

USD higher, trade deficit and Bernanke pressure stocks

- **USD:** Higher, risk aversion re-emerges, uncertainty about EU Greek bailout plans, trade deficit widens
- **JPY:** Mixed, machinery orders and corporate good prices turn higher, CAPEX spending improves
- **EUR:** Lower, concern Greek rescue plans may slow the EU recovery
- **GBP:** Lower, BOE cuts UK inflation and growth forecast, King says the bank may consider expanding QE
- **CAD and AUD:** AUD & CAD lower, China's trade surplus narrows, risk aversion re-emerges

Overview

USD traded firmer Wednesday supported by uncertainty about a potential Greek rescue plan, weaker than expected trade data from China and Bernanke's testimony on withdrawing liquidity. The EU is expected to release the details of a plan to support Greece but there is concern that whatever plans emerge that EU sovereign debt risk and the need for austerity measures present a threat to the EU and the global recovery. According to a Bloomberg survey, optimism about the USD is at a 15 month high with the USD supported by concern that sovereign debt risk in Europe will hurt the EU and global recovery. China's trade balance for January unexpectedly narrowed to 14.2bln, a reading 19.5bln was expected. Narrowing of China's trade surplus generates concern about the strength of the global recovery. Bernanke laid out the Fed's plans for withdrawing liquidity as the economy recovers in testimony before Congress today. He said that the timing of exit will be data dependent and the Fed may soon consider raising the discount rate. He went on to say the Fed can use the interest-rate paid on reserves, selling of Fed security holdings, reverse repos or offering of term deposits to depository institutions as ways to guide monetary policy. Bernanke said the Fed will eventually have to raise rates. The US trade balance widened by a much more than expected 10%. Widening of the trade balance was due to a 4.8% increase and imports in the impact of recent USD strength. The widening of the trade deficit and Bernanke's rate hike talk pressured US equities and supported the USD. The trade awaits the outcome of Thursday's EU summit for details of what the EU plans for Greece. According to a German official Greek aid is not on Thursday's agenda. FX price movement has been volatile with risk appetite supported by optimism about Greek rescue plan and risk aversion re-emerging on uncertainty about the implications of the rescue plan for the EU recovery. Some analysts warn of a moral hazard if EU bails Greece out, but the EU may have little choice.

Today's US data:

December trade balance widened to -40.2bln, a reading of -36.4bln was expected.

Upcoming US data:

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 74 compared to 74.4 last month.

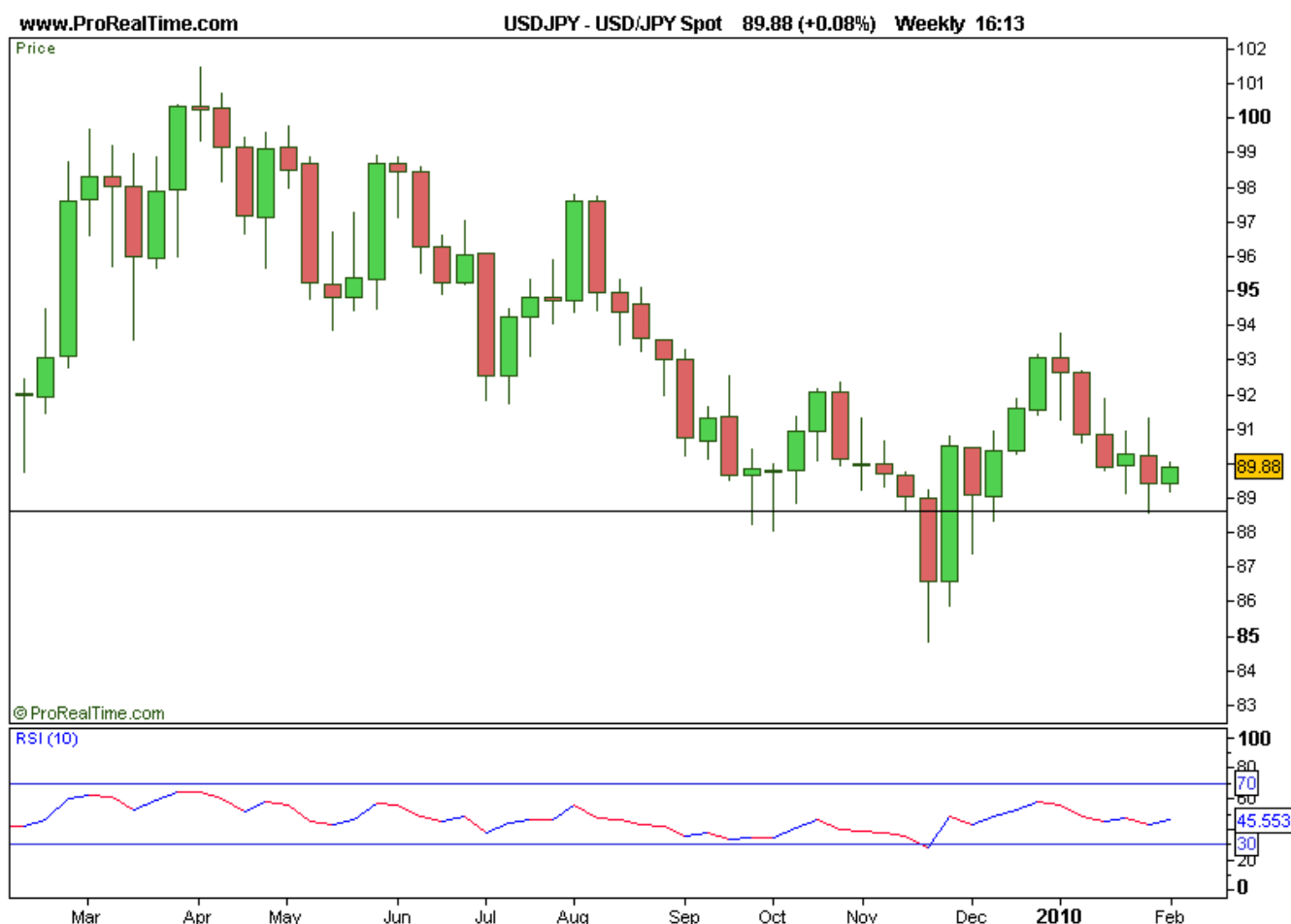
JPY

JPY traded higher supported by a return of risk aversion as optimism about a Greek bailout plan fades and China reports an unexpected narrowing of its trade surplus in January. Although Moody's indicated that a downgrade of

Greece's debt rating was possible Moody's suggested that Portugal and Spain will not need to be bailed out. The Moody's report may reduce fears of contagion risk in the EU. General sentiment in regard to a Greek bailout is that measures that will be required to be taken by Greece to reduce its deficit will contribute to weaker growth outlook in the EU. EU officials have gone out of their way to indicate that they do not believe that Greece will default on its debt but it remains to be seen whether EU countries plan a coordinated bailout Greece bailout. German officials said that there is no EU bilateral aid plan for Greece. According to German officials Greece will not be discussed at the EU summit Thursday. The narrowing of China's trade surplus generates concern about the strength of the recovery in China. China's economy is key to the global growth outlook. There was limited reaction to report that Japan's December core machinery orders rose by 20.1% and January corporate good prices rose by 0.3%. According to Japan's Cabinet Office CAPEX spending may have bottomed in the fourth-quarter. JPY price direction remains closely correlated to risk sentiment and the direction of equities. JPY turned lower as Bernanke says the Fed may soon consider hiking the discount rate.

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 88.90 the February 5th low with resistance at 91.09 the February 4th high.



EUR

EUR traded lower as investors grapple with mixed reports about possible EU aid plans for Greece. Although the risk of a Greek debt default seems to have been lessened by EU discussions on a potential rescue plan there is concern that reducing deficit spending in peripheral European nations will be a drag on the EU recovery and growth outlook. Tuesday the EUR surged supported by optimism that Greek bailout plan is in the works. EUR traded lower Wednesday pressured by report from a German government official that the EU cannot bailout EU governments because there is no bailout clause in the ECB charter. Some EU officials have expressed concern about moral hazard if the EU steps in and bails out Greece the EU would be signaling a willingness to bail out other peripheral EU nations. No major economic reports were released from the EU today and focus remains on Greece and the EU response to the Greek deficit troubles. An announcement of a Greek bailout plan may add support to the EUR in the short term but it may not be enough to offset concern about debt default risks throughout southern Europe and the impact of the rescue plan on EU economy and ECB policy. There is talk that sovereign debt risks in the EU may force the ECB to delay its exit strategy and weaker growth outlook may encourage the ECB to maintain accommodative policy. At the same time the Fed is laying out its plans to withdraw liquidity. This suggests that yield and growth differential may move more in favor of the USD.

On February 12th EU Q4 GDP will be released expected at 0.3% compared to 0.4% last quarter along with December industrial production expected at the 0.2% compared 1% last month.

The technical outlook for the EUR is negative but indicators suggest that EUR is oversold in the short run. Expect EUR support at 1.3621 the February 8th low with resistance at 1.3905 the February 4th high.



GBP

GBP traded lower pressured by today's release of the BOE quarterly inflation report. In the quarterly inflation report the BOE lowered its inflation and growth forecasts. According to the BOE, UK inflation will fall below the BOE's 2% target within the next two years and GDP is likely to have average just 1.2%. BOE Governor King said that it's too soon to conclude that the asset program is finished and he left the door open for future asset purchases if needed. King also said that weaker GBP is part of the needed adjustment towards higher net exports. GBP downside was limited by report of improving industrial data from the UK. UK manufacturing output for December rose by 0.9% and industry output rose by 0.5%. Manufacturing and industrial output was expected to rise by 0.2%. UK industrial data points to continuing improvement in UK economic outlook. GBP remains vulnerable to BOE policy outlook. GBP remains vulnerable to concern about UK debt outlook and upcoming general election. The upcoming UK election is key to the outlook for UK deficit reduction plans and UK sovereign debt rating.

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 1.5775 the February 5th high.



CAD

CAD traded mixed to lower pressured report of a narrowing of China's trade surplus and disappointing Canadian trade balance. The narrowing of China's trade surplus generates concern about Chinese recovery and demand for commodities. Canada's trade deficit came in at 2.46mln the trade had expected a deficit of 3.30mln. Imports rose by 1.8% and exports were up by 1.7%. Auto inventory rebuilding was the main reason that imports outstripped export sales. CAD was also pressured by a slight drop in commodity prices. Commodity prices were

pressured by Chinese trade balance report Bernanke's rate hike talk and weaker equities. CAD has firmed over the last few trading sessions supported by improving Canadian economic data with Monday's report of a 5.8% jump in Canadian housing starts and last Friday's report that Canada's unemployment rate declined by 0.2% to 8.3% with 43k new jobs created. Despite the improvement in Canada's housing data and employment outlook the BOC is expected to maintain steady rate policy. In its quarterly report released Tuesday the BOC reaffirmed its low rate pledge and made no change in growth or inflation forecasts. Risk sentiment and the price of crude will remain the main driving factors for CAD trade along with concern about the outlook for China's economy.

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 1.0781 the February 5th high.



AUD

AUD traded lower pressured by an uptick in risk aversion sparked by report of the narrowing of China's trade surplus and lack of details of an anticipated rescue plan for Greece. AUD traded to the day's lows as equities trade lower in reaction to report of widening of the US trade deficit and Bernanke's testimony on withdrawing of liquidity. China's January trade surplus narrowed to 14.2bln, a 19.5bln surplus was expected. In addition to Chinese Journal argues that China should not allow any major appreciation of the Yuan in H1 2010. AUD was also pressured by report of weaker than expected consumer confidence and housing finance data. February Westpac consumer confidence index declined by 2.6%. Australia's December housing finance declined by 5.5%. These reports may generate concern about the strength of domestic economic recovery in Australia. Weaker US

equity market trade in a slight decline in commodity prices and today's AUD decline. AUD traded sharply higher Tuesday supported by a rebound in commodity prices and an improving risk sentiment sparked by rumors that the EU may be planning a bailout for Greece. Recent weakness in the AUD has been mainly attributed to a reappraisal risk appetite sparked by recent tightening of monetary policy in China and uncertainty about the outlook for sovereign debt risk in Europe. Tightening of monetary policy in China coupled with the uncertain look for sovereign debt risk in Europe sparked selling of equities, commodities and risk aversion. The impact of last week's surprise decision by the RBA to hold monetary policy steady appears to be fading. 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. AUD direction remains tied to risk sentiment and news in regard to EU bailouts for Greece.

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 8691 the February 9th low with resistance at 8825 the February 4th high.



By Michael J. Malpede

Michael J. Malpede is Chief Market Analyst with Easy-Forex® and has previously been featured on Bloomberg TV, Bloomberg radio, Reuters, MarketWatch, Wall Street Journal, Chicago Tribune, Chicago Sun Times, Toronto Star and Nikkei press. In analyzing the markets, he draws from 29 years of Foreign Exchange Research as a Foreign Exchange Analyst.

Please note that Forex trading (OTC Trading) involves substantial risk of loss, and may not be suitable for everyone. This report is provided by Easy-Forex® for informative purposes only. In no way it is a recommendation by Easy-Forex® for you to engage in any trade. It is your sole responsibility and you will have no claims with regards to this report against Easy-Forex®. If you do not agree to this, you are strongly advised not to use this report. Hence, Easy-Forex® shall not be held responsible for any outcome of trading decisions, in regards with this report or similar reports.