FX Strategy Briefing

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Greenback Lower on Better Global Manufacturing Indications

- The dollar fell against most key currencies on signs of improving global manufacturing activity. The S&P 500 rose 4.01 points to 923.33. Most currency pairs remain confined in narrow trading ranges without any clear directions. China's manufacturing PMI rose for a fourth month and manufacturing in many other areas improved more than expected. US manufacturing shrank at the slowest pace since August 2008 while pending home sales advanced for a fourth consecutive month. The yen fell on improved risk sentiment and a Tankan report that indicated the Japanese economy is slowly improving. Sterling gained as the UK manufacturing PMI rose more than forecast and showed the smallest manufacturing contraction since May 2008 amid an easing UK recession. The Australian and Canadian dollars rose after China, the biggest commodity user, expanded more than expected.
- The EUR/USD rose on rising stock prices and improving eurozone manufacturing activity. The European Central Bank is likely to keep its key interest rate unchanged at 1.00% tomorrow. Investors await ECB President Jean-Claude Trichet's press conference for clues on eurozone economic growth and deflation after eurozone CPI declined modestly in June. The EUR/USD has broken its short-term downtrend and consolidated strong gains since March. There are strong support in the 1.38 area and strong resistance in the 1.43. A break of either support or resistance will give us some clue on the future EUR/USD direction.

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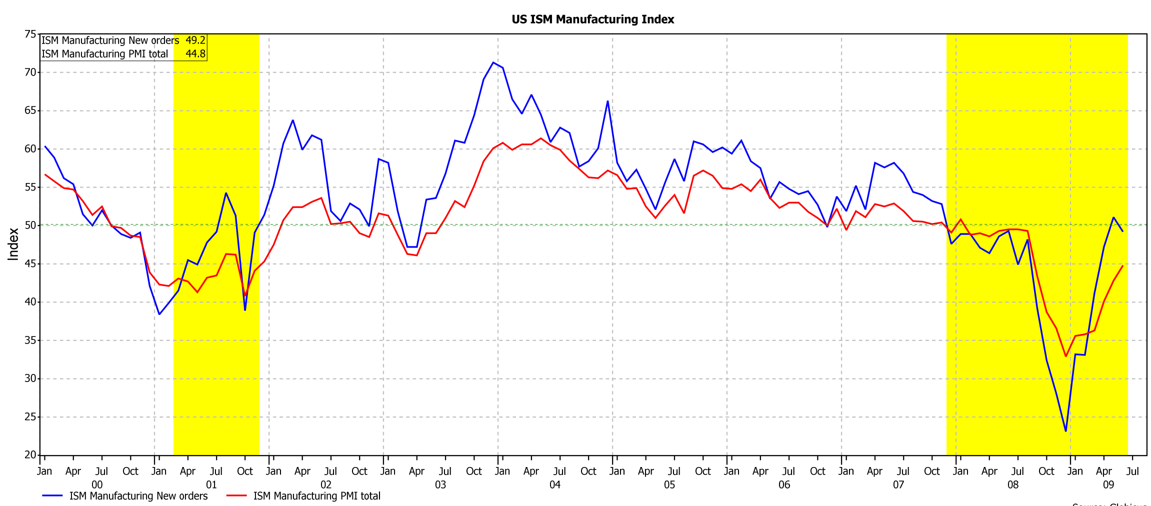
Financial and Economic News and Comments

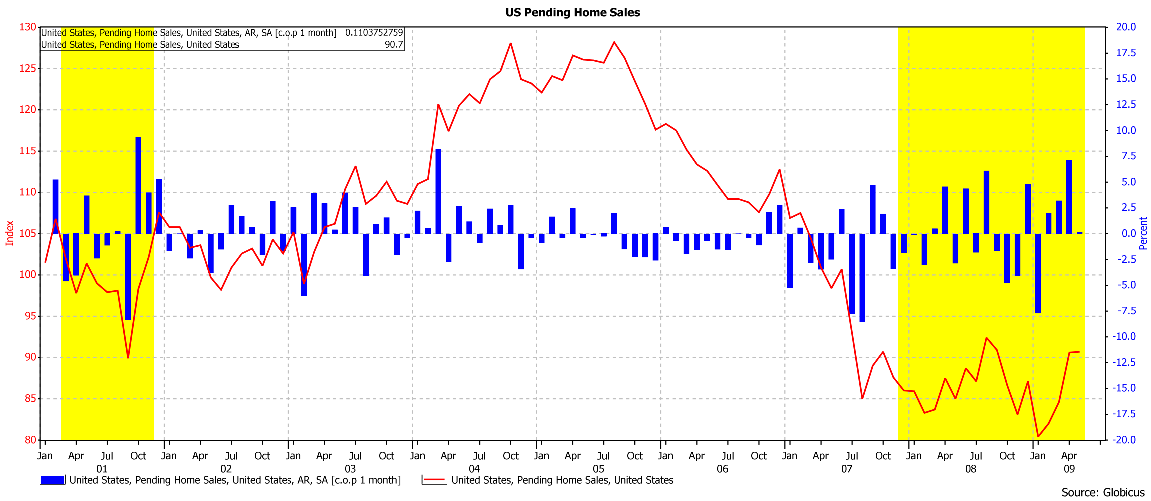
<u>US & Canada</u>

- The ISM US manufacturing index increased for a sixth consecutive month to 44.8 in June from 42.8 in May, indicating US manufacturing contracted at the slowest rate since August 2008, the Institute for Supply Management reported. Almost all of the index's key components improved in June. The production index jumped into positive territory to 52.5 from 46.0, the supplier deliveries index expanded to 50.6 from 49.8, and the employment index rose to 40.7 from 34.3. However, the new orders index declined to 49.2 from 51.1 and the inventories index fell to 30.8 from 32.9. The prices paid index rose to 50.0 in June, the highest reading since the Lehman Brothers collapse in September 2008, from 43.5 in May.



- US private-sector payrolls fell 473,000 in June, according to estimates by Automatic Data Processing Inc. and consultancy Macroeconomic Advisers. May data was revised to show a decline of 485,000, smaller than a previous estimate of 532,000. Tomorrow's official employment report by the Labor Department may show overall job losses approximately 350,000 with the unemployment rate rising to 9.6%.

- US pending home sales gained for a fourth straight month in May, increasing as forecast 0.1% m/m, after April's upwardly revised 7.1% m/m rise, data from the National Association of Realtors showed, marking the longest consecutive stretch of gains since October 2004. May pending home sales rose 4.6% y/y, following April's upwardly revised 3.8% y/y advance.



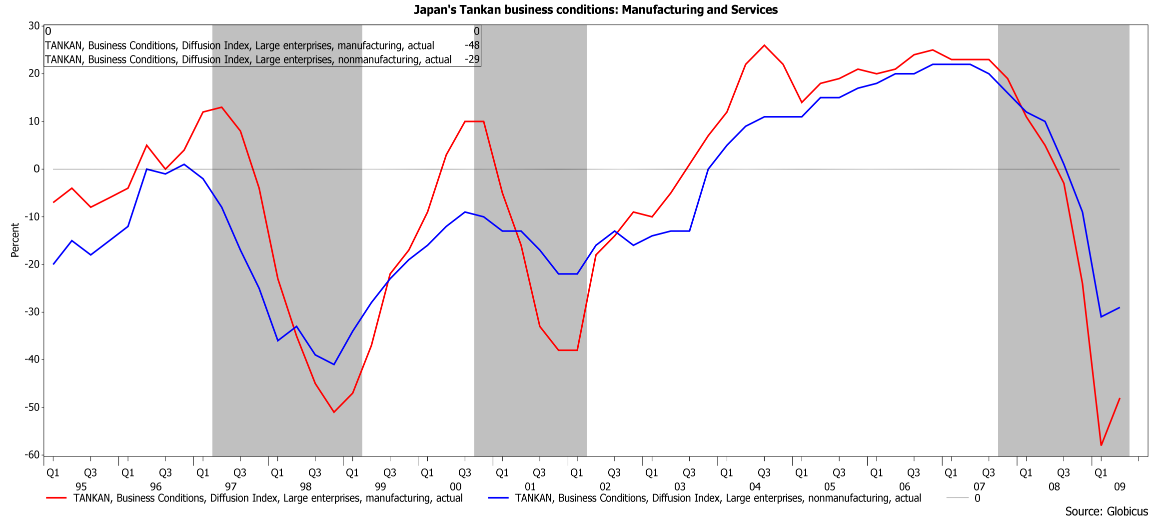
- US construction spending declined a more-than-forecast 0.9% m/m to a seasonally adjusted annual rate of $964.05 billion in May, the fifth decline in six months, after a downwardly revised 0.6% m/m increase in April, according to data from the Commerce Department. May construction spending dropped 11.6% y/y.

Europe

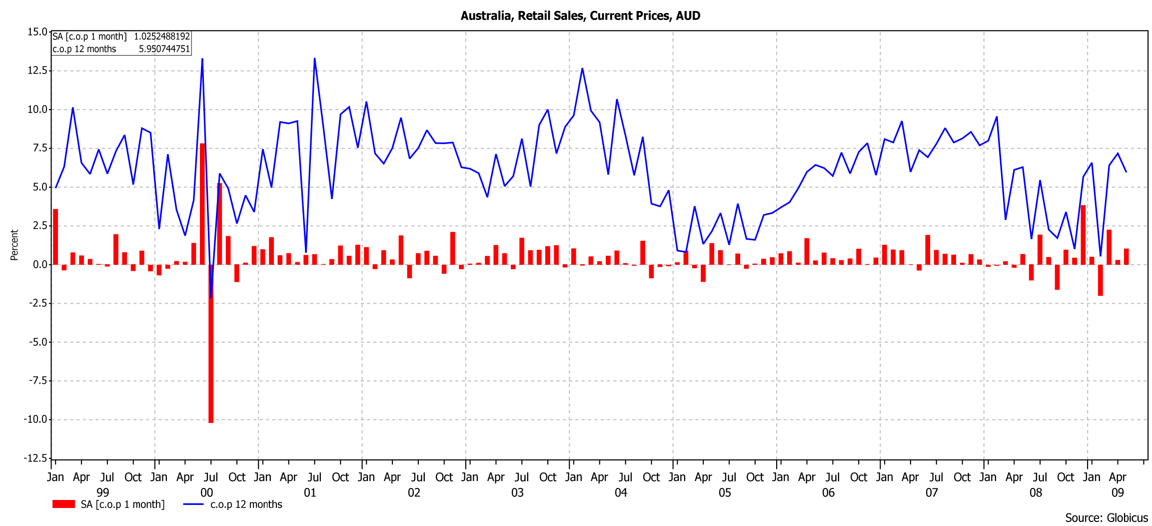
- The eurozone manufacturing PMI was upwardly revised to 42.6 for June from a previously reported 42.4 and the German manufacturing PMI was upwardly revised to 40.9 from a previously reported 40.5, according to final June manufacturing PMI data by Markit Economics.
- Germany's retail sales unexpectedly increased 0.4% m/m in May after a 0.5% m/m advance in April, data from the Federal Statistical Office showed. May retail sales fell a more-than-expected 2.9% y/y, following April's upwardly revised 0.3% y/y decline.
- The UK manufacturing PMI rose more than anticipated to 47.0 in June, indicating UK manufacturing contracted at the slowest pace since May 2008, from 45.4 in May, according to PMI data by the Chartered Institute of Purchasing and Supply and Markit Economics.
- UK service-sector output unexpectedly declined 1.2% in the three months to April after a downwardly revised 1.6% slide in the three months to March, the Office for National Statistics said.
- The SVME Swiss PMI increased more than expected to 41.8 in June from 39.8 in May; however, the PMI remained below the 50-point mark, indicating manufacturing contraction in Switzerland for ten straight months, according to data from the Swiss Association of Purchasing and Materials Management.

Asia-Pacific

- Japan's business climate improved in Q2 2009, according to the Bank of Japan's Tankan survey. The large manufacturers index increased less than expected to -48 in Q2 from a record-low -58 in Q1, while the large manufacturers outlook improved more than expected to -30 from -51. The non-manufacturing index advanced less than expected to -29 from -31, while the non-manufacturing outlook improved more than expected to -21 from -30. The Tankan all industries capex index, measuring capital expenditures by all Japanese industries except the financial industry, showed large manufacturers and non-manufacturers plan to cut business investment by 9.4%.



- Australia's seasonally adjusted retail sales rose a more-than-estimated 1.0% m/m in May after a 0.3% m/m increase in April, according to data from the Australian Bureau of Statistics (ABS). May retail sales gained 6.0% y/y.



- Australian building approvals unexpectedly fell 12.5% m/m in May, the first decline in four months and the largest since November 2002, after a downwardly revised 4.1% m/m increase in April, data from the ABS showed. May building approvals dropped a more-than-expected 22.4% y/y, following April's 16.1% y/y decrease.
- China's manufacturing PMI increased to 53.2 in June from 53.1 in May, indicating manufacturing in China expanded for a fourth month, data from the Federation of Logistics and Purchasing showed.

FX Strategy Update

	EUR/USD	USD/JPY	GBP/USD	USD/CHF	USD/CAD	AUD/USD	EUR/JPY

	EUR/USD	USD/JPY	GBP/USD	USD/CHF	USD/CAD	AUD/USD	EUR/JPY
Primary Trend	Neutral	Neutral	Negative	Neutral	Neutral	Neutral	Neutral
Secondary Trend	Positive	Neutral	Positive	Negative	Negative	Positive	Positive
Outlook	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Action	Sell	Buy	Buy	None	None	Buy	None
Current	1.4149	96.61	1.6478	1.0745	1.1491	0.8081	136.68
Original Position	1.3904	95.69	1.4845	N/A	N/A	0.6601	N/A
Objective	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Stop	1.4235	93.40	1.5860	N/A	N/A	0.7670	N/A
Support	1.3800	94.50	1.6300	1.0600	1.1000	0.7800	128.00
	1.3550	91.00	1.5900	1.0400	1.0800	0.7500	125.00
Resistance	1.4200	99.50	1.6600	1.1000	1.1650	0.8200	139.00
	1.4300	101.00	1.7000	1.1300	1.2000	0.8500	142.00

Thursday's Economic Calendar

Time (EDT)	Region	Data	Period	Change	Forecast	Previous
4:30	UK	Construction PMI	Jun		46.0	45.9
5:00	EMU	Unemployment rate	May		9.4%	9.2%
5:00	EMU	PPI	May	m/m	0.1%	-1.0%
5:00	EMU	PPI	May	y/y	-5.6%	-4.6%
7:45	EMU	European Central Bank interest rate decision			1.00%	1.00%
8:30	US	Change in nonfarm payrolls	Jun		-350K	-345K
8:30	US	Unemployment rate	Jun		9.6%	9.4%
8:30	US	Average hourly earnings	Jun	m/m	0.1%	0.1%
8:30	US	Average hourly earnings	Jun	y/y	2.9%	3.1%
8:30	US	Average weekly hours	Jun		33.1	33.1
8:30	US	Initial jobless claims	Jun 27		615K	627K
8:30	US	Continuing claims	Jun 20		6.740M	6.738M
10:00	US	Factory orders	May		0.9%	0.7%
19:30	Australia	AiG performance of service index	Jun			39.9

Notes: N/A=not applicable/not available, ar=annual rate, sa=seasonally adjusted, nsa=non-seasonally adjusted, wda=working days adjusted, 3 mths=3 months, m/m=month-on-month, q/q=quarter-on-quarter, y/y=year-on-year, ytd=year-to-date, m=million, b=billion, t=trillion, unch=unchanged, a=advance, p=preliminary, r=revised, f=final, GDP=gross domestic product, CPI=consumer price index, PPI=producer price index, PMI=purchasing managers index

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