



# FX Strategy Briefing

June 30, 2009

**Capital Market Services, LLC**  
350 Fifth Avenue, Suite 6400  
New York, NY 10118  
www.cmsfx.com  
trading@cmsfx.com

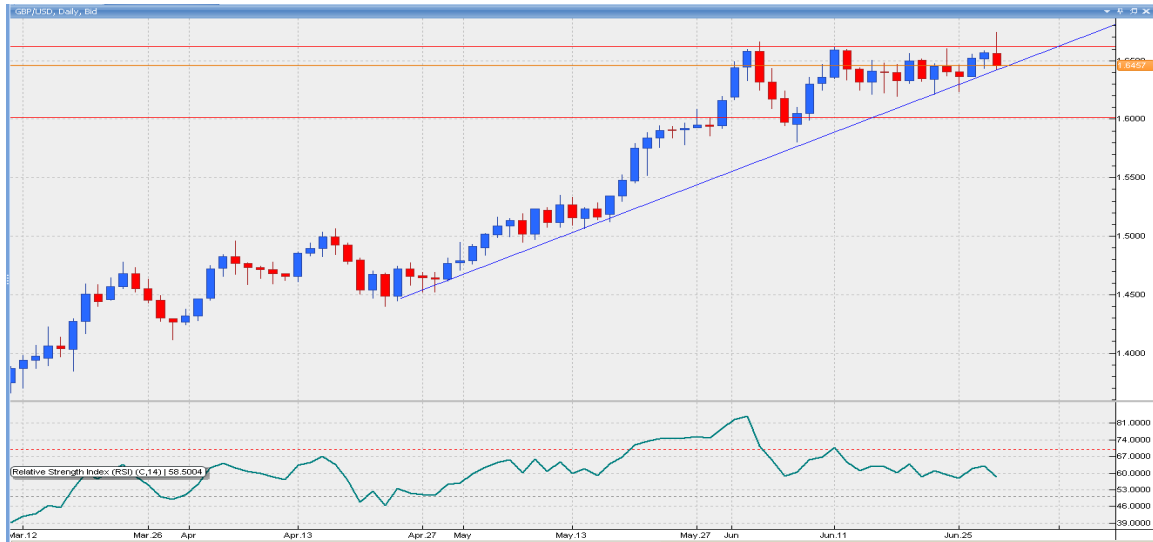
Prepared by Hans Nilsson\* and Winnie Tapasanun  
www.globicus.com

## Risk Appetite Falls as US Consumer Sentiment Declines

- The dollar reversed overnight losses and gained against its counterparts on Tuesday after US consumer sentiment unexpectedly declined. The weaker consumer sentiment increased risk aversion and the chances of a consumer-led economic recovery. The weak labor market is weighing on consumer spending. Thursday's US employment report by the Labor Department will be an important indication of consumer spending. Tomorrow we will get the first indication of the US employment situation with ADP's US employment forecast. A number below 300K losses will increase risk appetite and pressure the dollar while a larger than 400K decline will reduce risk appetite and strengthen the greenback. The euro declined on increased risk aversion and a report that eurozone CPI fell for first time ever. The European Central Bank's inflation target is 2% and yearly modest deflation is likely to induce the ECB to keep rates low for the foreseeable future. The Australian dollar fell, while the Canadian dollar broke important support indicating further weakness.
- The GBP/USD broke the 1.66 resistance and hit an 8-month high before a dramatic about-turn after worse-than-expected data forced investors back into dollar havens. Improving UK consumer confidence and rising UK house prices encouraged risk-taking, while the weakest UK GDP in over 50 years and falling US consumer sentiment pressured the pair. Sterling, like other currency pairs, has been flat lining, with the price direction closely correlated to risk sentiment and equity markets' direction. This pattern is likely to continue.

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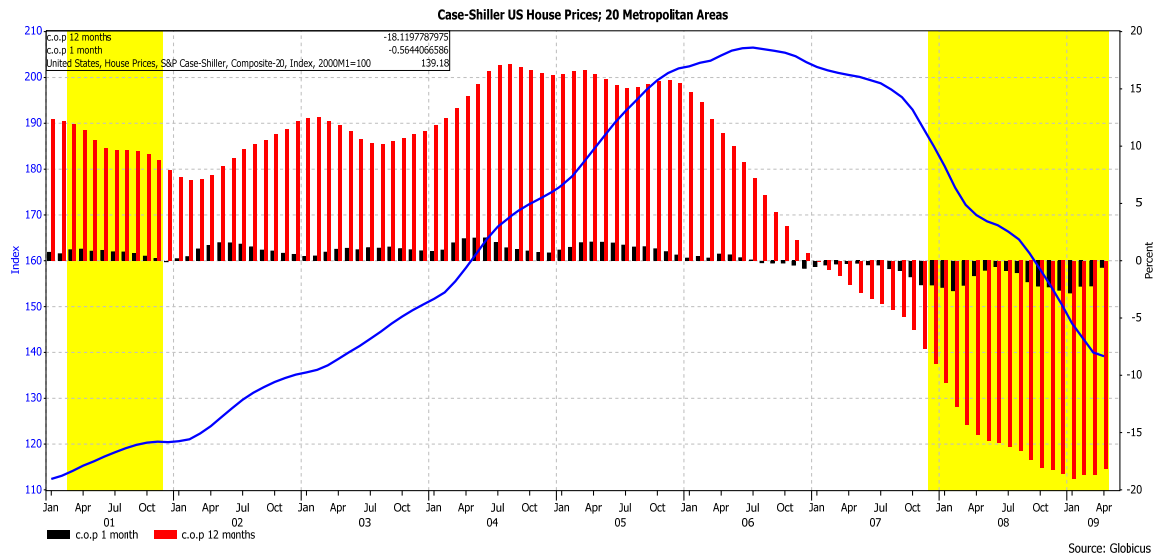
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**Financial and Economic News and Comments**

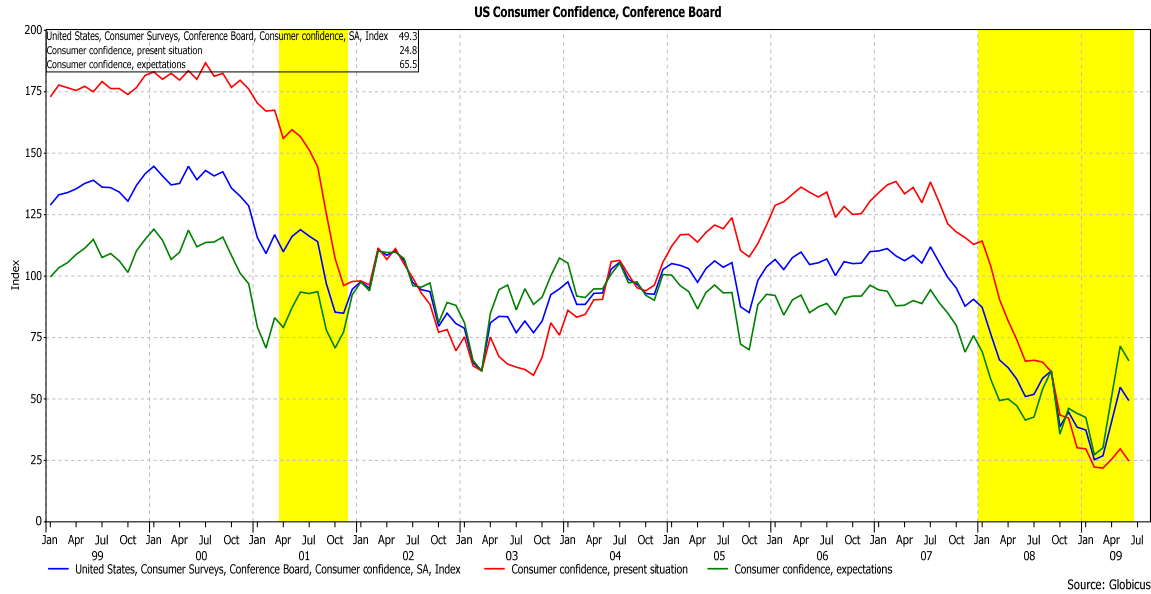
**US & Canada**

- Home prices in 20 major US cities fell a less-than-expected 18.1% y/y in April, the smallest decline in six months, after an 18.7% y/y drop in March, according to the S&P/Case-Shiller composite-20 house price index. The April 20-city index was down 0.6% m/m. Home prices in 10 major US cities fell 18.0% y/y and 0.7% m/m in April, the S&P/Case-Shiller composite-10 house price index showed. The figures indicate some stabilization in the US housing market with house prices not overvalued anymore. House prices declined just marginally m/m and returned to their 2003 level.



- The Conference Board US consumer sentiment index unexpectedly declined to 49.3 in June, amid a weak labor market and increasing energy prices, from a downwardly revised 54.8 in May, data from the Conference Board showed. The present situation index slipped to 24.8 from May's upwardly revised 29.7. The consumer expectations index fell to 65.5 from May's downwardly revised 71.5.

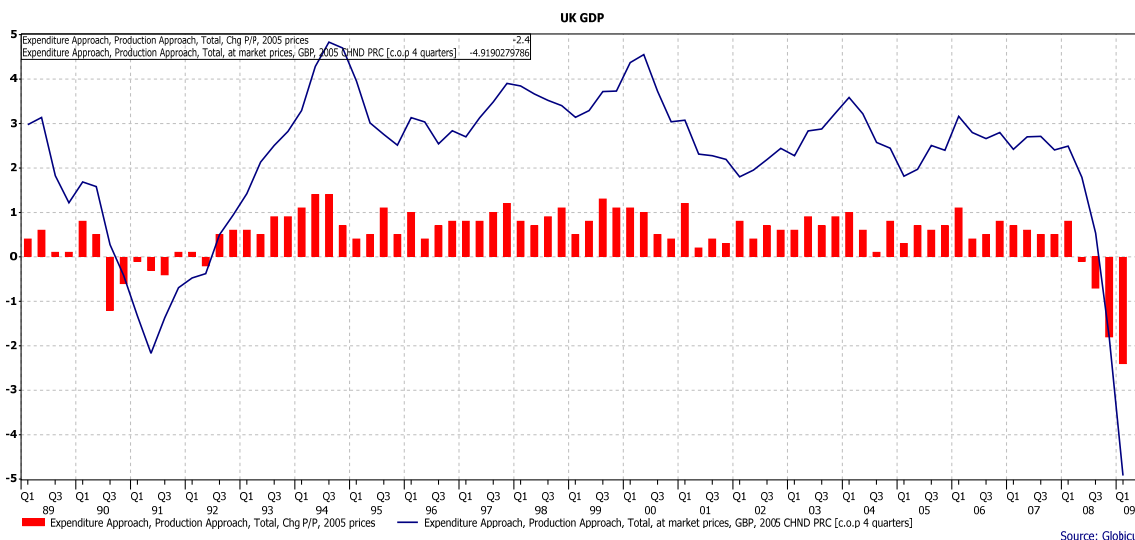
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- The Chicago business barometer increased more than expected to 39.9 in June from 34.9 in May, indicating contraction in business activity moderated this month, according to the Chicago Report by Kingsbury International, Ltd. and the Institute for Supply Management – Chicago, Inc. “This recession not only is deep, but also is broadly based” and it could be “projected to end in December 2009,” according to the report.
- Canada’s GDP declined as forecast 0.1% m/m in April, a ninth consecutive monthly contraction, after a 0.3% m/m decline in March, according to data from Statistics Canada. The raw materials price rose a slightly more-than-expected 2.2% m/m in May after an upwardly revised 0.3% m/m decline in April, while the industrial product price fell a more-than-expected 1.1% m/m after April’s 0.5% m/m slide, a separate report from Statistics Canada showed.

**Europe**

- The eurozone consumer-price inflation rate was forecast at -0.1% y/y for June, a flash estimate released by Eurostat showed, after 0.0% y/y in May.
- Germany’s seasonally adjusted unemployment rose a less-than-expected 31,000 to 3.5 million in June, the highest level since 2007, after an upwardly revised 7,000 increase in May, data from the Federal Labor Agency showed. The adjusted unemployment rate rose to 8.3%, as forecast, from May’s 8.2%.
- The Q1 2009 UK GDP fell 2.4% q/q, the largest contraction since 1958, compared with a previously estimated 1.9% q/q decline, final Q1 GDP figures from the Office for National Statistics showed. The GDP contracted 4.9% y/y, the most on record. Business investment in Q1 fell 7.6% q/q and 9.7% y/y.



- The UK current account deficit narrowed to £8.5 billion in Q1 2009 from £8.8 billion in Q4 2008, the ONS said.
- The GfK UK consumer sentiment index increased as forecast to -25 in June, indicating UK consumer confidence rose to the highest level since April 2008, from -27 in May, according to data from GfK NOP.

### Asia-Pacific

- Japan's May unemployment rate rose to a 5-year-high 5.2%, as forecast, from 5.0% in April, according to data from the Statistics Bureau. Household spending unexpectedly increased 0.3% y/y in May, the first advance in 15 months, after a 1.3% y/y decline in April. The job-to-applicant ratio declined to 0.44, the lowest since records began in 1963, from April's 0.46. Labor cash earnings fell a more-than-expected 2.9% y/y in May, extending the longest losing streak in five years.
- Japanese housing starts fell for a sixth consecutive month in May, falling a more-than-anticipated 30.8% y/y, after April's 32.4% y/y drop, data released by the Ministry of Land, Infrastructure, Transport and Tourism showed. Construction orders fell for a seventh straight month in May, dropping 41.9% y/y to ¥454.8 billion (\$4.74 billion), following April's 25.9% y/y decrease.
- Australia's private-sector credit unexpectedly declined 0.1% m/m in May after increasing 0.1% m/m in April, the Reserve Bank of Australia said. May private-sector credit rose a less-than-expected 3.9% y/y, following April's downwardly revised 4.5% y/y advance.
- Australian new home sales fell 5.7% m/m in May, still 15.0% above December 2008's low point, after a 0.5% m/m increase in April, the Housing Industry Association reported.

### FX Strategy Update

	EUR/USD	USD/JPY	GBP/USD	USD/CHF	USD/CAD	AUD/USD	EUR/JPY
<b>Primary Trend</b>	Neutral	Neutral	Negative	Neutral	Neutral	Neutral	Neutral
<b>Secondary Trend</b>	Positive	Neutral	Positive	Negative	Negative	Positive	Positive
<b>Outlook</b>	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
<b>Action</b>	Sell	Buy	Buy	None	None	Buy	None
<b>Current</b>	1.4034	96.33	1.6462	1.0857	1.1621	0.8067	135.20

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	EUR/USD	USD/JPY	GBP/USD	USD/CHF	USD/CAD	AUD/USD	EUR/JPY
<b>Original Position</b>	1.3904	95.69	1.4845	N/A	N/A	0.6601	N/A
<b>Objective</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Stop</b>	1.4235	93.40	1.5860	N/A	N/A	0.7670	N/A
<b>Support</b>	1.3750	94.50	1.6300	1.0600	1.1000	0.7800	128.00
<b>Resistance</b>	1.3550	91.00	1.5900	1.0400	1.0800	0.7500	125.00
	1.4100	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

### Wednesday's Economic Calendar

Time (EDT)	Region	Data	Period	Change	Forecast	Previous
1:00	Germany	Retail sales	May	m/m	0.0%	0.5%
1:00	Germany	Retail sales	May	y/y	-1.5%	-0.8%
3:30	Switzerland	SVME PMI	Jul		41.0	39.8
3:55	Germany	Manufacturing PMI	Jun F		40.5	40.5
4:00	EMU	Manufacturing PMI	Jun F		42.4	42.4
4:30	UK	Manufacturing PMI	Jun		46.4	45.4
4:30	UK	Index of services 3mths-3mths	Apr		0.2%	-1.2%
8:15	US	ADP employment change	Jun		-393K	-532K
10:00	US	ISM manufacturing index	Jun		44.2	42.8
10:00	US	Construction spending	May	m/m	-0.6%	0.8%
10:00	US	Pending home sales	May	m/m	0.1%	6.7%
10:00	US	Pending home sales	May	y/y		3.3%
11:15	US	Fed's Evans speaks on credit crunch, policy actions in London	Jul 1			
19:50	Japan	Monetary base	Jun	y/y	8.1%	7.9%
21:30	Australia	Trade balance	May		-\$125M	-\$91M

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

**Hans Nilsson and Winnie Tapasanun**  
New York, June 30, 2009, 17:17 EST