

USD higher, CHF rises to record high versus EUR

- **USD:** Higher, concern about EU debt contagion, China slowdown, productivity slows, jobless claims drop
- **JPY:** Higher, supported by a spike in risk aversion as Asian equities tank
- **EUR:** Lower, fear of Greek contagion risk, ECB leaves rates policy unchanged, EUR/CHF tumbles
- **GBP:** Lower, services PMI dips, election uncertainty
- **CAD and AUD:** AUD & CAD lower, Australian retail sales growth slows, Shanghai index falls 4%

Overview

The dollar index traded at a new high for the year and the USD traded at a 14 month high versus the EUR supported by concern that the EU may not be able to contain the Greek debt crisis and in reaction to fear that tightening in China has slowed the Chinese economy. The Greek prime minister said that taking bailout money from the EU/IMF is Greece's only hope to avoid a debt default. Rioting and strikes continue throughout Greece in protest of Greece's plan to impose harsh austerity measures in return for the bailout funds. EUR was also pressured by a heavy selling of the EUR/CHF cross with the CHF trading at a record high versus the EUR in reaction to report that the SNB pulled its intervention support bid for the EUR. EUR extended its decline after the announcement that the ECB left monetary policy unchanged. EUR staged a modest recovery in reaction to statement from ECB President Trichet that a Greek default is out of the question. Trichet also said that the ECB is not considering buying sovereign debt. EUR was back on the defensive as US stocks tank. GBP traded lower pressured by report of weaker than expected UK services PMI and UK election uncertainty. The UK election is being held today and is expected to result in a hung parliament. Asian equities traded sharply lower with the Shanghai index falling by 4%. The decline in the Shanghai index reflects concern that the Chinese economy is slowing. The decline in Asian equities contributes to risk aversion and fueled selling of commodity currencies. AUD traded lower in reaction to report of weaker than expected Australian retail sales. The CAD was pressured by report of a modest dip in Canada small business confidence with downside limited by report of the surge in Canadian building permits. JPY traded higher supported by safe haven flows and rising risk aversion. US economic data was mixed. Jobless claims declined by slightly less than market expectation. Q1 productivity slowed but came in above expectation and unit labor costs dropped by more than expected. Focus turns to Friday's release of US April nonfarm payrolls and unemployment rate. Nonfarm payrolls are expected to post a strong rise with the unemployment rate expected unchanged at 9.7%. The Fed's Bullard said he expects positive US Jobs growth through the summer. The Fed's Lacker said he sees a durable recovery and that it is best for the Fed to normalize the balance sheet before hiking interest rates. He warned about complacency on inflation.

Today's US data:

Initial jobless claims for week ending 05/01 dropped by 7k to 444k, a reading of 442k was expected. Q1 productivity rose by 3.6%, a 2.7% rise was expected. Q1 unit labor costs declined by 1.6%, a 1.1% decline was expected.

Upcoming US data:

On May 7th April nonfarm payrolls and unemployment will be released. Nonfarm payrolls are expected to rise by 190k compared to 162k last month with the unemployment rate unchanged at 9.7%. March consumer credit will also be released on May 7th expected at -2.35bln compared to -11.51bln last.

JPY

Japanese markets reopened for the first time in three days and the Nikkei dropped 3%. JPY traded sharply higher supported by risk aversion as equity markets continue to decline in reaction to concerns about contagion risk from the Greek debt crisis. JPY was also supported by significant gains in cross trade to Europe and commodity currencies. EUR/JPY traded close to 2% lower with EUR pressured by concern that the EU has not taken enough steps to contain the Greek debt crisis. AUD/JPY traded 2% lower as investors continue deleveraging positions in equity and commodity markets because of fear the Greek debt crisis may be spreading. It's interesting that the recent strength of the JPY has not sparked threats of intervention from Japan. A Japanese government panel recently called for the BOJ set an inflation target and targets for the JPY. Stronger JPY contributes to deflationary pressures and could slow the recent rebound in Japan's export sales. JPY direction is expected to trade inversely to equities and risk sentiment.

On May 6th Japan's April vehicle sales will be released.

Key technical levels to watch in USD/JPY include support at 92.40 the April 20th low with resistance at 93.98 the May 6th high.



EUR

EUR traded at a 14 month low versus the USD pressured by ongoing worries about the Greek debt crisis and heavy selling in cross trade to the CHF. For months the SNB has intervened and threatened to intervene in support of the EUR/CHF cross. The CHF has been in demand from investors seeking safety from the Greek debt crisis. SNB officials fear that appreciation of the CHF would contribute to deflationary pressures in Switzerland.

The SNB has been accumulating large amounts in EUR during its intervention and today's decision to pull this bid may partly reflect the SNB's decision that it's becoming too costly to hold so many EUR's with the EUR declining every day. Reassuring statements from EU officials failed to support the EUR. EU commission head Barroso said that he is certain that all European countries will approve the Greek aid package. EU's Banier said that he does not fear the risk of contagion from Greece. The ECB left interest rates unchanged at 1%. The EUR dropped to a fresh low for the trading session in reaction to the ECB's decision to hold rates policy steady as the ECB provided no new measures to combat the fallout from the Greek crisis. In the press conference following the ECB rate decision ECB president Trichet said that rates are appropriate, inflation expectations remain well anchored, the economic recovery may be uneven at times but he expects the economy to strengthen in the spring and risk to this outlook is broadly balanced. He went on to say that concerns remain about financial market stress. In the Q&A Trichet said that the ECB did not discuss buying EU bonds or additional quantitative easing measures. Today's EU economic data continues to point towards firming of the recovery. German March manufacturing orders rose by 0.5%. EUR experienced a bit of stability above 1.27 after S&P announced that it was reaffirming its outlook for the Italian debt outlook as stable and EU officials have been critical of the credit rating agencies complaining that some of the recent credit downgrades were unwarranted and exacerbate the EU sovereign debt crisis. EUR tried to stage a recovery rally in reaction to a statement from Trichet that Greek default was out of the question. EUR remains vulnerable to fear of contagion debt risk in Europe. The Greek parliament is expected to vote on the aid package today. The Greek PM said that without the aid package there is no way that Greece could avoid default. The Greek parliament passed the austerity bill.

The technical outlook for the EUR is negative as EUR breaks 1.2800. Expect EUR support at 1.2616 the March 11th 2009 low with resistance at 1.2857 the May 6th high.



GBP

GBP traded lower pressured by disappointing UK service sector PMI report and UK election uncertainty. UK April services PMI declined to 55.3 from 56.5 last month. The unexpected decline in UK services PMI may spark concern about the strength of the UK recovery. Wednesday the UK reported that construction PMI rose to its highest level in 32 months. Today's modest decline in services PMI should not generate too much concern about the UK recovery as recent UK data including yesterday's construction PMI point to strengthening of the recovery and rising inflationary pressures. The UK election is taking place today and there is fear that the election will result in a hung parliament for the first time since 1974. A hung parliament may make it difficult for the UK addresses its record budget deficit. Failure to take quick action to tackle the UK budget deficit could result in downgrade UK AAA debt rating. GBP downside is currently limited by significant gains in cross trade to the EUR as investors flee the EUR because of concern that the sovereign debt risk in the EU is spreading. Investors have become more comfortable with the idea that no matter what the result of the UK election the members of the UK parliament know that it must take action to reduce the deficit. UK election outcome has become less of a negative for the GBP.

UK national election will be held on May 6th. On May 7th April PPI will be released expected at 3.8% compared to 3.6% last month. The BOE policy meeting will be delayed until May 10th because of the UK election.

The technical outlook for GBP is mixed as GBP struggles to hold above 1.5200. Expect near-term support at 1.4893 the March 29th low with resistance at 1.5265 the May 4th high.



CAD

CAD traded lower pressured by a spike in risk aversion, and weaker equity and commodity markets. CAD downside was limited by a strong Canadian builders permit report. Fear of a debt contagion from the Greek fiscal

crisis has encouraged investors to the de-leverage positions in growth led and commodity-based currencies. Crude oil prices dropped below \$80 a barrel Thursday. Fear that growth is slowing in China contributes to selling pressure of commodities. Sunday, China hiked its bank reserve ratio by 50bps for third time this year and Monday China reported a slowing in its manufacturing sector. The Shanghai index dropped 4% Thursday on concern about slowing growth in China. Canada's building permits surged 12.2% in March, a 0.9% rise was expected. Strong Canadian housing data was offset by Greek debt contagion fear and report of a dip in Canadian small business confidence. Canada's small business confidence declined to 66.4 from 69.9 last month. April Ivey PMI came in above expectations at 58.7 compared to 57.8 last month, a reading of 56.8 was expected. There was limited reaction to a statement from Canada's Finance Minister Flaherty that he does not think the Greek crisis is a direct threat Canada but he fears it will hurt other countries. If the Greek debt contagion spreads to other countries it could eventually slow the global recovery and hurt the outlook for Canadian export sales. Focus turns to Friday's release of US and Canadian employment data. Investors will be looking closely at the employment growth component of the Canadian report for clues to the strength of the recovery and to gauge the possible risk of an earlier BOC rate hike.

On May 7th April unemployment and employment growth will be released. The unemployment rate is expected at 8.1% compared to 8.2% last month with employment growth at 25k compared to 17.9k last month.

The technical outlook for CAD is negative as USD/CAD trades above 1.0200. Look for near-term support at 1.0232 the May 5th low with resistance at 1.0408 May 6th high.



AUD

AUD traded lower pressured by declining equity and commodity markets and rising risk aversion sparked by fears of debt contagion risk in Europe and slowing growth in China. Investors are liquidating holdings of stocks,

commodities and high-yield currencies because of lack of confidence that EU officials can contain the spread of the Greek fiscal crisis. AUD is also weakening in reaction to concern about slower growth in China and speculation that the RBA will pause its tightening cycle. China reported that manufacturing growth slowed in March. The Shanghai index declined by 4% Thursday. China is a major export destination for Australia and slowing growth in China could hurt the Australian recovery. AUD was also pressured by report of weaker than expected Australian retail sales. Australia's Q1 retail sales rose by 0.1%, a 0.8% rise was expected. Australia's March trade balance narrowed -2.08bln from -2.2bln last month. The RBA hiked interest rates 25bps to 4.25% Tuesday. In a statement following the RBA rate hike, RBA Governor Stevens suggests that Australian interest rates were near the average. This statement by Stevens suggests that the RBA is considering a pause in its rate hike cycle. AUD direction is expected to continue to track equities and commodities. AUD remains vulnerable to diminished RBA rate hike speculation.

On May 7th Australia is monetary policy report would be released.

The technical outlook for the AUD is negative as the AUD breaks below 9100. Expect AUD support at 8935 the March 1st low with resistance at 9118 the May 5th high.



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