

USD lower, CRB rebounds, Geithner sees slow recovery

- **USD:** Lower, Geithner predicts slow US recovery, Greek debt worries ease slightly
- **JPY:** Mixed, tracking equities, service sector sentiment improves
- **EUR:** Higher, Greek and Spanish credit default spreads narrow as EU says it will monitor Greek debt
- **CHF:** Higher, Swiss retail sales rise, gains in cross trade to the EUR
- **GBP:** Lower, election polls increase the risk of a hung parliament, fresh concern about UK debt rating
- **CAD and AUD:** AUD & CAD higher, Australian coal deal with China, Canadian housing starts rise 5.8%

Overview

USD traded mixed Monday with the main focus on sovereign debt risks in Europe. EUR experienced a modest recovery as EU officials and central bankers from the G7 said they were confident that Greece will be able to cut its deficits. Greek and Spanish default swap spreads narrowed a bit in reaction to the EU and G-7 pledge to monitor Greece's deficit reduction plans. EUR gains were limited by report of a larger than expected decline in EU Sentix index. CHF traded higher supported by report of a sharp rise in Swiss retail sales. GBP continued to underperform pressured by concern about its UK AAA sovereign debt rating as UK polls released over the weekend suggest neither the Conservative or Liberal party will win a majority in parliament. Threat of a hung UK Parliament will increase the risk to UK sovereign debt rating. JPY traded mixed to firm supported by weaker equity market trade. Commodity currencies traded higher in reaction to a rally in gold and higher crude prices. AUD was supported by report that Australia has secured a huge coal deal with China. There was limited reaction to a statement from US Treasury Secretary Geithner that he does not see the risk of a double dip recession but he predicts a slow recovery for the US economy. Geithner went on to say that the US will never lose its AAA debt rating and that the US deficit will shrink. US December Employment Trend Index rose to 93.2 from 92.3 last month. The trade will continue to watch developments in regard to the fiscal outlook in peripheral European nations.

Today's US data:

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

Upcoming US data:

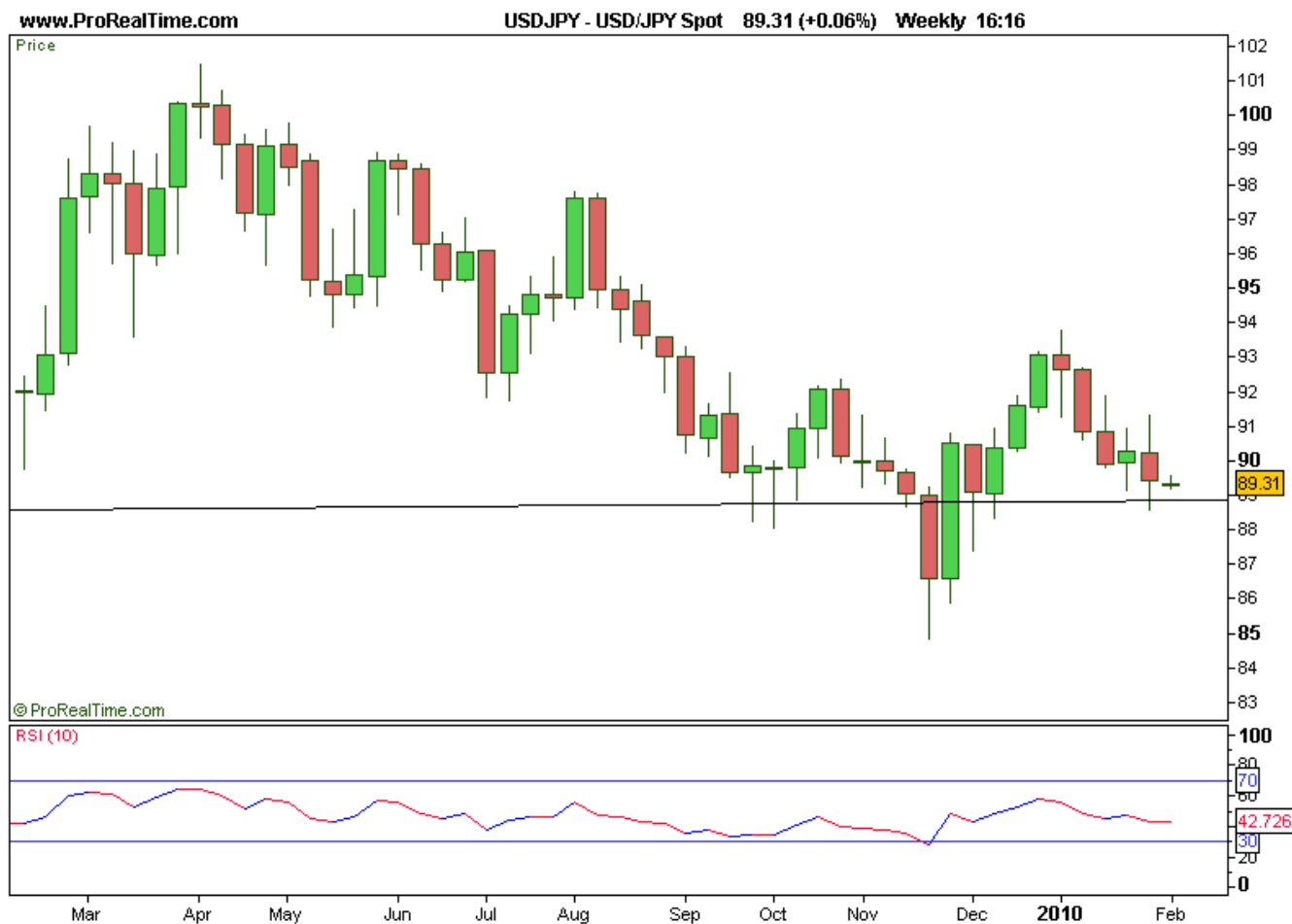
This week's US economic calendar includes the February 9th release of December wholesale inventories and sales. Inventories are expected to rise by 0.5% and sales are expected to rise by 1%. On February 10th December trade balance and the Treasury budget will be released. The trade balance is expected at -36.5bln compared to -36.4bln last month. The Treasury budget is expected at -60.5bln compared to 63.5bln last month. On February 11th initial jobless claims for week ending 02/06 will be released expected at 470k compared to 480k last week. January retail sales and December business inventories will also be released on February 11th. The retail sales are expected to rise by 0.5% compared to -0.3% last month. Inventories are expected unchanged at 0.4%. On February 12th February University Michigan consumer sentiment will be released expected at 74 compared to 74.4 last month.

JPY

JPY edged higher in quiet trade supported by weaker equity markets as the Nikkei closed 108 points lower. Asian stocks closed at a five month low pressured by report that China's mortgage rates continue to rise. Chinese officials are taking action to try to curb lending. JPY was also supported in cross trade with the EUR pressured by EU debt troubles. There was limited reaction to the statement from BOJ Deputy Governor Yamaguchi that the economy may remain weak until summer. Yamaguchi expects growth to return to Japan later this year. Japan's economic data was mixed with January M2 money supply rising by 2.9%, Japan's December current account surplus widening to ¥900.8bln and January service sector index rose to 38.8. The driving factor for JPY trade is risk sentiment.

This week's Japanese economic calendar includes the February 10th release of January CGPI expected at -0.1% compared to 0.1% last month. December machine orders will also be released on February 10th expected at 8.8% compared to -1.3% last month. On February 16th December revised industrial output will be released expected unchanged at 2.2%. On February 17th December tertiary activity will be released expected at -0.4% compared to -0.2% last month.

Key technical levels to watch in USD/JPY include support at 88.55 the February 4th low with resistance at 91.09 the February 4th high.



EUR

EUR edged higher supported by a slight narrowing of credit default spreads in Greece and Spain. A statement from EU officials that Greece will be able to reduce its debt appeared to temporarily calm fears over EU sovereign debt risks. Greece says it plans to slash its deficit from 12.7% of GDP to 2.8% of GDP by 2012. There is fear that

Greek situation may become a contagion and spread to Spain and Portugal. EUR gains were limited by report of weaker than expected EU Sentix index and fresh concern about Greek collateral in the repo market. EU February Sentix declined by -8.2 compared to -3.2 last month. The decline in investor sentiment generates concern about the strength of the EU recovery. The EU debt crisis coupled with weakening economic outlook may force the ECB to maintain accommodative policy bias. There is concern of Lehman type fallout from rising debt risks in the EU and this has reduced the attraction of the EUR as an alternative to the USD as a reserve currency. EU debt troubles are generating fears about default risk in the EU. Thursday ECB officials indicated that EU debt troubles complicate ECB policy outlook and there is speculation that the EU debt worries will prevent the ECB from pursuing its exit strategy at this time. Developments in regard to fiscal stability in peripheral European countries will remain the main focus for EUR trade. EUR may be ripe for a technical rebound as the market has become oversold. CFTC commitment of traders released Friday showed that spec shorts are at a record level on the IMM.

The technical outlook for the EUR is negative as the EUR trades below 1.3700. Expect EUR support at 1.3585 the May 29th low with resistance at 1.3905 the February 4th high.



CHF

CHF traded higher supported by report of stronger than expected Swiss retail sales and gains in cross trade to the EUR. CHF cross gains are attributed to safe haven flows sparked by EU fiscal debt troubles. Swiss December retail sales rose by 4.7%. There was little reaction to report that Swiss January unemployment rate rose 0.1% percent to 4.5%. UBS raised its 2010 Swiss GDP forecast to 2% from 1.7% and 2011 to 1.9%. EUR/CHF continues to trade near the March intervention lows despite report of SNB intention in the cross late last week. This week's Swiss economic calendar includes the February 11th release of January CPI expected at -0.4% compared to -0.2% last month. SNB intervention is partly directed at offsetting the deflationary impact of strong

CHF. A weak Swiss CPI report would increase the risk of SNB intervention. Swiss January annual inflation rate is expected to rise by 0.8% compared to 0.3% last report. Expect USD/CHF support at 1.0647 the February 5th low with resistance at 1.0800 the February 5th high.



GBP

GBP traded lower pressured by fresh concern about risks to the UK sovereign debt rating and lingering impact of the BOE's decision to pause its asset purchases. Pimco's EL-Erian said that the UK's most at risk of losing its AAA sovereign debt rating. Polls released over the weekend in the UK indicate that neither the Conservative or Liberal party will gain a majority of the UK Parliament. This will greatly increase the risk of a hung parliament. A hung parliament will likely make it much more difficult for the UK to address its budget deficits. Failure of the UK to take action to reduce its deficits could lead to a downgrade of UK's sovereign debt rating. Last Thursday, the BOE elected to pause its asset purchases but left the door open for future expansion of quantitative ease if the economy deteriorates. BOE decision to leave the door open to future bond purchases contributes to negative GBP sentiment. Focus turns to Tuesday's release of RICS January house price survey and BRC retail sales. The bricks house price index is expected to confirm the continued rise in housing prices and retail sales are expected at 2.7% compared to 4.2% last month. This week's main focus will be Wednesday's release of the BOE's inflation report. Based on the recent jump in UK CPI and output prices the BOE is expected to raise its near-term inflation outlook in the inflation report. The BOE is also expected to cut near-term growth forecasts. GBP remains vulnerable to concern about UK debt outlook and upcoming general election.

This week's UK economic calendar includes the February 9th release of December trade balance expected at -2.883bln compared to -3.032 last month. On February 10th December industrial production will be released expected at 0.6% compared to 0.4% last month.

The technical outlook for GBP is negative as GBP trades below 1.5700. Expect near-term support at 1.5515 the May 21st low with resistance at 1.5920 the February 4th high.

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GBPUSD - GBP/USD Spot 1.5651 (+0.32%) Weekly 16:17



CAD

CAD edged higher supported by firmer commodity prices and report of 5.8% rise in Canadian housing starts. Gold traded \$17 higher and crude prices also firmed in Monday's trade. Canada's January housing starts rose to 186.3k from 176.1k in December. The trade had expected a reading of 180k for the Canadian housing starts. The improvement in Canada's housing data follows Friday's release of better than expected Canadian employment. Canada created 43k in new jobs last month with the unemployment rate falling 0.2% to 8.3%. The trade had expected job growth of just 15k with the unemployment rate at 8.5%. Most of the job growth in Canada was attributed to temporary work. Canada's Finance Minister Flaherty said the deterioration Canadian unemployment has ended. Despite the improvement in Canada's housing data and employment outlook the BOC is expected to maintain steady rate policy. BOC Governor Carney warned that the economic expansion may peak midyear that inflation would remain below the BOC's 2% target. Carney's comments suggest that BOC will remain on hold through midyear. CAD remains vulnerable to steady BOC policy outlook and concern that the Canadian economy may weaken midyear. CAD also remains vulnerable to concern about the impact of tightening of monetary policy in China. China's mortgage rates continue to rise as China seeks to curb lending.

On February 10th December trade balance will be released expected at -0.2bln compared to 0.3bln last month. On February 11th December housing price index will be release expected unchanged at 0.4%.

The technical outlook for CAD is mixed as USD/CAD consolidates above 1.0600. Look for near-term support at 1.0597 the January 4th low with resistance at 1.0780 the February 5th high.



AUD

AUD traded higher supported by a rebound in commodity prices and report that Australia has secured a huge coal deal with China. The coal deal with China is reported to span the next 20 years. AUD was also supported by report that the government will end its bank funding guarantees at the end of March. This may mean that credit conditions will become tighter. AUD gains were limited by the continued rise in China's mortgage rates. Recent tightening of lending conditions in China and worries about EU fiscal outlook dampens risk appetite and demand for high-yield growth led currencies like the AUD. Last week the RBA unexpectedly elected to hold rate policy steady at 3.75%. The RBA cited recent tightening in China and tame inflation as the primary rationale for maintaining current level of interest rates in Australia. RBA officials indicate that interest rates are likely to rise to 4.5% by the end of 2010. Last week's Australian economic data was mixed with retail sales declining and building approvals rising. New Zealand reported a sharp jump in its unemployment rate. New Zealand reported that its unemployment rate climbed to 7.3% last quarter from 6.5% previous three months. The rise in New Zealand's unemployment will likely reduce the potential for near-term rate hikes in New Zealand and Australia. Sentiment towards the AUD remains negative. CFTC commitment of traders released Friday showed that AUD spec long positions were at their lowest level since December.

This week's Australian economic calendar includes the February 10th release of December housing finance expected at 2% compared to -5.6% last month. On February 11th January unemployment and employment

growth will be released. The unemployment rate is expected unchanged at 5.5% with employment growth at 25k compared to 35.2 last month.

The technical outlook for the AUD is negative as the AUD breaks trend line support. Expect AUD support at 8585 the September 28th low with resistance at 8724 the February 8th high.



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