

USD consolidates post G-8 gains as equities and oil fall

- **USD:** Higher, Russian finance minister says USD reserve status unlikely to change in near future
- **JPY:** Higher, supported by gains in cross trade, BOJ may upgrade Japan's economic outlook
- **EUR:** Lower, EU Q1 employment falls at a record pace, Russia's Kudrin says USD has no rival
- **CHF:** Lower, Swiss producer prices fall the most in two decades, threat of intervention
- **GBP:** Lower, CBI expects no growth in the UK economy until 2010, downside limited by rally versus EUR
- **CAD and AUD:** AUD & CAD lower, declining CRB, Can. manufacturing shipments fall less than expected

Overview

USD starts the week higher supported by comments from Russia's Finance Minister Kudrin that it was too early to talk about an alternative to the USD as the world's reserve currency. Kudrin told the G-8 that Russia has full confidence in the USD and that replacement of the USD as the global reserve currency will not be a major topic of discussion at tomorrow's BRIC conference in Russia. BRIC nations recently raised concerns about the USD reserve status and have increased purchases of IMF bonds. The USD was also supported by concern about the outlook for the European economies as EU Q1 employment falls at a record pace and the CBI says that the UK economy will not begin to grow until next year. CHF was pressured by report of declining Swiss producer import prices. The commodity currencies were pressured by a drop in the price of crude below \$71 a barrel. CAD decline was limited by report of better than expected April manufacturing shipments. The G-8 communiqué says there are signs of global economic stabilization but recovery remains uncertain. The G-8 are discussing plans to reverse stimulus as the global economy recovers. A credible exit strategy from fiscal and monetary stimulus would be a positive for the USD. The IMF's Strauss Kahn says the USD is correctly valued. The USD may be forming a short-term bottom as focus shifts to improving US economic outlook, rising US interest rates and potential plans for an exit strategy from fiscal and monetary stimulus. Diminished threat to USD reserve status is also a positive for the USD.

Today's US data:

June Empire State Manufacturing index falls five points to -9.41 compared to -4.55 in May, a reading of -4.5 was expected. USD remained firm despite report of weaker than expected Empire Manufacturing and the April Treasury flows data which showed China, Russia and Japan reduced holding of US treasuries.

Upcoming US data:

On June 16th, May housing starts will be released expected at 490K compared to 450K last month. May PPI will also be released on June 16th expected to rise 0.4% compared to 0.3% last month along May industrial production and capacity utilization. May industrial production is expected unchanged at -0.5% and capacity utilization is expected to fall to 68.6 from 69.1 last month. On June 17th, May CPI will be released expected to rise 0.3% compared to flat last month. Q1 current account will also be released on June 17th expected at -85 bln compared to -132.8 mln last quarter. On June 18th, initial jobless claims for week ending in 6/13 will be released expected at -592K compared to -601K last week. May leading economic indicators and the June Philly Fed will also be released on June 18th. Leading economic indicators are expected to rise 0.8% compared to 1% last month and the Philly Fed is expected to improve to -16.4 from -22.6.

JPY

JPY edged higher supported by gains in cross trade and light safe haven demand as global equity markets slide. Japanese exporters were featured sellers of the USD/JPY. AUD/JPY traded 1.5% lower with the AUD pressured by comments from Australia's Treasury Secretary warning that hundreds of thousands of jobs are still at risk. EUR/JPY traded sharply lower with the EUR pressured by report of a record quarterly drop in EU employment. GBP/JPY traded lower with GBP pressured by concern about UK economic outlook as the CBI says that the UK economy will not grow until next year. JPY upside was limited by comments from the Russian finance minister that the USD will remain the world's reserve currency for a while. Friday, Japan's Finance Minister Yasano said that Japan's trust in US debt is unshakable. JPY traded to the day's highs after the release of US April TIC data which showed Japan was a net seller of US treasuries last month. BOJ rate decision is due Tuesday. No policy change is expected. At the last BOJ policy meeting, the BOJ raised its economic assessment for Japan's economy for the first time in three years. Recent Japanese economic data has shown improvement and the BOJ may upgrade economic outlook again at Tuesday's policy meeting.

This week's Japanese economic calendar includes the June 16th BOJ policy decision; no change is expected. On June 17th, the BOJ's monthly inflation and economic growth report will be released. On June 18th, revised April leading indicators will be released. On June 19th, April all industry activity will be released.

Key technical levels to watch for in the USD/JPY include support at 97.10 the June 10th low with resistance at 98.90 the June 8th high.



EUR

EUR traded sharply lower pressured by report that EU employment declined at its fastest pace on record and the Russian finance minister expressed confidence that the USD will remain the world's reserve currency for now. EU Q1 employment declined at a record 0.8% and 1.22 mln jobs were lost in Q1. The decline in EU employment raises concern about deteriorating economic outlook in the EU. Last week, the EU reported that industrial output declined at a record pace. These reports may increase pressure on the ECB to lower interest rates and expand asset purchases. The president of the German Chamber of Commerce said that funding conditions for German businesses are tougher now than they were at the peak of the global crisis. EUR has been weakening since last week's comments from Japan's finance minister that Japan's trust in US debt is unshakable and that the USD global reserve status is safe. EU was also pressured today by comments from the Russian finance minister that Russia has confidence in the USD and that USD reserve status will not be key topic at tomorrow's BRIC summit. Focus turns to Tuesday's release of EU inflation report. The EU inflation report could refocus the trade on potential risk of deflation in the EU.

On June 16th, EU May CPI will be released expected at 0.4%. The German June ZEW index will also be released on June 16th expected at 33 compared to 31.1 last month. On June 17th, EU April foreign trade is due for release released expected at 1 bln compared to 0.4 bln last month. On June 18th, French second quarter INSEE Outlook will be released along with made German PPI. German May PPI is expected to fall 1% compared to 1.4% last month. We do not have an estimate of the INSEE Outlook.

The technical outlook for the EUR has turned negative as the EUR drops below 1.3900. Expect EUR support at 1.3805 the June 8th low and 1.3730 with resistance at 1.4011 the June 15th high.



CHF

Swiss May producer import prices fell 0.3% m/m and 5% y/y. The trade was looking for 0.2% rise for the monthly producer and import report and 2.9% annual decline. This report suggests that deflationary pressures have intensified in Switzerland. SNB officials have pledged to combat deflationary pressures in Switzerland threatening to intervene to try and weaken the CHF. The CHF traded lower Monday supported by broad USD gains sparked by comments from the Russian finance minister expressing confidence in the USD. The comments from the Russian finance minister reduce fears that Russia would call for immediate abandonment of the USD as the global reserve currency. This week's Swiss economic calendar includes Tuesday's release of Q1 industrial production expected to fall 1.8% compared to 0.1% last month. Wednesday, retail sales will be released expected at 0.2% compared to 1.2% last month. SNB meet Thursday. No policy change is expected. The trade will be looking for any signs of increased threat of intervention from the SNB. The Swiss government will also release its official economic forecasts on Thursday for the second half of the year in the June SECO report. The SNB will also publish its bank financial stability report Thursday. Expect USD/CHF support at 1.1078 the June 15th low with resistance at 1.0985 the June 8th high.



GBP

GBP traded lower pressured by a CBI report which says that the CBI does not expect the UK economy to grow until next year. The CBI went on to say that the Bank of England may have to print more money to boost growth. The CBI looks for GDP to drop 0.3% in second quarter and 0.1% in the third quarter. The UK government expects UK economy to contract by 3.5% in 2009. GBP was also pressured by comments from the Russian finance Minister reassuring the G-8 members that Russia has confidence in the USD and is not seeking immediate abandonment of the USD as the world's global reserve currency. GBP downside was limited by a rally to a new high for the year against the EUR with the EUR pressured by report of a record drop in EU Q1 employment. GBP remains well supported on breaks but additional price gains will depend on whether upcoming UK economic data

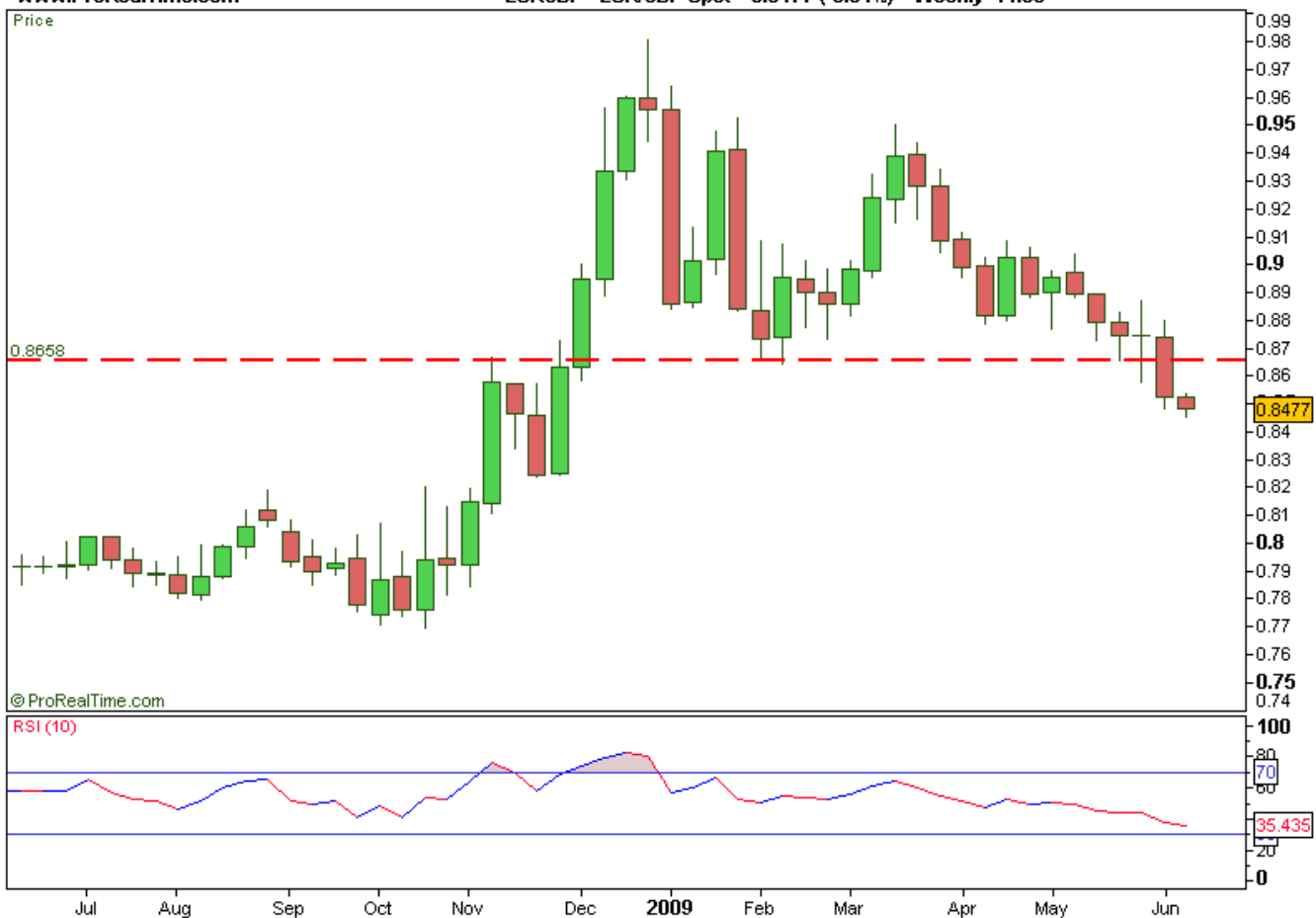
confirms that UK recession is nearing an end. GBP price direction has been closely correlated to the direction of equities and risk sentiment. Global equities traded sharply lower Monday's despite upbeat comments from the G-8. G-8 officials suggested that they see signs that the global economy is stabilizing. The G-8 also said that significant risks still remain for the global economy.

This week's UK economic calendar includes the June 16th release of May CPI expected at 0.4% compared to 0.2% last month. May RPI will also be released on June 16th expected unchanged at 0.4%. On June 17th, April unemployment will be released expected at 7.3% compared to 7.1% last month, along with April average earnings expected to fall 0.5% and May claimant Count expected to rise to 60 K from 57.1K last month. On June 18th, May public sector borrowing will be released expected at 8.676 bln compared to 8.468 mln last month along with May retail sales expected to rise 1% compared to 0.9% last month. June CBI orders will also be released on June 18th expected at -53 compared to -56 last month.

The technical outlook for GBP remains positive. GBP needs to hold above 1.6200 to maintain upside bias. Expect near-term support at 1.6240 the June 10th low and 1.6070 with resistance at 1.6625 the June 2nd high.

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EURGBP - EUR/GBP Spot 0.8477 (-0.54%) Weekly 14:53



CAD

CAD traded at a three-week low pressured by weaker equity markets and declining price of crude. CAD downside was limited by report of better than expected Canadian manufacturing shipments. Canada's April manufacturing shipments fell just 0.1%, the trade was looking for 1.6% decline. CAD traded lower despite relatively upbeat comments from the G-8 about the global economy nearing a bottom. The Canadian economy would be a major beneficiary of an upturn in global growth and demand. Bank of Canada Governor Carney warns that strong CAD could choke the Canadian economic recovery. Last week, Canada reported a sharp drop in capacity utilization and Canada's trade surplus turned to the deficit as export sales dropped. Canada's unemployment rate is at its

highest level in 11 years at 8.4%. These reports may encourage the Bank of Canada to adopt an asset purchase plan similar to the Fed and Bank of England to try and boost growth. The Shadow Monetary Policy Committee in Canada says that every increase in the value the CAD increases the chances that the Bank of Canada will begin purchasing assets. The purchase of assets by the Bank of Canada would help lower borrowing costs and could weaken the CAD. At the April 23rd Bank of Canada policy meeting, the Bank of Canada outlined plans for the purchase of assets if needed. The Bank of Canada has so far refrained from adopting the asset purchase plan and this has been a major positive for the CAD. BOC semi-annual review says the credit crisis has eased, but global economic weakness remains a threat. CAD price direction remains closely correlated to the price of crude. The threat that the BOC may adopt quantitative ease is a short-term negative for the CAD.

On June 16th, Q1 labor productivity will be released expected at -0.8% compared to -0.5% last month. On June 17th, May leading economic index and April wholesale sales will be released. The leading economic index is expected to fall 0.7% compared to -1.1% last month. Wholesale sales are expected to fall 0.3% compared to -0.6% last month. On June 18th, May CPI will be released expected flat compared to -0.1% last month. On June 19th, April retail sales are due for release expected up 0.4% compared to 0.3% last month.

The technical outlook for CAD has turned negative with today's break of last weeks low. Look for near-term support at 1.1182 the June 15th low with resistance at 1.1485 the May 21st high.



AUD

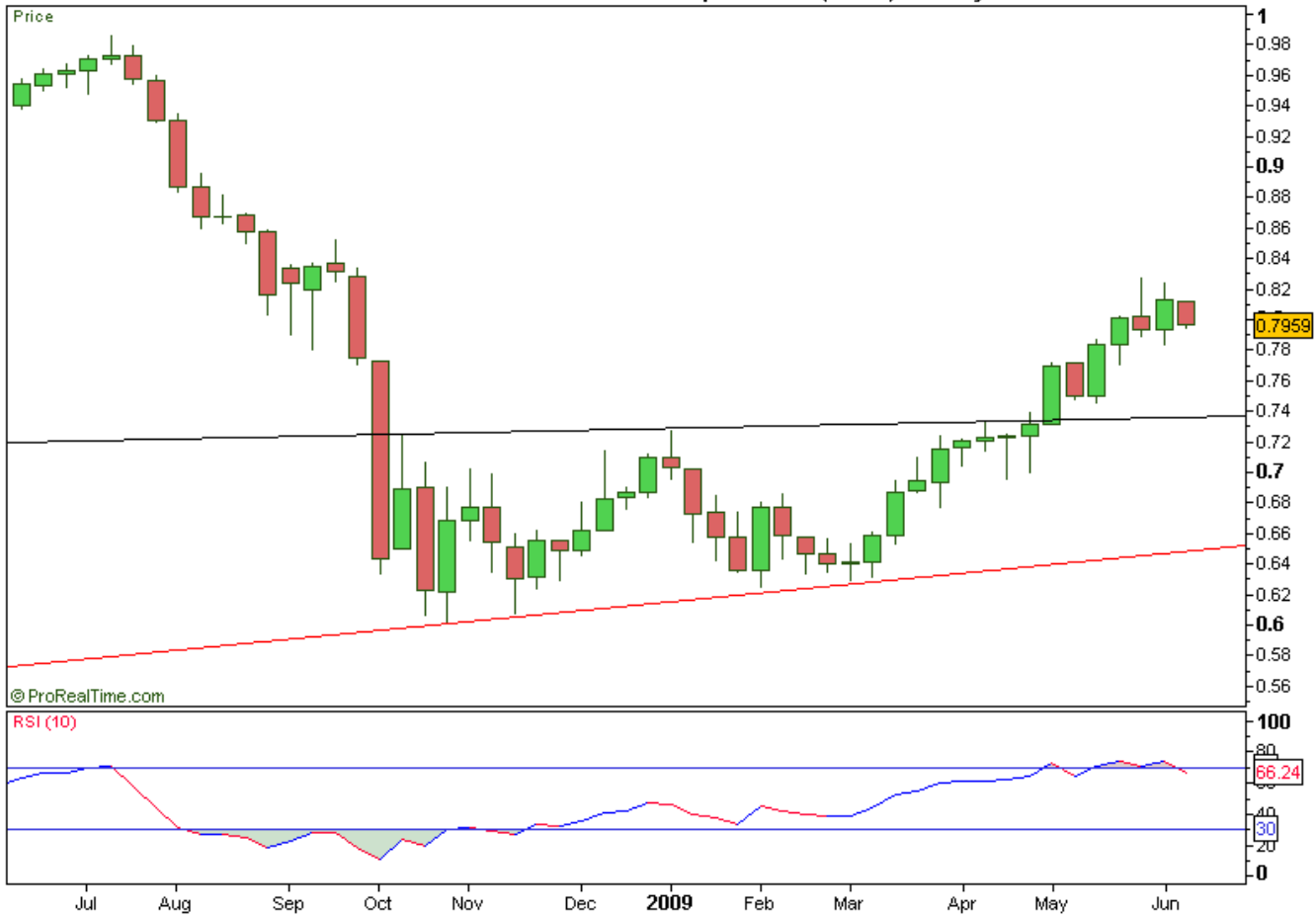
AUD traded sharply lower pressured by comments from the Russian finance minister that there is no viable alternative to the USD and by a statement from Australia's Treasury Secretary Swan warning that more jobs may be lost. For the past few months, the trade has been debating whether there will be increased pressure from BRIC nations to replace the USD's global reserve currency. The Russian finance minister reassured the G-8 that

they do not believe the USD reserve status is likely to change in the near future. His comments sparked a sharp selloff in the AUD/ JPY cross which traded over 2% lower. Treasury Secretary Swan said that hundreds of thousands of jobs are still at risk. His comments generated concern about Australia's domestic economic outlook. AUD was also pressured by weaker CRB and a dip in risk appetite as crude oil prices decline and equity markets fall. The reaction in the global equity markets is somewhat of a surprise in light of the more upbeat outlook from the G-8 meeting. The G-8 communiqué said that there are signs of economic stabilization. The G-8 also noted that significant risks still remain for the global economy. Friday there were rumors that the RBA had intervened to sell the AUD. RBA officials have been concerned that the recent rise in the AUD is still a threat to Australia's export outlook. Threat of intervention also pressured the AUD. The fact that the RBA has elected the hold rate policy steady at 3% has been a positive for the AUD, supporting demand for Australian yields as risk sentiment improved with rising equity markets over the last few months. Australian press reports that rising Australian mortgage rates may force the RBA to consider another rate cut. Tuesday, the RBA policy minutes for the last meeting will be released. The previous minutes indicated that the RBA has left the door open for future rate cuts.

The fundamental outlook for the AUD remains positive as Australia was one of the few industrial countries that averted recession during the global downturn and is well-positioned to prosper as the global economy recovers. Today's sharp selloff in AUD suggests that the technical outlook for the AUD has turned mixed and fails to hold gains above 8200.

This week's Australian economic calendar includes the June 17th release of Q1 dwelling unit starts expected at -4% compared to -0.9% last month.

The technical outlook for the AUD is mixed with today's break below 8000. Look for AUD key support at 7830 last weeks low with resistance at 8117 the June 15th high.



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