be Thursday's ECB policy meeting. Ongoing concern about sovereign debt risks in peripheral European nations is seen as a threat to the recovery and will likely limit the ECB from an early exit from accommodative monetary policy. The ECB is expected to hold monetary policy unchanged and maintain a dovish outlook. With US bond yields rising to 10 month high and the ECB seen on hold yield differential is moving in favor of the USD. EUR remains vulnerable to concern about EU sovereign debt risk and rising US bond yields.

On April 7th, March EU service PMI will be released expected at 52 compared to 51.8 last month along with Q4 GDP expected to rise by 0.3% and Q4 PPI expected at 0.8%. February German industrial orders will also be released on April 7th expected at 2% compared to 4.3% last month. On April 8th EU February retail sales will be released expected at -0.2% compared to -1.3% last month along with February German industrial production and trade balance. The German industrial production is expected to rise by 0.7% and the trade balance is expected to narrow to 8bln from 8.7bln last month. ECB meet on April 8th .No policy change is expected.

The technical outlook for the EUR is negative as EUR trades below 1.3500. Expect EUR support at 1.3267 the March 25th low with resistance at 1.3467 the April 6th high.



GBP

GBP traded lower pressured by UK election uncertainty. UK PM Brown announced the date for the UK general election will be May 6th. The latest UK election polls once again point to increased risk of a hung parliament with neither the Conservative nor the Labor party gaining a majority. A hung parliament will reduce the potential for quick action from the UK to reduce the government deficit. Failure to reduce the UK budget deficit could lead to a downgrade of the UK AAA sovereign debt rating. GBP traded lower despite report of improving UK construction PMI. UK March construction PMI rose to its highest level in two years at 53.1 compared to 48.5 last month. Focus turns to the BOE policy meeting Thursday. The combination of UK election uncertainty and improving domestic economic outlook is expected to encourage the BOE to maintain steady rate policy and the current level of asset purchases. The BOE is unlikely to make any significant policy changes that could rock the boat before the UK election. Investors will be closely monitoring whether the BOE leaves the door open for future asset purchases or signals that improvement in the economy will reduce the need for more asset purchases by the BOE. The former appears to be the most likely outcome from Thursday's BOE policy meeting. GBP may weaken in reaction to a dovish BOE policy bias.

This week's UK economic calendar includes the April 7th release of March consumer confidence expected at 81 compared to 80 last month along with March services PMI expected at 58.2 compared to 58.4 last month. On April 8th February industrial production will be released expected at -0.1% compared to -0.4% last month. BOE meet on April 8th. No policy change is expected. On April 10th March PPI will be released expected at 0.5% compared to 0.3% last month.

The technical outlook for GBP is mixed as GBP traded below 1.5200. Expect near-term support at 1.5043 the March 31st low with resistance at 1.5320 the April 5th high.

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GBPUSD - GBP/USD Spot 1.5197 (-0.56%) Weekly 15:26



CAD

CAD traded at parity to the USD for the first time since July 2008 supported by rising price of crude and BOC rate hike speculation. Crude prices stabilized near an 18 month high near \$86 a barrel. CAD direction is closely correlated to the price of crude. The combination of improving Canadian domestic economy and rising Canadian inflation generates speculation that the BOC will hike interest rates ahead of the Fed. According to a Bloomberg survey the BOC is expected to raise its overnight rate by 2 percentage points to 2.25% by the middle of 2011. CAD continues to outperform supported by improving Canadian domestic economic outlook. Last Wednesday Canada reported that January GDP rose more than expected. A stronger Canadian GDP confirms that the Canadian domestic recovery is gaining momentum. The improvement in Canada's GDP will encourage speculation that the BOC may move the timetable for a rate hike forward, possibly as early as June. CAD traded higher last week supported by hawkish comments from BOC Governor Carney. Carney said that the Canadian recovery was faster than expected and he suggested that he was open to consideration of possible rate hike as early as June 1st. The BOC has pledged to maintain low yields through June of 2010 conditional on inflation remaining in check. Canada's core inflation rate rose to its highest level in 16 months. Canada's February CPI rose by 0.4%, a 0.3% rise was expected. The core inflation rate rose by 2.1%. The core inflation rate is above the BOC's 2% inflation target. The above target CPI increases the risk of an earlier BOC rate hike. CAD should remain well supported on breaks by speculation that the BOC will hike rates before the Fed. Focus turns to this Friday's release of Canadian unemployment. Canada is expected to have created over 25k new jobs last month. This would mark the third straight month of job creation in Canada. A strong Canadian employment report will add additional fuel to BOC rate hike speculation.

This week's Canadian economic calendar includes the April 7th release of February building permits expected at 2% compared to -4.9% last month along with March Ivey PMI expected 54 compared to 51.9 last month. On April 9th March unemployment rate and employment growth will be released. The unemployment rate is expected to fall by 0.1% to 8.1% with employment growth at 29K compared to 20.9k last month.

The technical outlook for CAD is positive as USD/CAD trades below 1.0000. Look for near-term support at 0.9975 the July 15th low with resistance at 1.0230 the March 30th high.



AUD

AUD traded at a 19 month high versus the USD supported by report that the RBA hiked rates 25 basis points to 4.25%. The RBA left the door open for future rate hikes. There had been some uncertainty ahead of today's RBA policy meeting about whether the RBA would elect to pause in its rate hike cycle because of recent soft domestic economic reports from Australia but the RBA said that it's appropriate for rates rise towards average that Asian growth was strong and that Australian output growth would exceed last year. The RBA went on to say that inflation is likely to remain within the RBA target range. The normal average for Australian overnight rate is seen at 4.25% to 5%. RBA Governor Stevens appeared on Australian TV last week expressing concern about dangers of low interest rates and rising debt levels. Today Stevens made specific reference to his concern about rising Australian house prices. The RBA is concerned that low yields and increased borrowing could lead to a bubble in the housing market. The only economic data from Australia today was the March job ads which was reported at +1.8%. PIMCO management company says that it favors the growth linked currencies like the AUD because of attractive yields and anticipation of slower growth in the US and Europe. According to a Bloomberg report investors are the most bullish the AUD since 2000.

On April 8th March employment will be released expected unchanged at 5.3% with employment growth expected at 30k compared to 20k last month.

The technical outlook for the AUD is positive as the AUD rallies above 9200. Expect AUD support at 9165 the April 6th low with resistance at 9378 the November 17th high.



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