Daily Forex Report

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USD higher, S&P downgrade Spain to AA

- **USD:** Higher, Dollar index weakens from 11 month high pressured by Greek bailout hope, firmer US stocks
- **JPY:** Lower, pressured by a shift in risk appetite as US equities rebound, speculation of a larger Greek bailout
- **EUR:** Lower, EU/IMF may broaden Greek bailout effort to €120bln, S & P downgrade Spain's debt rating
- **GBP:** Lower, concern about UK sovereign debt rating, election uncertainty
- **CAD and AUD:** AUD & CAD higher, Australian CPI rises increasing the risk of a rate hike

Overview

After trading at a new one-year low versus the USD sparked by a downgrade of Greek and Portugal's debt ratings and fear that the EU sovereign debt crisis is spreading, the EUR staged a rally Wednesday. The EUR was supported by report that the EU and IMF may increase aid to Greece to €120bln over three years and in reaction to rhetoric from German officials pledging solidarity with Greece. The EUR recovery rally stalled in reaction to a statement from the head of the IMF that he would not release figures on Greek aid today. EUR turned lower for the day in reaction to a statement from German Chancellor Merkel expressing frustration with the pace of Greece's reform effort and report that S & P downgraded Spain's debt rating to AA with a negative outlook. Look's like no Greek aid today. GBP traded lower pressured by concern about the UK sovereign debt rating post-UK election. AUD traded higher supported by report of higher than expected Australian CPI and a statement from the RBA's deputy governor that the sovereign debt crisis in Europe is having no impact on Australia. The Australian CPI rise generates speculation that the RBA will hike rates again in May. JPY traded lower despite a sharp decline in European and Asian equity markets with selling pressure attributed to Japanese bank selling and Greek bailout hope. No major US economic data was released in today's trade. Investors await further developments on Greece and this afternoon's FOMC policy statement. Investors are waiting to see if the German Parliament acts quickly to approve aid for Greece. The FOMC is expected to maintain steady policy, present an upbeat assessment of the US economic outlook and reaffirm commitment to accommodative monetary policy.

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

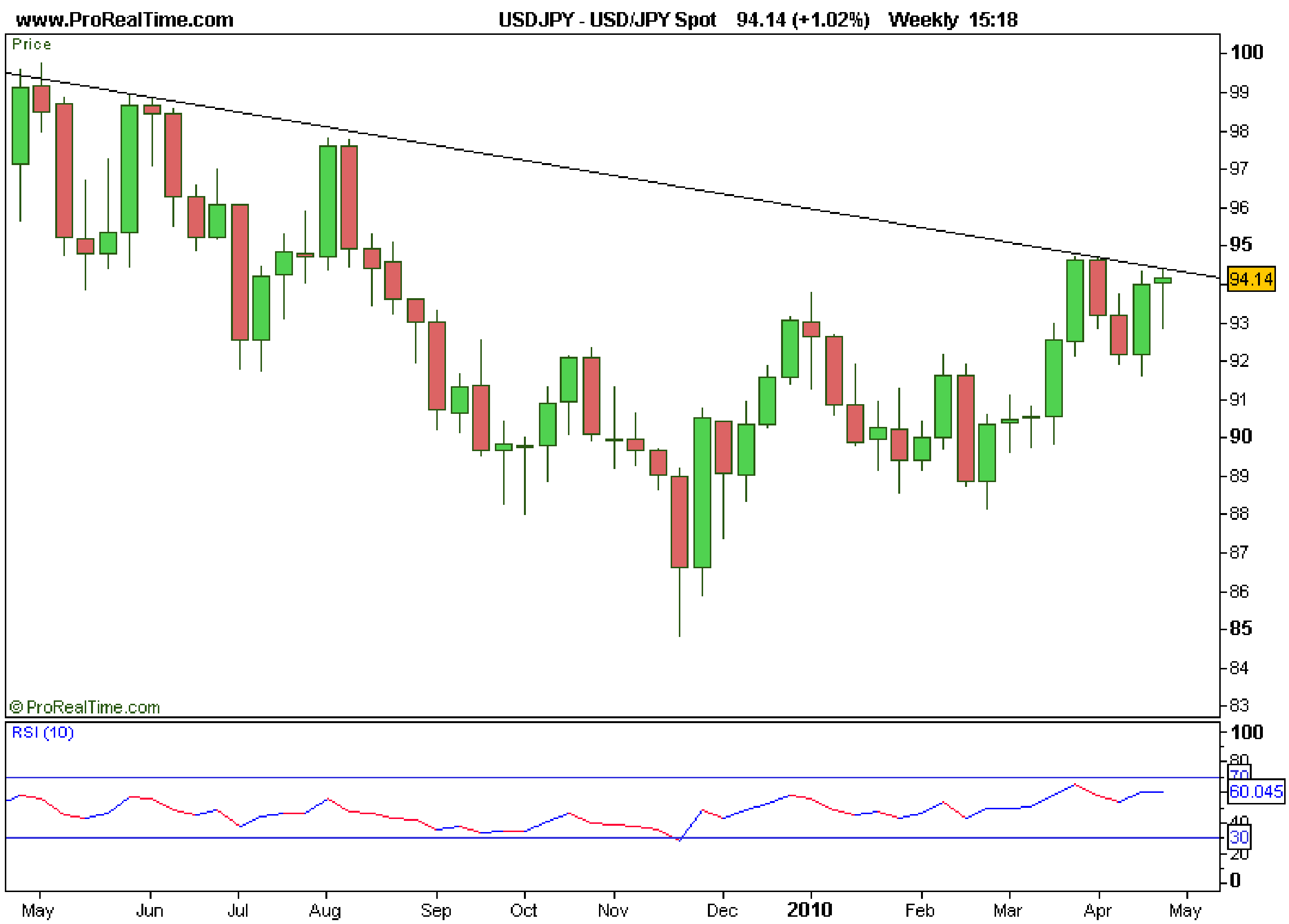
Upcoming US data:
On April 29th initial jobless claims for the week ending 4/24 will be released expected at 448k compared to 456k last week. On April 30th Q1 employment cost index, GDP, core PCE index, Chicago April PMI and April University of Michigan final consumer sentiment will be released. The 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
It is getting harder to keep up with the shifts in market sentiment and direction as investors focus on the potential fallout from the Greek debt crisis. In early Asian trade the JPY traded higher supported by a spike in risk aversion as the Nikkei tumbles over 300 points. The Nikkei was pressured by concern that the Greek debt crisis is spreading. JPY reversed to trade sharply lower into the US session pressured by selling from Japanese banks

and a EUR and AUD rebound in cross trade. EUR/JPY rallied over 1% with the EUR supported by report that the EU/IMF may increase aid to Greece. AUD/JPY traded 1.5% higher with the AUD supported by report of higher than expected Australian inflation and comments from the RBA deputy governor that the sovereign debt crisis in Southern Europe has had no impact on Australia. JPY was also pressured by a shift in risk sentiment as US equities trade higher despite the worsening of n the Greek debt crisis. US equities were supported by report of better earnings from Dow and Shell and speculation that the Fed will confirm a dovish policy bias in today's FOMC policy statement. Japanese banks were featured sellers of the JPY but there was no indication that this selling was related intervention. Dealers indicate that he JPY strength was related to Toshin demand. The only Japanese economic data released today was report that Japan's March retail sales rose by 0.8%.JPY direction is expected to continue track equities.

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 92.99 the April 28th low with resistance at 94.78 April 5th high.

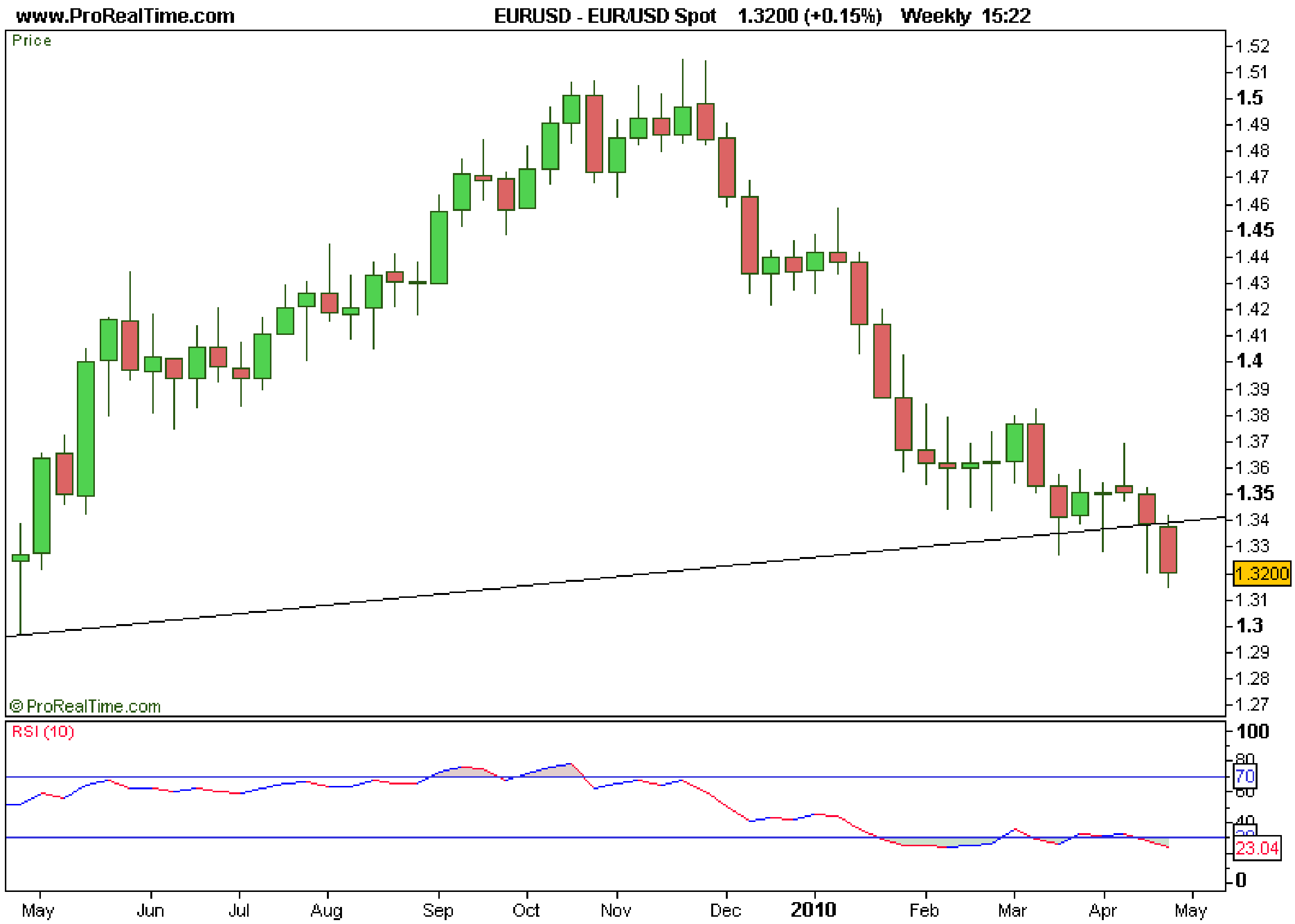


EUR

EUR traded higher rebounding from a one-year low of 1.3145 versus USD. It is unclear what sparked the EUR recovery as the news concerning the Greek debt crisis continues to worsen. In reaction to S&P downgrade of the Portugal and the Greek debt rating Tuesday, Asian and European stock markets plunged, Greek interest rates soared and Greek credit spread widened to record levels. Greek 10 year bond yields hit 13.1%, Greek/ German 10 year government bond yield spread widened to 1.021 bps. The cost to insure Greek debt is now the highest in the world. US equity markets shrugged off the latest news concerning sovereign debt risk in Southern Europe and traded higher Wednesday. Firmer US equity market trade coupled with report that the IMF may increase its planned aid for Greece and a statement from French officials that Germany may soon approve additional aid for Greece sparked a short squeeze in the EUR. It's not clear, but it's possible that investors have concluded that the news can't get much worse for Greece. The key will be how well EU officials can contain the potential contagion from the Greek debt crisis. Wire services report that German and IMF officials are meeting to determine how to deal with the Greek crisis and the London press reports that the EU and IMF are making progress on Greece and could increase the size of Greek aid from €45bln to €120bln. An increase in aid to Greece may avert a near-term debt default but will have only temporary impact. Greece must take significant austerity measures to reduce its budget deficit to restore investor confidence in the Greek financial markets. There are numerous reports that the Greek crisis may result in the end of European Monetary Union. These reports seem to be extreme as German officials have a significant stake in preserving European Monetary Union and Germany may be moving closer towards broadening its bailout effort. Wire services report that the Greek bailout may top €120 billion over the next three years.

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 breaks 1.3200. Expect EUR support at 1.3120 the April 29th 2009 low with resistance at 1.3395 the April 27th High.

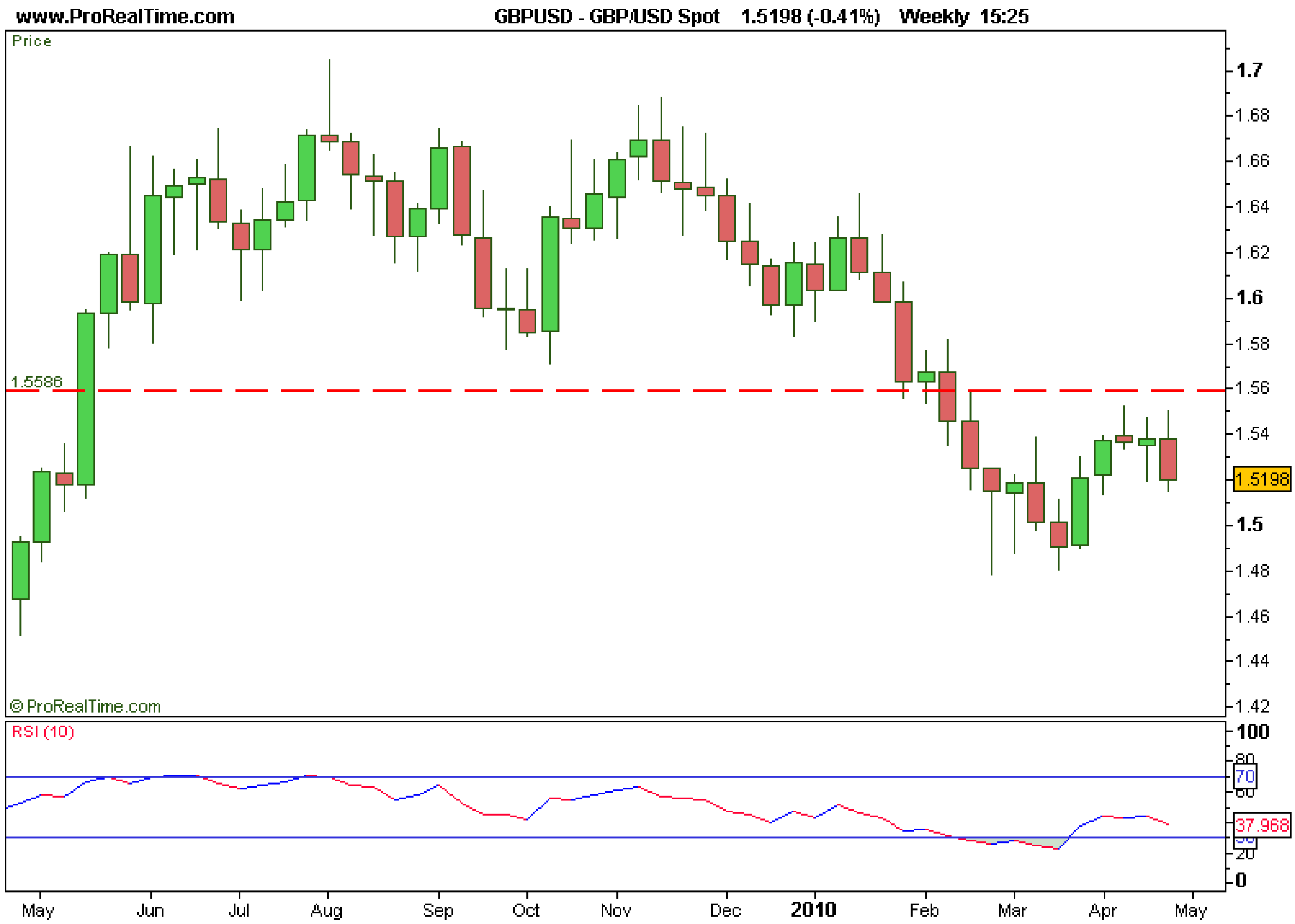


GBP

GBP traded lower pressured by a rumor that a UK clearing firm would soon release a report warning that the UK AAA debt rating would be cut after the UK election. This rumor proved false and GBP stabilized regaining its footing in reaction to report that the EU and IMF plan a larger bailout for Greece. In addition the UK clearing firm issued a report that they doubt the UK debt rating will be downgraded. GBP rebound was limited by selling in cross trade to the EUR as the EUR rallies on short covering sparked by Greek bailout hope. GBP gains were also limited by a statement from former BOE official Besley that the UK recovery remains fragile and inflation is expected to remain low. His comments suggest that the BOE is unlikely to move towards normalization of monetary policy anytime soon. Apart from the fallout from the Greek debt crisis, the main focus for GBP is the upcoming May 6th election. 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. The risk of the UK may have increased by the fact of aggressive actions taken by S&P downgrade Portugal and Greek debt rating. Ratings agencies may not want to make the same mistakes they made missing the risks of the subprime debt. 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 1.5130 the April 6th low with resistance at 1.5487 the April 27th high.

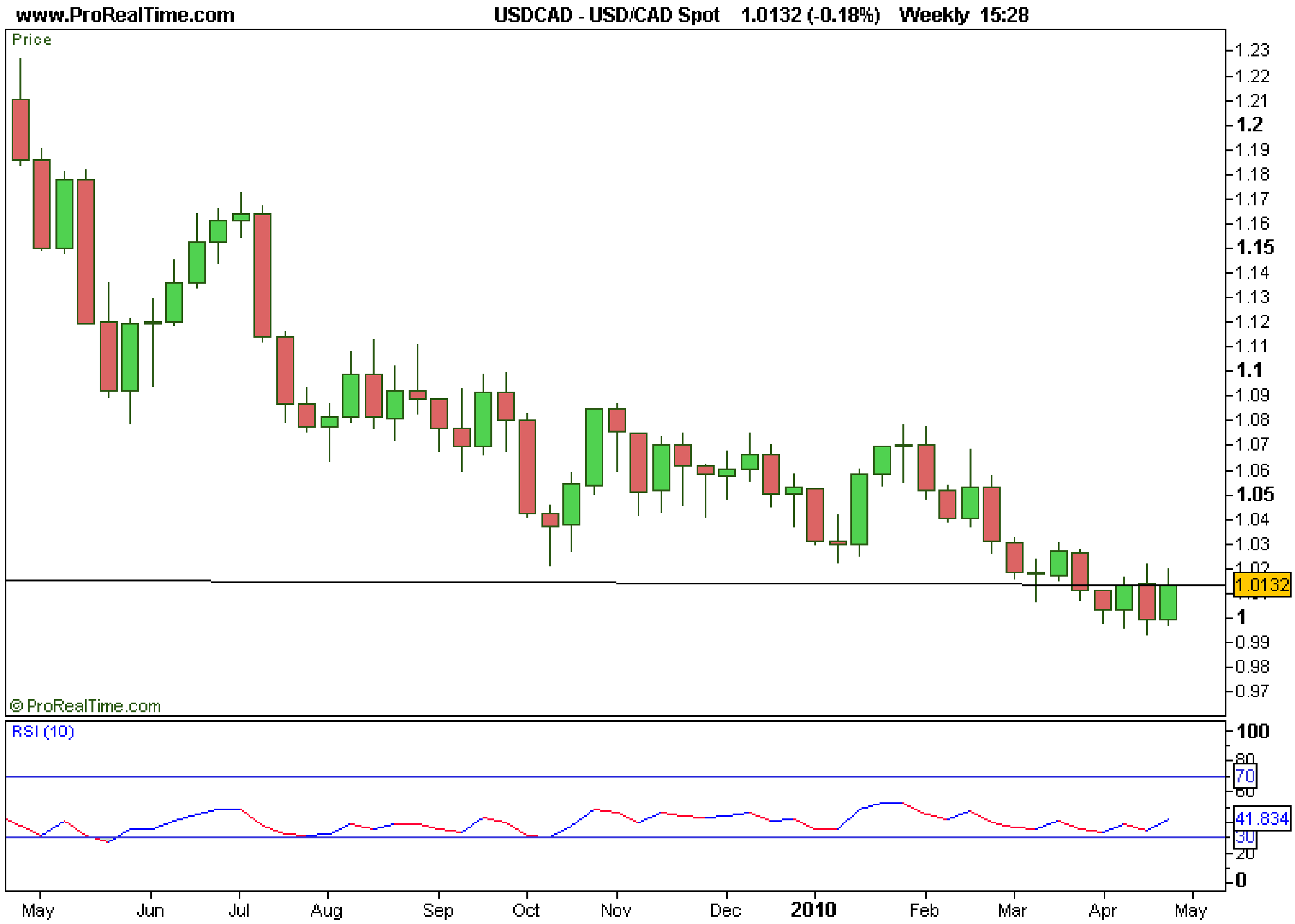


CAD

CAD traded higher supported by improving risk sentiment sparked by report that the EU/IMF plan a larger bailout for Greece. The report of the larger bailout plan for Greece helped to support US equities and risk appetite. CAD plunged in Tuesday's trade tracking sharp drop in equities and commodities sparked by S&P downgrade of Portugal and Greek debt rating. Asian and European equities traded sharply lower today but the US equity market stabilized. This coupled with firmer gold prices boosted demand for the CAD. The Greek debt crisis overshadows positive news from Canada. 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%. CAD traded higher despite a statement from BOC Governor Carney that BOC was prepared to intervene against excessive CAD because strong CAD hurts Canadian exports to drag on Canadian economic growth. CAD price direction will continue to track risk sentiment with gains possibly limited by threat of intervention and BOC policy uncertainty. 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 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 trades above 1.0100. Look for near-term support at1.0000 the April 27th low with resistance at 1.0302 the March 26th high.

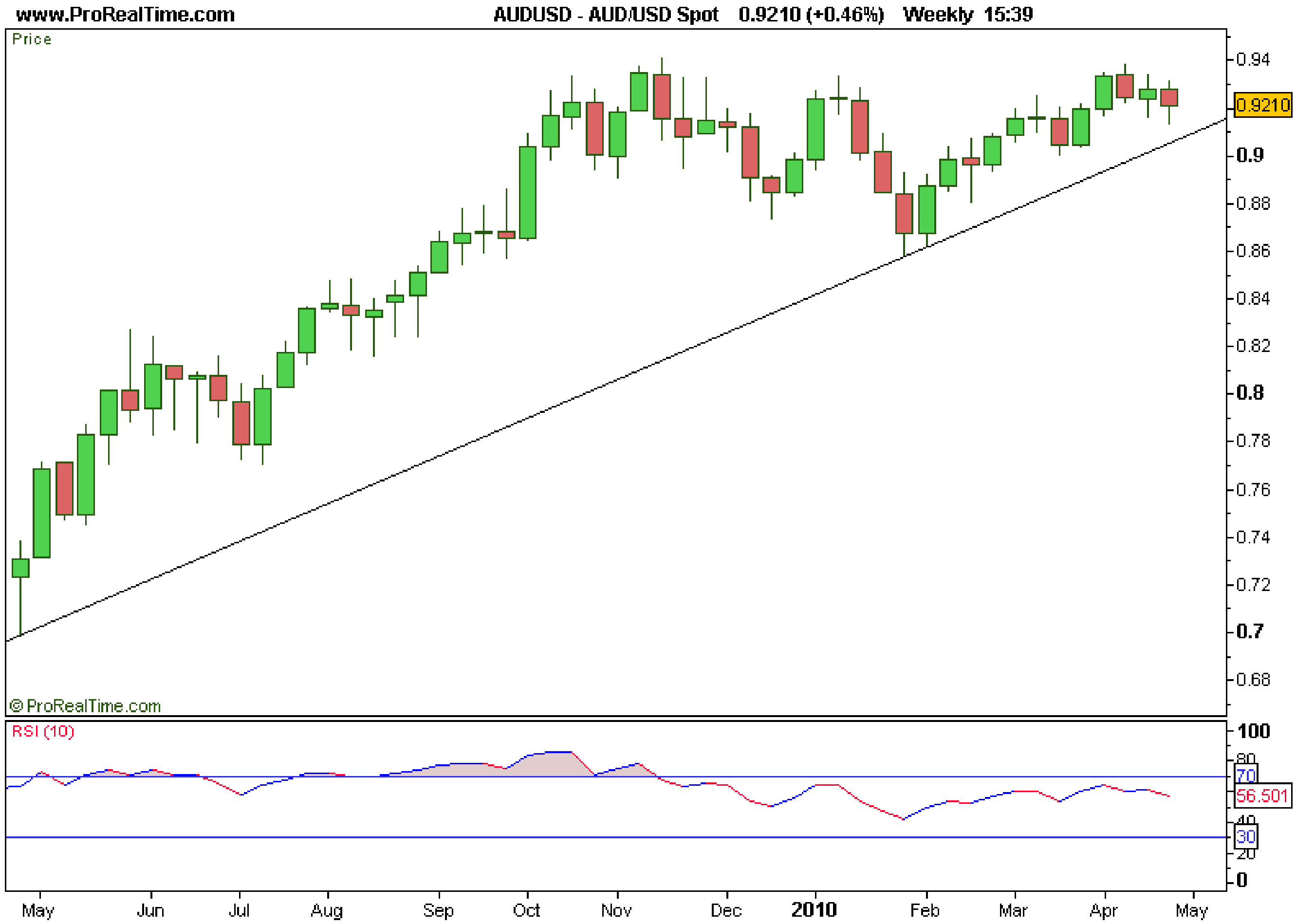


AUD

AUD traded higher supported by a report of higher than expected Australian inflation and a statement from RBA Deputy Governor Debelle that the EU sovereign debt crisis is having no impact on Australia. Australia's Q1 CPI rose by 0.9%. The rise in CPI will increase pressure for the RBA to hike rates next week. Today's CPI report follows yesterday's report of higher than expected Q1 PPI rise. Q1 PPI rose by 1%, a 0.6% rise was expected. Debelle's statement helped to boost investor risk appetite and demand for the AUD. AUD was also supported by improving risk appetite in the US trading session as US equities traded higher. AUD traded sharply lower Tuesday 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 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. 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 CPI may increase the chance of an RBA rate hike at the May 4th policy meeting. Speculation that China may take additional actions to tighten credit and curb lending may limit demand for commodities and the AUD.

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 9131 the March 31st low with resistance at 9287 the April 27th of high.



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