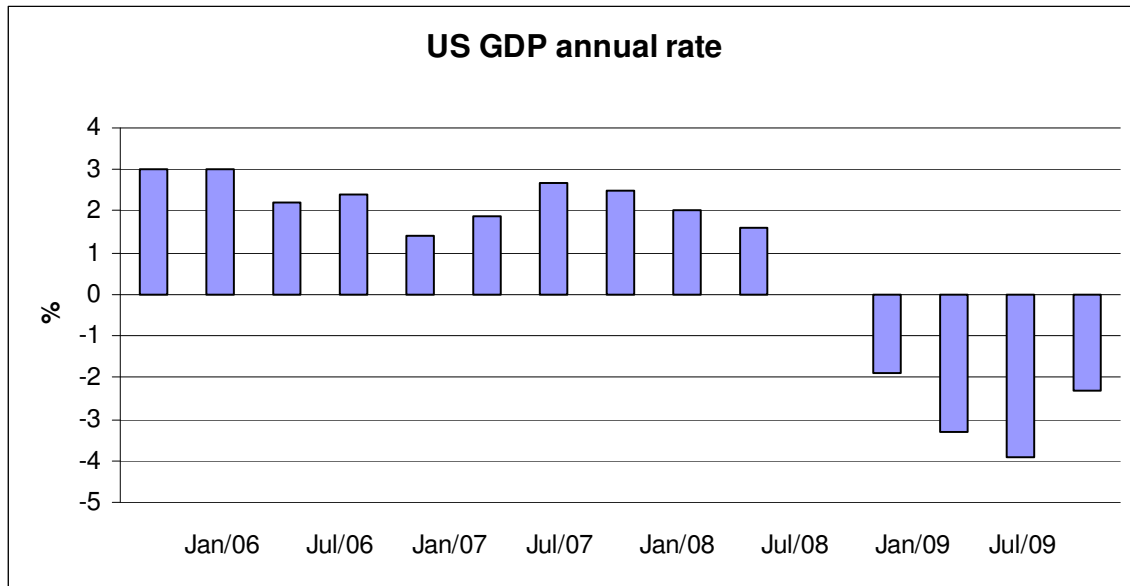


Preview of FOMC minutes and US Q3 GDP

The USD traded sharply lower Monday pressured by comments from the Fed's Bullard calling for the extension of the Fed's MBS asset purchases and a spike in risk appetite as equity markets surge in reaction to report of a 10.1% rise in US October existing home sales. Bullard said that he would like to see the Fed's MBS asset purchase program extended beyond the planned expiration in March of 2010. His comments suggest that the Fed is not yet ready to begin its exit from stimulus. Bullard's comments coupled with the report of much better than expected rise in US existing home sales set the stage for Tuesday's release of the FOMC minutes and revised Q3 GDP. Existing home sales rose to the highest level since February of 2007 with much of the rise attributed to homebuyers trying to beat the scheduled expiration of the home buyer's tax credit at the end of November. (The home buyer's tax credit has been extended through June of 2010.) The inventory of homes fell by 3.7% to 3.57mln. There is a 7 month supply of existing homes. The median sales price of existing homes fell 7.1% to 173,100. The existing home sales report confirms that the housing market is improving.

At the November 4th FOMC policy meeting the Fed reaffirmed its commitment to keep interest rates low for an extended period, said that economic activity had picked up, and that inflation pressures remained in check. The Fed did not indicate whether it was considering an exit strategy from its extraordinary stimulus measures at the November policy meeting. The trade will be looking for clues in Tuesday's FOMC minutes of whether the Fed is in tune with Bullard's call to extend quantitative ease beyond March 2010 or is considering the timing for an exit from stimulus. The timing of the Fed's exit strategy is key to the USD outlook. ECB and Fed policy are diverging as the ECB begins exit from stimulus. Friday, the ECB began to gradually withdraw stimulus and tightened rating requirements for banks using asset backed securities in its lending operations. ECB President Trichet warned banks not to become addicted to central bank funds and that extraordinary easing measures would be wound down. The FOMC minutes have the potential to spark additional selling pressure of the USD if the minutes confirm the divergence between ECB and Fed policy in regard to the timing of an exit from monetary stimulus. The FOMC minutes for the November policy meeting are scheduled for release at 2:15 PM ET November 24th.

US preliminary Q3 GDP will be released on November 24th at 8:30 AM ET. US advance Q3 GDP increased by an annual rate of 3.5%. The rise in Q3 GDP reflected rising personal consumption expenditures, higher exports, a rise in inventory investment, higher federal spending and improved residential fixed investment. Motor vehicle output contributed 1.66% to Q3 GDP and personal consumption expenditures rose 3.4%. The improvement in the motor vehicle sales reflected the impact of the cash for clunkers program. Preliminary Q3 GDP is expected to be revised downward. This downward revision could revive fears of a double dip recession and offset some of the enthusiasm in Monday's trade fueled by strong existing homes data and surging commodity and equity prices. Preliminary Q3 GDP is expected to be revised down to 2.9% from the original report of 3.5% with the downward revision reflecting softer demand for durable goods and a surge in imports. The September US trade deficit widened by the most since 1999, with imports rising 5.8%. Imports are subtracted in the calculation of GDP. The preliminary Q3 GDP report will be a good test for the improvement in risk sentiment in Monday's trade and an indication of whether the US recovery will continue through Q4. Bullard said that he thinks the US economy will do well in Q4. Government incentive programs including tax credit for first-time homebuyers and the cash for clunkers program helped fuel the improvement in US housing data and Q3 GDP. The key question remains whether the recovery is sustainable when stimulus is withdrawn. We will get a better idea of whether the Fed plans to soon withdraw stimulus from the release of the FOMC minutes. The GDP report will offer clues to the near-term sustainability of the US recovery.



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