

USD higher, S & P cuts Portugal's rating, Greek to junk

- **USD:** Higher, Greek bailout uncertainty, house prices rise less than expected, consumer confidence rises
- **JPY:** Higher, supported by risk aversion and report that the BOJ will raise its CPI forecast
- **EUR:** Lower, S & P cut Portugal's debt rating, Greek debt rating cut to junk
- **GBP:** Lower, mortgage approvals miss forecast, UK election looks headed for a hung parliament
- **CAD and AUD:** AUD & CAD lower, tracking equities & commodity prices, Shanghai index at seven month low

Overview

USD traded higher Tuesday as the Greek debt crisis worsens. Investors fear that Greece will not receive aid in time to avert a debt default. S & P cut the Greek debt rating to junk. Monday German officials called for strict austerity measures from Greece before aid will be delivered. Greek/German ten-year bond spread widened to a record high 689bps and the Greek five-year credit default spread rose the record high of 736bps. The cost of financing the Greek debt continues to rise making it more difficult for Greece to finance its debt in the open market. Fear of the Greek contagion adds to today's spike in risk aversion as the cost of funding Portugal's debt rose sharply and Italy had trouble attracting demand for its latest bond auction. S & P downgraded Portugal's debt rating to A- from A+. USD traded to the day's highs in reaction to the downgrade of Portugal's debt rating and Greece to junk as stocks tanked. GBP traded lower pressured by report of lower than expected UK mortgage approvals and fear the UK election will result in a hung Parliament. Commodity currencies traded lower pressured by weaker equity markets. The Shanghai index closed at a seven-month low pressured by concern that China will take additional measures to curb growth. Greek debt turmoil and Chinese tightening fears contributed to weaker equity and commodity prices. JPY traded higher supported by declining equities, a spike in risk aversion and report that Japan's central bank is expected to raise its CPI forecast. Today's US economic data was mixed with Case Shiller House Price Index rising by less than expected and consumer confidence posted a stronger than expected rise. Focus turns to Wednesday's conclusion of the FOMC policy meeting. The FOMC is expected to maintain steady policy and present an upbeat assessment of the US economic outlook.

Today's US data:

February Case Shiller home price index rose 0.6%, a 1.2% rise was expected. House prices are better than they were a year ago but the rise is not strong enough to confirm a housing market recovery. April consumer confidence rose to 57.9, a reading of 54.2 is expected.

Upcoming US data:

FOMC policy meeting will be held on April 27/28th. No policy change is expected. On April 29th initial jobless claims for the week ending 4/24 will be released expected at 448k compared to 456k last week. On April 30th Q1 employment cost index, GDP, core PCE index, Chicago April PMI and April University of Michigan final consumer sentiment will be released. The Q1 employment cost index is expected unchanged at 0.5%. Advanced Q1 GDP is expected at 3.5% compared to 5.6% last quarter. Q1 core PCE is expected at 1.4% compared to 1.8% last quarter. Chicago PMI is expected at 60 compared to 58.8 last month and the Michigan consumer sentiment is expected unchanged at 69.5.

JPY

JPY traded higher supported by declining equities and a spike in risk aversion. Equity markets traded lower in reaction to worsening of the Greek debt crisis and concern that China may take additional measures to tighten monetary conditions to curb growth. The Shanghai index closed on a seven month low. JPY was also supported by report that the BOJ is expected to raise its CPI forecast in its semi-annual economic outlook due for release on April 30th. The BOJ is expected to raise its core CPI forecast to flat or a slight rise in 2010 /2012 compared to a forecast of - 0.2% in the January report. The BOJ is also expected to confirm that it will maintain accommodative policy for the foreseeable future. JPY posted sharp gains in cross trade with EUR/JPY pressured by Greek debt default fears and GBP/JPY pressured by weaker than expected UK mortgage approvals data and speculation the UK election will result in a hung parliament. JPY direction is expected to continue track equities.

This week's Japanese economic calendar includes the April 28th release of March retail sales expected to fall by 1.1% compared to 0.9% rise last month. On April 30th March CPI will be released expected to rise by 0.3% compared to -0.1% last month. March household spending, unemployment, industrial output, housing starts and construction orders will also be released on April 30th. Household spending is expected to decline by 0.7% compared to a 0.5% decline last month. The unemployment rate is expected unchanged at 4.9% with the participation rate rising to 59.1 from 58.9 last month and employment growth to decline by 100k. Industrial output is expected to rise by 1% compared to a 0.6% decline last month. Housing starts are expected to rise by 3% compared to 8% fall last month and construction orders are expected to decline by 6.4% compared to 20.3% last month.

Key technical levels to watch in USD/JPY include support at 92.74 the April 22nd low with resistance at 94.78 April 5th high.



EUR

EUR traded sharply lower pressured by worsening of the Greek fiscal crisis as the cost of funding the Greek debt continues to rise. Investors fear Greece will not receive enough aid in time to important that the fault. German officials said that Greece will not receive aid unless certain strict austerity measures are taken. Greek German 10 year bond spread widened to a record 689 bps and the Greek five-year credit default spread widened to a record high 736bps. EUR was also pressured by fear that the Greek debt crisis may spread as today's Italian bond auction almost failed to attract enough buyers. Investors are monitoring the fiscal outlook in Portugal and Spain. Bloomberg reports that Portugal is at risk becoming the new Greece. The cost to fund the Portuguese debt has risen by more than double the past year's average. ECB officials continued to try to down play the Greek contagion risk. ECB's Pamademos says that other countries have similar problems to Greece but they're not of the same degree. He went on to say that he believes that the EU will agree on a Greek bailout plan in early May. Positive EU economic data was completely overshadowed by the Greek debt crisis. German May GfK consumer confidence survey improved to 3.8 from 3.4 in April. EU import prices surged in March by 1.7% compared to 1% last month. ECB's Nowotny noted Monday that the divergence in EU economies could complicate ECB monetary policy. Despite today's German and EU data which points to strengthening recovery and building inflationary pressures the ECB is expected to make no policy changes for the foreseeable future because of uncertainty about sovereign debt risk in Greece and peripheral European nations. EUR remains vulnerable as long as Greek tensions are center stage. The majority of the German electorate is against aid for Greece. German elections are scheduled for mid-May. The approach of the German elections may further complicate the timeframe and details of possible aid for Greece. If aid to Greece does not come soon the rising cost of funding the Greek debt may force Greece to default. EUR traded to the day's lows in reaction to report that S & P cut the Greek debt rating to junk.

This week's EU economic calendar includes the April 29th release of EU business climate expected at 99.8 compared to 99.6 last month. On April 30th EU March unemployment will be released expected unchanged 10% along with April HICP expected at 1.5% compared to 1.4% last month.

The technical outlook for the EUR is negative as EUR struggles to hold above 1.3300. Expect EUR support at 1.3206 the April 23rd high with resistance at 1.3395 the April 27th High.

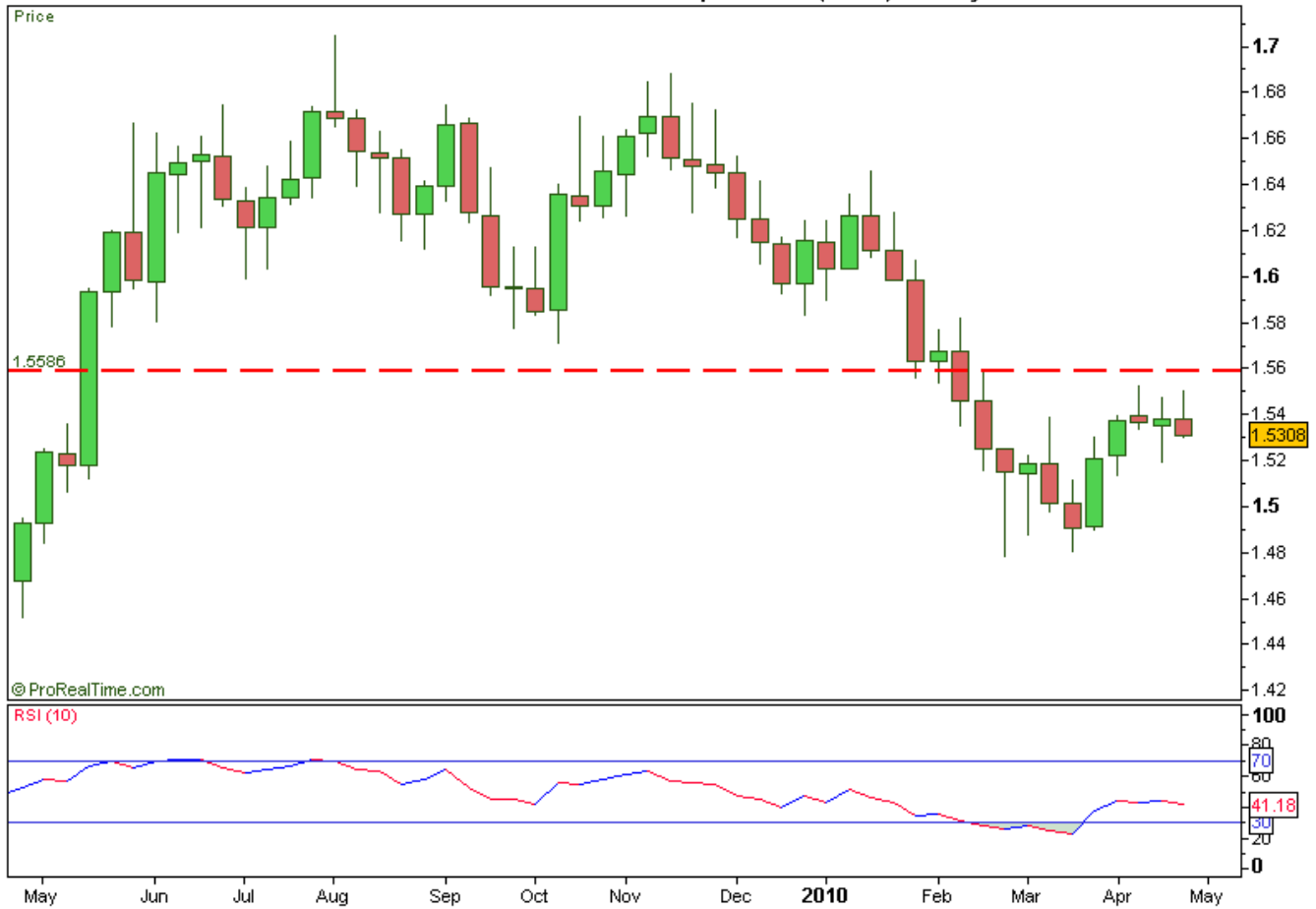


GBP

GBP traded lower pressured by report of below expectation UK mortgage approvals and speculation that the upcoming May 6th UK general election will end in a hung parliament. March mortgage approvals rose by 34k, a reading of 38k was expected. The smaller than expected rise in UK mortgage approvals generates concern about the strength of the UK housing recovery. The latest UK election polls suggest that no party will win a majority in parliament. The lack of majority in UK Parliament makes it less likely that UK will take quick action to reduce its record budget deficit. The failure of the UK to take quick action to reduce its budget deficit could lead to a downgrade of the UK AAA sovereign debt rating. Former BOE Deputy Governor Geive said he does not expect the UK sovereign rating to be downgraded and he said that the government has pledged to have the budget deficit over the next four years. According to Geive there is political will to reduce the UK budget deficit. GBP continues in a sideways pattern as investor's debate the potential impact of the UK election, the UK budget outlook and uncertainty about BOE monetary policy.

On April 29th April GFK consumer confidence will be released expected at -12 compared to -15 last month.

The technical outlook for GBP is mixed as GBP struggles to hold above 1.5400. Expect near-term support at 1.5192 the April 19th low with resistance at 1.5524 the April 15th high.



CAD

CAD traded sharply lower pressured by a spike in risk aversion and weaker equity and commodity markets. The combination of worsening Greek debt crisis and concern about the impact of tightening in China sparked selling of equities and commodities. CAD traded to the day's lows as US equities tank on news of the downgrade of Portugal's debt. As noted above, European equities traded 1.5% lower and the Shanghai index closed at a seven-month low. Today's spike in risk aversion is the exact opposite of Monday's trade. Equity markets traded higher Monday supported by an upbeat G-20 communiqué and NABE report which expressed optimism about the US recovery and job creation. CAD was also pressured by report that April consumer confidence fell 7.8 points to 84.8. CAD traded lower despite report that private economists have raised their forecast for Canada's 2010 GDP to 3.1% from 2.6% in the survey taken in December with exports expected to grow by 11% in 2010. These economists expect Canada's unemployment rate to drop to 8.1% from original forecast of 8.5%. Risk appetite, the direction of crude oil and BOC rate hike speculation are the main drivers for CAD trade. Risk appetite took a hit in Tuesday's trade, oil prices traded lower as crude oil is approaching \$83 a barrel and recent Canadian economic data clouds the outlook for an earlier BOC rate hike. Last week Canada reported weaker than expected inflation and retail sales. Canada's annual inflation rate slowed to 1.4% from 1.6% last month with the core inflation declining by 0.2%. Canada's retail sales rose by 0.5% in February, a 0.8% rise was expected. These reports coupled with today's report of a drop in Canada's consumer confidence may dampen BOC rate hike speculation. Canadian inflation and retail sales data suggest that the BOC may not be in a hurry to withdraw stimulus. This week's Canadian economic calendar is relatively light with investors looking to the data to gauge the probability of an earlier BOC rate hike.

This week's Canadian economic calendar includes the April 30th release of Q1 GDP expected to rise by 0.8% compared to 0.6% last quarter. April raw material prices will be released on April 30th expected at 0.6% compared to 0.4% last month.

The technical outlook for CAD is mixed as USD/CAD consolidates above 1.0000. Look for near-term support at 0.9971 the April 26th low with resistance at 1.0164 the April 20th high.



AUD

AUD traded sharply lower as equity markets and commodities are pressured by Greek debt default fears, downgrade of Portugal's debt rating and concern about the impact of tighter credit conditions in China. German officials are reluctant to approve of aid for Greece unless Greece meets significant austerity guidelines. The Shanghai index closed at a seven-month low as tighter credit conditions in China generate concern about the sustainability of the Chinese recovery. China is a major export destination for Australia and is key to the outlook for growth in Asia. AUD traded lower despite report higher than expected Q1 PPI. Q1 PPI rose by 1% 6% rise was expected. AUD is consolidating near a 19 month high versus the USD with gains limited by uncertainty about RBA policy outlook. AUD has been firming supported by RBA rate hike speculation. Late last week AUD rally stalled in reaction to statements from the RBA which generate doubts that the RBA will hike rates next month. RBA Governor Stevens said that interest rates are close to the average and the future course of rates is an open question. His comments dampen speculation that the RBA will raise interest rates again next month. Last Thursday Australia reported weaker than expected vehicle sales with March new vehicle sales declining by 2.7%. The decline in vehicle sales may dampen enthusiasm about the strength of the Australian economic recovery and also dampen RBA rate hike speculation. The RBA hiked rates by 25bps to 4.25% earlier this month. Last Thursday, Australia reported that inflation expectations rose to the highest level since October 2008. The rise in Australia's inflation expectations could add pressure on the RBA to hike rates. Today's report of higher than

expected PPI may increase the chance of an RBA rate hike at the May 4th policy meeting. Focus turns to Wednesday's release of Australia's Q1 CPI.

On April 28th release Q1 CPI will be released expected to rise by 0.8% compared to 0.5% last quarter. On April 29th February leading Index will be released expected at 0.1% compared to -0.2% last month and Q1 business conditions expected at 14 compared to 13 last month. On April 30th March private sector credit will be released expected unchanged at 0.4%. Next RBA policy meeting will be held on May 4th.

The technical outlook for the AUD is mixed as the AUD struggles to hold above 9300. Expect AUD support at 9157 the April 19th low with resistance at 9339 the April 21st high.



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