

USD lower as equity markets rally

- **USD:** Lower, improving risk appetite and rising global equity markets
- **JPY:** Lower, Tankan manufacturing improves less than expected, CAPEX spending falls
- **EUR:** Higher, manufacturing PMI and German retail sales rise, ECB expected to hold policy steady
- **GBP:** Higher, manufacturing PMI rises to its highest level since last May
- **CAD and AUD:** AUD & CAD higher, Australia's building approvals fall, crude tops \$71

Overview

An interesting start to the second half of 2009 which finds the USD trading lower pressured by rising equity markets, higher crude prices and report of improving manufacturing PMI's in China and Europe. China's manufacturing PMI rose for the fourth consecutive month to 53.2 from 53.1 in May. Manufacturing PMI's in the EU, UK and Switzerland rose to their highest level since the credit crisis emerged last September. The improvement in the manufacturing PMI's sparked demand for global equities and speculation that the global recession may be nearing an end. The CAD and EUR performed the best. GBP, AUD and JPY underperformed. The USD was also pressured by comments from the Fed's Yellen. Yellen said that interest rates may stay near zero for the next several years because of the severity of the recession. Today's US economic data was mixed. June ADP employment posted a bigger than expected drop in private sector job losses and construction spending declined more than expected. US manufacturing ISM and pending home sales posted modest improvement. Equity markets and the USD remained on the defensive after the release of today's data.

Focus turns to the release of US unemployment for June and ECB policy meeting Thursday. US unemployment is expected to rise but at a slower pace. ECB officials have indicated that current monetary policy is appropriate and no change is expected from the ECB at Thursday's meeting. USD price traction remains closely tied to speculation about the outlook for the US and global recovery. Data that raises recovery hopes is negative for the USD. Data that dampens optimism about the recovery tends to support the USD.

Today's US data:

ADP June non farm payrolls was reported at -473k versus a downwardly revised -485k in May. A reading of -393k was expected for the June ADP report. The ADP report suggests that Thursday's US nonfarm payroll report is likely to show little improvement. The ADP private sector job losses were the smallest since October. The ADP report does not consistently correlate with the US government employment report and we would not read too much into the implications of today's ADP report. May construction spending declined 0.9%, a reading of -0.5% was expected. June ISM manufacturing index came in at 44.8, a reading of 44 was expected. May pending home sales rose 1%.

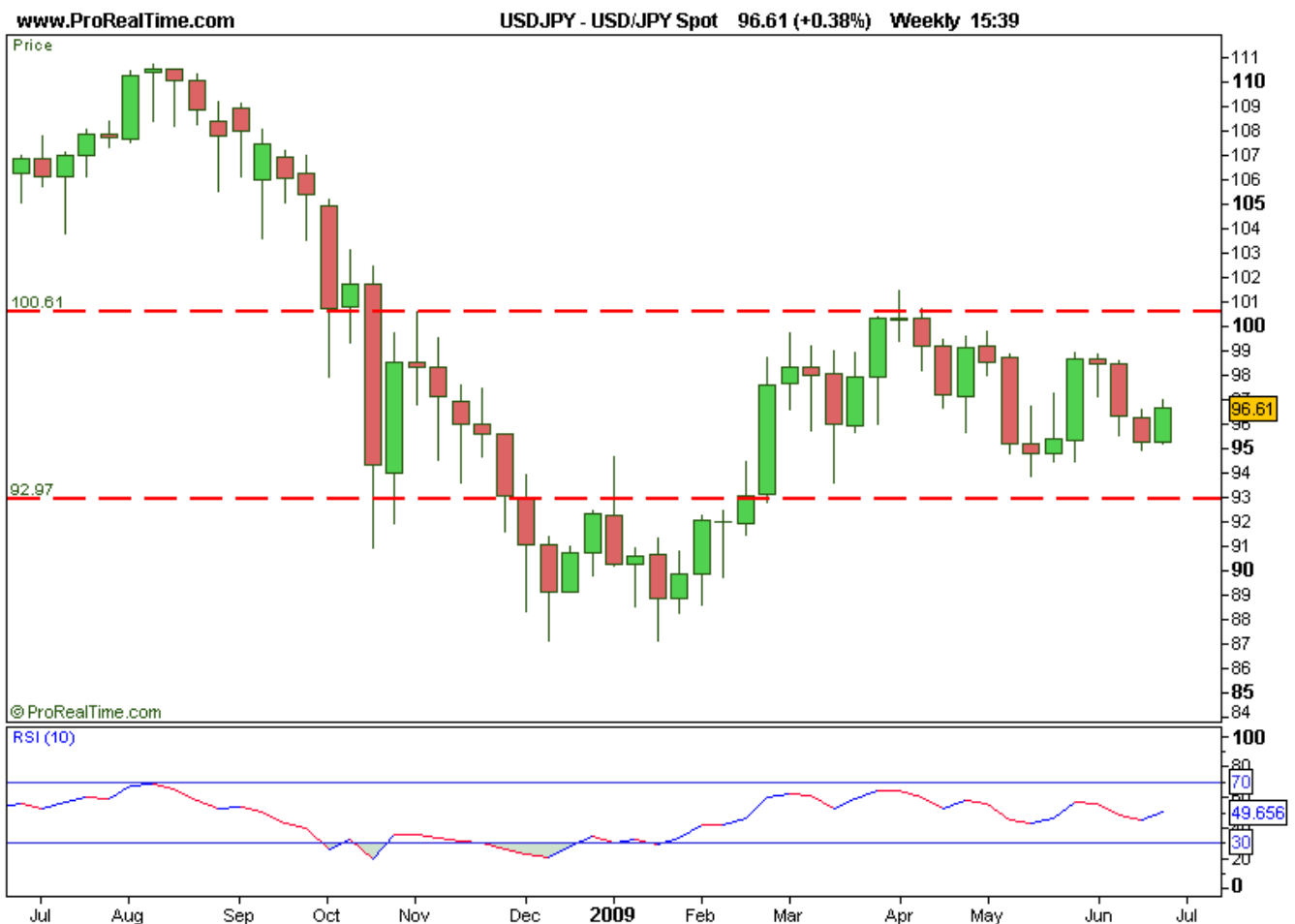
Upcoming US data:

On July 2nd initial jobless claims for the week ending 6/26 will rereleased expected at 610k compared to 627k last week. On July 2nd June nonfarm payrolls and unemployment will be released. The nonfarm payrolls are expected at -368k from -345k and the unemployment rate is expected to rise to 9.6% from 9.4% last month. May factory orders will also be released on July 2 nd expected to rise 0.1%.

JPY

JPY traded lower pressured by improving risk sentiment and selling in cross trade. Report of improving manufacturing PMI in China and Europe sparked a rally in equity markets and an uptick in risk sentiment. The PMI reports encourage speculation that the global recession is nearing an end. Although the end of the global recession would be a positive for Japan's export outlook, JPY price direction remains inversely correlated to risk sentiment. Japan's June Tankan manufacturing index came in weaker than expected at -48, a reading of -43 was expected. CAPEX spending declined 9.4%. Japan's Finance Minister Yasano said he expects the Japanese economy to grow next year. JPY was also pressured by political turmoil in Japan as Japan's prime minister shakes up his cabinet. Japan's PM named Hayashi the new Economic Minister. Japan's general election is expected to take place before the fall. The popularity of the ruling LDP party has suffered as the Japanese economy weakened. The shake up of the Japanese cabinet is directed at rebuilding support for the government ahead of the general election.

Key technical levels to watch in USD/JPY include support at 95.55 the June 30 th low with resistance at 97.20 the June 19th high.



EUR

EUR traded higher supported by improving EU manufacturing PMI and firmer equity market trade. EU June PMI rises to 42.6 from 40.7 last month. This was the highest reading for EU PMI since the credit crisis emerged last September. EUR was also supported by report that German retail sales rose 0.4% in May. These reports suggest that the pace of EU contraction has slowed and the recession may be nearing an end. This data will likely encourage the ECB to leave monetary policy unchanged at Thursday's policy meeting. Improving PMI data in China and Europe helped boost risk appetite and selling of the USD. This week's main focus will be Thursday's

ECB policy meeting. ECB President Trichet said last week that the current level of interest rates are “appropriate.” His comments suggest that the ECB will maintain steady rate policy decision at Thursday’s meeting. In addition, the ECB offered 442 billion EUR in twelve-month bank loans. This offering by the ECB is effectively a de facto ease monetary policy ease providing a large amount of liquidity to the EU banking system. In addition to ECB’s Weber said that additional steps are not necessary from the ECB at this time. ECB officials have consistently downplayed the risk of deflation in the EU and continue to expect modest rebound in the EU economy into year-end. The trade will be watching ECB Presidents Trichet’s press conference following the ECB policy meeting for the ECB’s outlook on EU growth and inflation. Wednesday the EU reported that inflation declined by 0.1%. The report shows that deflation may be a risk for the EU. The trade will be looking to see if ECB leaves the door open for future rate cuts .If ECB officials express concern about deflationary risk in the EU and continued risk to the EU economy the EUR may experience light selling pressure.

On July 3rd EU June services PMI will be released expected unchanged at 44 along with May retail sales. Retail sales are expected to rise 0.3% compared to 0.2% last month.

The technical outlook for the EUR has improved as the EUR rises above 1.4100. Expect EUR support at 1.4001 the July 1st low with resistance at 1.4180 the June 11th high and 14250.



GBP

GBP traded higher but underperformed despite report of improving UK manufacturing PMI. Yesterday, the UK reported a downward revision in Q1 GDP. UK Q1 GDP contracted at its fastest pace in 51 years. The weaker than expected UK GDP sparked selling of the GBP because the data raised concern about UK economic outlook.

UK June PMI rose to 47 from 45.4 last month. This was the highest reading for UK PMI since last May. Today's UK PMI data suggests that the UK economy is stabilizing but the data failed to inspire much buying of the GBP. Part of today's GBP underperformance may be related to a comment from the BOE's Lomax that neither the financial crisis nor the recession in the UK are over yet. In addition, there are reports that the UK government may nationalize one of the UK rail lines. GBP gains may also have been limited by technical selling pressure. GBP rallied to a new high for 2009 at 1.6745 Tuesday and then experienced a sharp selloff. The quick selloff of GBP from the year's highs may be limiting short-term demand for the GBP as the price action suggests that the GBP is overbought. GBP may be vulnerable to a technical correction. Focus turns to Thursday's release of UK services PMI. The services PMI may be a better gauge of whether UK consumer spending is rebounding and there is enough of a rebound in spending to support UK recovery hope. GBP price direction remains closely tied to risk sentiment and the direction of equity markets. The trade continues to debate whether the UK recession is ending.

June CIPS manufacturing PMI will be released on July 1st expected at 45.8 compared to 45.4 last month. On July 3rd June CIPS services Index will be released expected at 51.5 compared to 51.7 last month.

The technical outlook for GBP remains positive as GBP continues to hold above 1.6200. Expect near-term support at 1.6381 the July 1st low with resistance at 1.6745 the June 30 th high.



CAD

Canadian markets were closed for holiday and the CAD traded sharply higher. CAD was supported by a rally in global equity markets, a surge in crude prices and improving risk sentiment as manufacturing PMI's rise in China and Europe. CAD was also supported by Tuesday's mixed Canadian economic data. Canada reported that GDP declined for its ninth straight month but raw material prices rose 2.2%. The rise raw material prices rise decreases the chance that the Bank of Canada will elect to implement quantitative ease. The fact that the Bank of Canada

has not joined the Bank of Japan, the Fed, the BOE and ECB to implement quantitative ease separates BOC monetary policy from the other major industrialized nations. Today's CAD rise may encourage Canadian officials to increase intervention rhetoric to protest CAD strength. Over the past month the Bank of Canada has focused on recent strength of the CAD and how that strength hurt the chance for recovery in the Canadian economy. CAD has weakened 6% versus the USD since the Bank of Canada's Carney expressed concern at the start of the month that strong CAD would hurt Canada's economic rebound. Carney's comments have kept the trade on guard for possible intervention.

The technical outlook for CAD is mixed as USD/CAD drops back below 1.1500. Look for near-term support at 1.1445 the June 26 th low and 1.1330 the June 22nd low with resistance at 1.1655 the July st high.



AUD

AUD traded higher supported by rising global equity markets and improving risk appetite. AUD gains were limited by mixed Australian economic data. On the positive side, Australia's May retail sales rose 1% and in June PMI rose to an eight-month high of 38.4. On the negative side, Australia's May building approvals fell 12.5%. The trade had expected a 3.3% rise in the May buildings approvals. AUD rally has slowed partly in response to uncertainty about RBA policy outlook. Over the past few trading sessions speculation has emerged that the RBA may cut interest rates again before year-end because of the uncertain outlook for the Australian domestic economy. Yesterday, Australia reported the first drop in consumer credit since December and a sharp decline in new home sales. These reports coupled with today's report of a sharp drop in building approvals suggest that the outlook for the Australian domestic economy remains uncertain. RBA watcher McCrann says that the RBA could lower rates again if the economic outlook weakens. RBA rate speculation may limit demand for the AUD. RBA meet next week are expected to hold great policy steady at 3%.

On July 2nd May trade balance will be released expected that \$A10.2bln compared to \$A 8.7bln.

The technical outlook for the AUD has improved as the AUD rises above 8100. Expect AUD support at 7985 the June 29th low with resistance at 8265 the June 3rd high. A break above 8265 could set the stage for a move to 8500.



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.