

## USD mixed, EUR gives back early gains

- **USD:** Higher, risk appetite improves, trade balance widens, concern over EU aid plan
- **JPY:** Lower, tracking stocks, MOF will seek to extend Japan's debt maturities will
- **EUR:** Mixed, cost of funding EU debt drops, GDP and industrial output beat expectations
- **GBP:** Lower, dovish BOE inflation report, Conservatives pledge quick action on the budget
- **CAD and AUD:** AUD lower & CAD mixed, gold trades at record high, Australian budget to return to surplus

### Overview

After recent volatility a relative calm has returned to the global equity and financial markets as ECB purchase of sovereign debt in peripheral European nations helps to reduce the cost of debt financing in Europe. The decline in the cost of debt financing in Europe contributes to a slight easing of worries about the EU debt crisis. EUR traded higher supported by easing EU debt worries and in reaction to report of better than expected EU Q1 GDP and strong EU industrial output. In addition, Spain has announced that it is taking measures to cut wages and reduce its budget deficit. Spain's action to try and reduce its deficit may reduce some of the fear of debt contagion in Europe. GBP traded mixed initially supported by report that the Conservative Party will head the new UK government. Conservative Party leader Cameron will become the new UK PM. The Conservative Party pledged to take action within weeks to begin reducing the UK budget deficit. The impact of positive UK political news was offset by a dovish BOE inflation report and the statement from BOE Governor King that the central bank has not ruled out further bond purchases. Commodity currencies initially traded higher and the JPY traded lower as equities rally and risk appetite returns. Commodity currencies were also supported by a rise to a record high in the price of gold. Canada's trade surplus narrowed and the housing price index rose. AUD gains were limited by concern about China's economy and fear of a credit bubble in China. CAD gains were limited by weaker crude prices. US economic data was mixed with the trade balance widening to its highest level since October 2008. Exports rose by 3.2% and imports by 3.1%. USD is closely tracking risk sentiment and the direction of equities.

### Today's US data:

March trade balance widened to -40.42bln, a reading of -40bln was expected.

### Upcoming US data:

On May 13th April import prices and jobless claims for week ending 05/08 will be released. Import prices are expected to rise by 0.8% compared to 0.7% last month. Jobless claims are expected to fall to 438k from 444k last week. On May 14th April retail sales industrial production, capacity utilization and University of Michigan sentiment will be released along with March business inventories. Retail sales are expected to rise by 0.3% compared 1.6% last month. Industrial production is expected to rise by 0.5% compared to 0.1% last month. Capacity utilization is expected at 73.6 compared to 73.2 last month. Michigan consumer sentiment is expected at 73.2 compared to 72.2 last month. Business inventories are expected to rise by 0.3% compared to 0.5% last month.

### JPY

JPY traded lower as stocks rebound and risk appetite improves. A modest decline in the cost of financing EU debt supported equity markets and risk appetite. There was limited reaction to a statement from MOF official Kaizuka

that Japan plans to take action to extend the maturity of its debt to reduce funding risks. Kaizuka said that Japan will not be the next Greece because Japan can service its debt domestically by tapping Japan's huge domestic savings. Shifting to longer dated maturities will help Japan mitigate some of the cost risk for funding its budget deficit. Tuesday Japan's Finance Minister Kan said that he seeks a cap Japan's debt issuance. Ratings agencies have warned that Japan's sovereign debt rating could be cut if JGB bond issuance continues to rise. According to Kan Japan's new fiscal year bond issuance should not top ¥44.3 trillion. This is close to the threshold that may trigger a downgrade of Japan's debt rating. Japan's economic data was mixed with March leading indicator rising by +4.4 and the coincident indicator at +1.1. JPY direction is expected to trade inversely to equities and risk sentiment.

On May 13th March current account will be released expected at ¥2.15trln compared with ¥1.47trln last month. April money supply and bank lending will also be released on May 13th. Money supply is expected to rise by 0.1% compared to 0.2% last month and bank lending is expected to rise by 0.4% compared to 0.2% last month.

Key technical levels to watch in USD/JPY include support at 92.21 the May 11th low with resistance at 93.55 the May 10h high.



## EUR

EUR traded higher supported by easing worries about the EU debt crisis as the cost of funding EU debt falls and Spain takes action to reduce its deficit. The ECB has been buying sovereign debt of peripheral European nations for last few days and these bond purchases have helped to reduce the cost of financing EU debt. The ECB says that it will not announce the size of its bond purchases and there is some confusion over whether the ECB plans to sterilize all of its bond purchases but for the moment the speculative assault on the European bond markets

has slowed. The ECB bond purchases could create credibility issues for the ECB if the bond purchases disrupt price stability. EUR was also supported by report of better than expected EU Q1 GDP and strong EU industrial output. EU Q1 GDP rose by 0.2% and March industrial output rose by 1.3%. The impact of these reports was limited as investors are concerned that the momentum of the EU recovery will likely slow as peripheral European nations introduce austerity measures to cut budget deficits. Wednesday Spain announced a series of measures to cut its deficit which include a cut of public-sector wages by 5% this year and a freeze on wages in 2011. Increases in pensions will be suspended next year and public investment will be cut by €6bln. Spanish unions are protesting wage cuts and investors will be monitoring the protests to see if violence erupts as it did in Greece. EUR gains will likely be limited by continued uncertainty about the EU debt crisis and questions about the sustainability of the EU recovery.

On May 13th German Q1 GDP will be released expected at 0.3%.

The technical outlook for the EUR is mixed as EUR consolidates near 1.2700. Expect EUR support at 1.2586 the May 7th low with resistance at 1.2803 the May 11th high.



### GBP

GBP traded mixed initially supported by the latest UK political news which finds that the UK has a new government and prime minister. The Conservative Party is the new ruling party of the UK and the leader of the Conservative Party, Cameron is the UK's new prime minister. The Conservative Party has pledged to take quick action to reduce the UK budget deficit. The positive news on the UK budget deficit reduction plans was offset by a dovish BOE inflation report and a statement from BOE Governor King that the central bank has not ruled out

additional bond purchases. King went on to say that it's too early to consider tightening of monetary policy The BOE inflation report said that UK inflation is expected to fall below the 2% target within two years. King's comments and diminishing UK inflation risk opens the door for additional easing by the BOE. GBP gains were also limited by a statement from a UK government source that the UK has no plans to join the European Monetary Union. The Daily Telegraph reports that Europe will not help the UK in event of a GBP crisis. UK economic data was mixed with April claimant count declining by 27,100 and weekly earnings reported at +4%. Investors will monitor how the UK governments addresses the UK deficit and how the BOE responds to the government austerity measures. A new budget is expected within 50 days.

On May 13th March trade balance will be released expected to widen to -7.2bln from -6.2bln in March.

The technical outlook for GBP is negative as GBP trades below 1.5000. Expect near-term support at 1.4720 the May 11h low with resistance at 1.5054 the May 10th high.



## CAD

CAD traded higher supported by improving risk appetite as equity markets rally and in reaction to a record rise in the price of gold. Equity markets were supported by declining cost of funding of EU debt. Canadian economic data was mixed with the trade surplus widening by less than expected and home prices coming in line with expectation. Canada's March trade balance widened by C\$245mIn, a C\$1.55bln surplus was expected. A smaller than expected Canadian trade surplus reflects the impact of the strong CAD on Canada's export sales and weaker energy prices. The March new housing price index posted its ninth monthly gain reported up 0.3%.CAD gave back early gains after the release of today data and in reaction to a sharp drop in crude prices Today's Canadian economic data may increase the risk of intervention but should not dampen speculation of an earlier BOC rate hike. Canadian officials have stated that the strength of the CAD is a risk to the Canadian recovery.

Investors will be watching to see whether Canadian officials try to talk the CAD lower. Recent Canadian economic data has been strong with last Friday's report of a record monthly rise in employment growth. The combination of stronger employment growth and rising house prices may increase pressure on the BOC to consider a June rate hike. The main obstacle to a June the BOC rate hike may be developments from the Greek debt crisis and concern that a rate hike may boost demand for the CAD. The BOC is likely to consider a June rate hike barring any substantial new fallout from the EU sovereign debt crisis. Canada may have to learn to live with a stronger CAD as the economic recovery gains momentum.

On May 14th March manufacturing shipments and new motor vehicle sales will be released. Manufacturing shipments are expected up 0.6% compared to 0.1% last month. Motor vehicle sales are expected to rise by 3% compared to 8.1% last month.

The technical outlook for CAD is mixed as USD/CAD trades below 1.0300. Look for near-term support at 1.0101 the May 3rd low with resistance at 1.0360.



## AUD

AUD opened higher supported by firmer equity markets and improving risk sentiment. European and US equity markets posted modest gains as EU debt worries ease. AUD was also supported by the Australian budget outlook which is in much better shape than many of the G-7 nations. Australia's Treasury Secretary Swan said that Australia's debt size is the envy of the world and the Australian budget deficit is expected to return surplus within the next two years. The reduction in the deficit will partly reflect stronger growth. Australia's debt is expected to be paid off by 2019. AUD gains were limited by reported weaker than expected Australian housing finance report. Australia's March housing finance declined by 3.4% a 3% rise was expected. Monday, Australia reported that April NAB business conditions index declined to +8 from +13 last month and Australia's April job ads declined by

1.2%. Weaker business conditions, the drop in job ads and weaker housing finance may reflect recent tightening of monetary policy by the RBA. These reports may also contribute to speculation that the RBA will pause its tightening cycle. The RBA Monetary Policy report released last Friday states that the RBA believes interest rates are near average level. This suggests that the RBA plans to soon pause in its rate hike cycle. Diminished RBA rate hike speculation is negative for the AUD.

On May 13th April employment growth and unemployment rate would be released. Employment growth is expected at 25k compared to 19.6k last month. The unemployment rate is expected to fall to 5.2% from 5.3% last month.

The technical outlook for the AUD is mixed as the AUD trades above 9000. Expect AUD support at 8803 the May 7th low with resistance at 9080 the May 10th high.



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