

USD locked in tight range trade, pares gains as stocks rise

- **USD:** Mixed, China plans no sudden changes in reserve policy, BIS warns of long economic stagnation
- **JPY:** Lower, political uncertainty, calls for Japan's PM to resign, retail sales flat, industrial production rises
- **EUR:** Mixed, business climate and economic sentiment improve, ECB policy uncertainty
- **CHF:** Lower, pressured by threat of SNB intervention, CPI due for release Friday
- **GBP:** Higher, despite report of falling home prices and S&P warning that UK debt could rise to 200% of GDP
- **CAD and AUD:** AUD & CAD lower, RBA rate cut speculation, China may stop buying metals for reserves

Overview

USD traded mixed Monday supported by China's reserve comments and BIS global outlook. Friday the USD was pressured by China's call for the establishment of a super world reserve currency. Monday, the PBOC's Zhou said that China plans no sudden changes in its reserve policy. Zhou's reserve comments sparked light demand for the USD. China continues to send mixed signals about USD reserve status and China's plans for US holdings. The BIS warned that the stimulus plans might spark a temporary pickup in growth then fail. According to the BIS we could be heading for a long period of stagnation and the return to normal market conditions will be protracted. The BIS also said the recovery is frail but exit from fiscal and monetary stimulus must be timely. The BIS forecast sparked light safe haven demand for the USD. EUR drifted lower despite report of improving business and economic sentiment. GBP traded higher and shrugged off reports of falling UK home prices and S&P warning that UK debt could rise to 200% of GDP. Commodity currencies drifted lower with the AUD pressured by RBA rate speculation and CAD pressured by report that China may stop buying metals for its strategic reserves. Rising crude prices had limited impact on today's FX trade. This week's main focus will be 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.

Today's US data:

No major US economic data was scheduled for release Monday.

Upcoming US data:

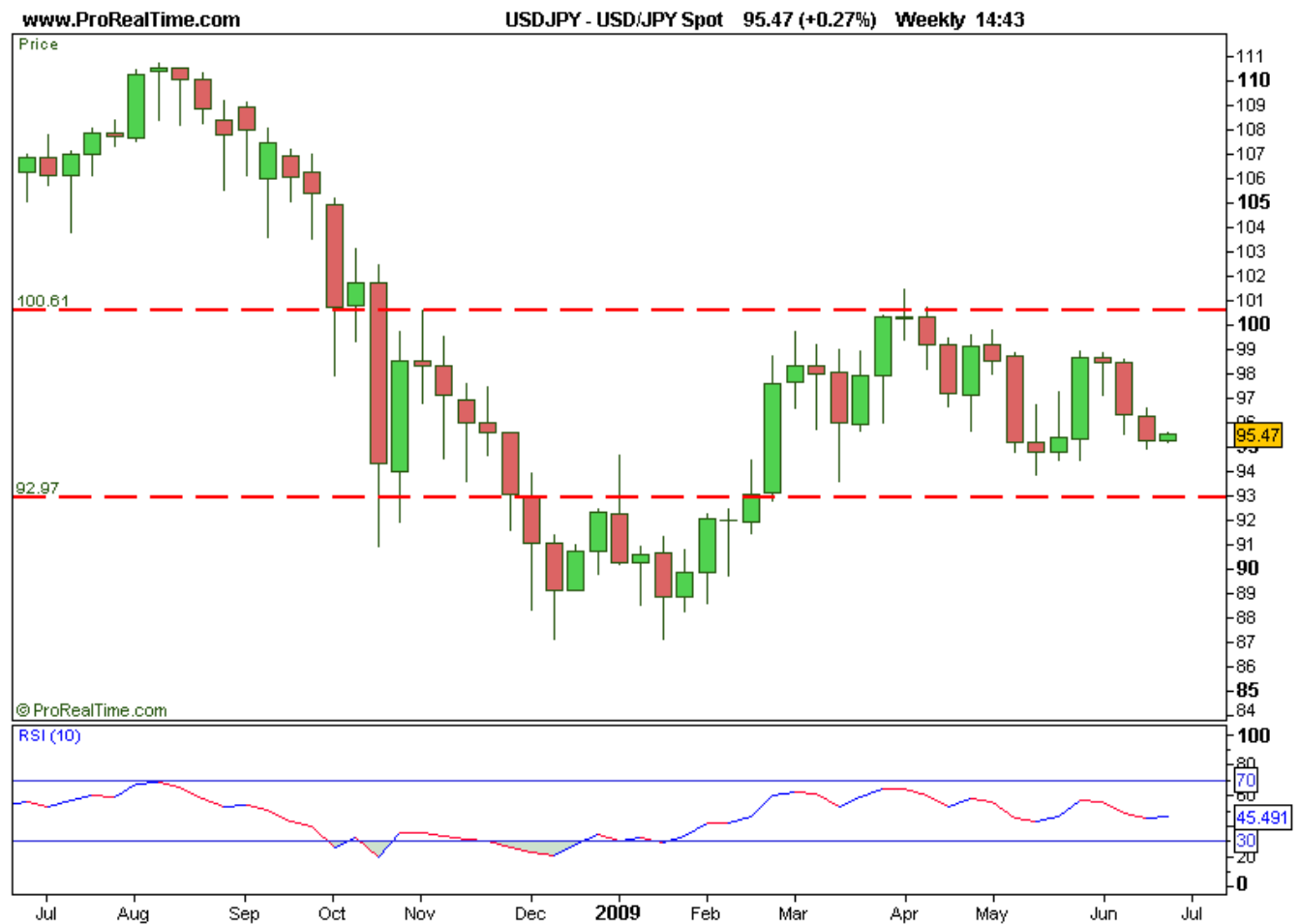
This week's US economic calendar includes the June 30th release of April Case Shiller home price index expected at -18.5 compared to -18.7 last month. Also on June 30th June Chicago PMI and consumer confidence will be released. The Chicago PMI is expected to improve to 38.3 from 34.9 last month. Consumer confidence is expected to improve to 57 from 54.9 last month. On July 1st May Construction spending, June ISM manufacturing index and May Pending Home Sales Index will be released. Construction spending is expected to fall 0.5% compared to a 0.8% rise last month. The ISM manufacturing index is expected to improve to 44 from 42.8 in May. Pending home sales are expected to rise to 92.5 from 90.3 last month. 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 -368 k 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 2nd expected to rise 0.1%.

JPY

JPY drifted lower failing to benefit from report of improving industrial production in Japan or safe haven flows as the Nikkei closed 93 points lower. JPY was pressured by report that China plans no sudden changes in its reserve policy and falling JGB yields. Japans May industrial production rose 5.9%. May retail sales were unchanged. JGB yields declined to a three year low. The declining JGB yields sparked light selling of the JPY in cross trade. Last week Japan reported that CPI declined at a record pace. The decline in Japan's CPI raises the risk of deflation in Japan. Japan's Finance Minister said that Japan will work to prevent a deflationary spiral. In Friday's trade JPY rallied along with the rest of major currencies which led some analysts to suggest that the USD may be on the verge of a more broad-based decline and that risk sentiment was becoming less of a market driver for the JPY. In Monday's trade JPY drifted lower and appeared to be re-linking with risk sentiment as European equities rise in the face of BIS warning that the global economic contraction may be protracted. The trade is also monitoring Japanese political developments as fresh calls emerge for Japan's PM to step down and the LDP party is slipping in the polls.

On June 30th May employment household spending, housing starts and construction orders will be released. Unemployment is expected to rise to 5.2% from 5% last month. Household spending is expected to rise 1.3% compared to -0.9% last month. Housing starts are expected to rise 4% compared to a 12.3% decline last month. Construction orders are expected to fall 26% compared to -25.9% last month. The key Japanese economic report scheduled for this week is the July 1st release of the June Tankan manufacturing survey. The Tankan survey is expected to improve to -48 from -58 last month with annual CAPEX spending falling 10% compared to -6.6% last month.

Key technical levels to watch in USD/JPY include support at 94.45 the June 1 st low with resistance at 96.60.



EUR

EUR traded mixed with support from report of improving EU business and economic sentiment. EUR upside was limited by report that China plans no sudden changes in its reserve policy and ECB policy uncertainty. EU June business climate improved to -2.97 from -3.11 last month. June economic sentiment rose to 73.3 from 69.3 last month. Last week, Germany reported that German IFO rose for the third consecutive month. These reports will encourage the ECB to maintain steady policy outlook. 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. It's hard to say how the EUR might respond to a steady ECB rate decision. EU inflation pressures remain low and growth outlook weak but the ECB continues to focus on price stability. The EUR could see some selling pressure in reaction to a steady ECB policy decision because of concern about the EU falling further behind in the growth curve. EU's Almunia says that it will take longer for Europe to recover from the crisis in the US.

This week's EU economic calendar includes June 30th release of German unemployment for June and May EU M3 money supply. German unemployment is expected to rise to 8.3% from 8.2% last month. EU M3 is expected to rise to 5.7% from 4.7% last month. On July 1st EU June manufacturing PMI will be released expected at 40.9 compared to 40.7 in the flash report. EU May PPI will be released along with May unemployment. PPI is expected to fall 0.7% compared to -1% last month. The unemployment rate is expected to rise 0.1% to 9.3%. 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 1.4000. Expect EUR support at 1.3980 the June 26th low with resistance at 1.4180 the June 11th high.



CHF

CHF drifted lower Monday in quiet trade. The main focus for the CHF remains the threat of SNB intervention. Last week there were rumors that the SNB had intervened at least twice to try to weaken the CHF versus the EUR. The SNB would neither conform nor deny that they had intervened. At this month's SNB policy meeting the SNB reaffirmed its commitment to prevent an appreciation of the CHF versus the EUR and pledged to intervene. EUR/CHF traded above 1.5250, Monday. The SNB intervened when the cross sank below 1.5100 last week. The SNB is expected to continue to defend the 1.5100 level in EUR/CHF cross.

This week's main focus will be Friday's release of Swiss June CPI expected flat compared to 0.2% last month. A weaker than expected Swiss CPI will increase the threat of SNB intervention. The SNB expects Swiss inflation to fall 0.6% in 2009 and rise 0.4% in 2010. The CHF is expected to remain on the defensive versus EUR and USD. Expect USD/CHF support at 1.0590 the June 2nd low with resistance at 1.1055 and May 22 nd high.



GBP

GBP edged higher despite report of weak house prices and S&P warning that UK debt could rise to 200% of GDP. UK June Hometrack house prices declined 8.7%. The UK government has expanded its deficit to try and boost UK growth. The UK debt rating may be vulnerable to downgrade if the GDP debt ratio continues to rise as S&P warns. Today's report of declining home prices suggests that UK recession has not yet reached bottom. Last week the OECD lowered UK 2009 growth forecast to -4.3% from 3.7%. The UK announced a slight improvement in May mortgage approvals to 43,441 from 43,191 last month along with 0.3bln rise in May consumer credit. As best we could tell GBP was supported by a rally in European equities. A rally in European equities helped boost

risk sentiment and the GBP. GBP was also supported by light buy stops. This week's main focus will be on Tuesday's release of final UK Q1 GDP in Friday's release of manufacturing and services PMI.

On June 30th Q1 final GDP will be released expected unchanged at -1.9% and -4.1% y/y. 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 1.6375 the June 26th low with resistance at 1.6725 the October 22nd high.



CAD

CAD drifted lower failing to find support from higher crude prices and firmer equity market trade. CAD was pressured by uncertain outlook for risk appetite as the BIS warns that the global economic contraction may be protracted. The BIS report generates uncertainty about potential global demand for commodities. CAD was also pressured by report that China may reduce its purchase of metals for strategic reserves. Last week it was reported that China plans to reduce purchase of raw materials. Today's comments from China's central bank that they have no plans to make sudden changes in their reserve holdings also supported the USD. There were no major Canadian economic reports scheduled for Monday's trade. CAD is consolidating near five-week low with gains limited by uncertainty about global recovery and BOC intervention rhetoric. 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. Focus turns to Tuesday's release Canada's GDP.

This week's Canadian economic calendar includes the June 30th release of April GDP expected at 0.1% compared to -0.3% last month. Canada's May industrial raw material prices will also be released on June 30th with I PPI expected to rise 0.5% and RMPI expected at 8%. Last month IPPI rose 0.3% and RMPI rose 12.1%.

The technical outlook for CAD is negative as USD/CAD holds above 1.1500. Look for near-term support at 1.1445 the June 26 th low with resistance at 1.1710.



AUD

AUD traded lower pressured by RBA rate cut speculation and uncertain outlook for the global economy. 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. As noted above, the BIS warned that recent government stimulus efforts may temporarily boost growth but may fail to create a sustainable economic recovery. This could lead to a long period of stagnation in the global economy. Australia's economy is highly dependent on exports and uncertain outlook for the global economy may limit demand for commodities and Australian exports. China News reported today that China will stop purchasing metals for strategic reserves. Australia is a major exporter of metals and China is a major export destination for Australia. AUD was also pressured by concern about Australia's export of metals to China. AUD downside was partly limited by a comment from China's PBOC Zhou that he expects China's economy to grow 8% or more in 2009. Part of the recent demand for the AUD has been predicated on speculation that China's economy is recovering and will help lead to a global economic recovery.

This week's Australian economic calendar includes the June 30th release of May private sector credit expected unchanged at 0.1%. On July 1st May building approvals will be released expected at 2% compared to 5.1% last month. May retail sales will also be released on July 1st expected at 7.3% compared to 6.8% last month. On July 2nd May trade balance will be released expected that \$A10.2bln compared to \$A 8.7bln.

The technical outlook for the AUD is mixed as the AUD holds above 8000. Expect AUD support at 7930 the June 24th low with resistance at 8140 the June 15th high. A break above 8140 is needed to encourage new upside targets for the AUD.



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