

## USD rebounds as US consumer confidence falls

- **USD:** Higher, risk appetite takes a 360 degree turn as consumer confidence falls and equities trade lower
- **JPY:** Lower, unemployment rises to 5 1/2 year high, household spending and manufacturing PMI rise
- **EUR:** Lower, inflation falls by 0.1%, money supply growth slows
- **GBP:** Lower, house prices rise, GDP contracts by the most 51 years
- **CAD and AUD:** AUD & CAD lower, Australian home sales decline, Canada's raw material prices rise

### Overview

USD traded higher rebounding from losses in overseas trade. USD was supported by today's release of weaker than expected NY NAPM and a decline in US consumer confidence. The employment component of the NY NAPM declined generating concern that Thursday's US unemployment report may be weaker than expected. The decline in US consumer confidence generates uncertainty about the US economic outlook. These reports sparked a decline in US equities and flight to safety demand for USD. USD opened lower Tuesday pressured by improving risk sentiment as Asian equity markets rise and Deutsche Bank AG raises its global economic forecast. The Nikkei rallied 1.8% sparking the initial wave of USD selling pressure. Deutsche Bank AG raised its global economic forecast for 2010 to 2.5% from its earlier estimate in March of 2%. In addition, the VIX index dropped to its lowest level since the financial crisis emerged last September. The VIX index is used as a gauge to measure investor risk appetite. FX price moves were somewhat constrained by month end quarter end position squaring and a mixed performance in European and US equity markets as the global economic outlook remains uncertain. GBP experienced a volatile session trading at new highs for 2009 supported by a report that UK housing prices rose in June. GBP came off its highs in reaction to report that UK Q1 GDP contracted at its fastest in 51 years. Economic data was also mixed in Japan and in the EU. Japan's unemployment rate rose to 5 1/2 year high, with household spending and manufacturing posting modest improvement. EU inflation continued to fall in June and May M3 money supply posted a modest rise. The commodity currencies continue to benefit from rising crude prices sparked by Nigerian turmoil. AUD opened higher despite report of a sharp drop in Australian home sales and weaker private sector credit growth. Canadian economic data was mixed with GDP coming in as expected and Canada's raw material prices posting a modest rise in May. Canada's producer prices fell more than expected. The commodity currencies turned lower as US stocks and crude oil traded lower for the day. USD rebounded in reaction to disappointing US consumer confidence and weak New York NAPM. These reports discouraged risk appetite and fueled safe haven demand for the USD.

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:

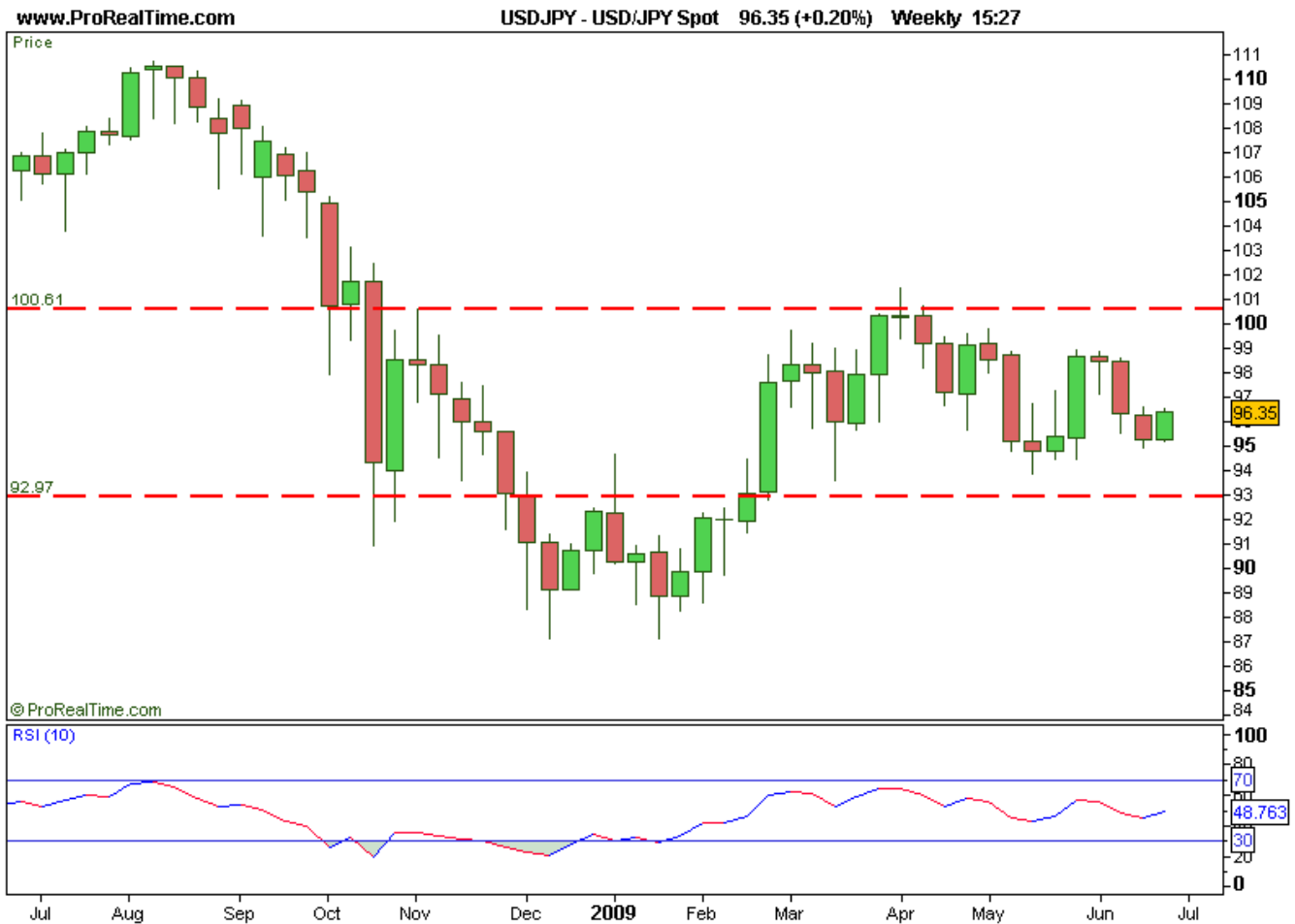
April Case Shiller home price index came in at -18.0, a reading of -18.8 was expected. June consumer confidence falls to 49.3 from 54.8 in May, a reading of 55 was expected. NY NAPM declined to 44.8 from 61.3 last month. Chicago PMI rise to 39.9 from 34.9 in May, a reading of 39 was expected. Equities turned lower post release of the consumer confidence data. USD rallied supported by a drop in risk appetite.

### Upcoming US data:

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 2 nd expected to rise 0.1%.

**JPY**

JPY traded both sides of settlement initially supported by mixed Japanese economic data and improving risk sentiment as the Nikkei closes 174 points higher. The main negative news from Japan was report that May unemployment rose to 5 1/2 year high at 5.2%. The continued rise in Japan's unemployment rate may dampen hope for a quick economic recovery in Japan. There was some positive economic news from Japan with May household spending rising 2.2% and June manufacturing PMI rising to its highest level for the year at 48.2. In reaction to today's report a higher unemployment in Japan Japan's Finance Minister said that the jobless rise shows the need for more flexible policy steps and Japan needs to increase welfare spending. JPY turned lower in US session pressured by disappointing US consumer confidence report and weaker equity market trade. JPY crosses reversed overseas gains with the JPY rising versus the EUR, GBP and AUD as risk appetite declines with weaker equity markets. 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 and 9720 the June 19th high.



## EUR

EUR traded lower reversing overseas gains. EUR was initially supported by rising Asian equity markets and position squaring ahead of the end of the quarter. Deutsche Bank AG raised its 2010 global economic forecast stating that the outlook for investment and exports have improved and there is greater confidence in government efforts to restore stability to the financial sector. This report helped boost risk appetite and sparked selling of the USD. EUR gains were limited by report of falling EU inflation and slowing money supply growth. EU June inflation declined 0.1% compared to flat last month. May M3 growth moderated to 3.7% compared to 4.9% last month. The trade was looking for a reading of 4.6% for the May M3. These reports are unlikely to alter the outlook for steady ECB policy decision at Thursday's ECB meeting. 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. EUR turned lower midsession as weak US consumer report crushed risk appetite and sent equity markets lower.

On July 1 st 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 and 1.3890 the June 22 nd low with resistance at 1.4180 the June 11th high.



## GBP

GBP traded in a volatile range rising to a new high for 2009 of 1.6745. GBP reversed early gains to turn lower in reaction to report UK Q1 GDP posted its biggest decline in 51 years and a drop in risk appetite. UK Q1 GDP was revised down by 0.5% to -2.4%. The GDP report is considered a backward looking indicator and GBP downside was limited by report of rising UK house prices, a slight improvement in consumer confidence and narrowing of the Q1 current account deficit. June nationwide house prices rose 0.9%. June GFK consumer confidence improved to -25% from -27 last month. The Q1 current account deficit narrowed to 8.54 billion from 8.77 billion last quarter. GBP dropped to the day's lows as US equity markets trade lower and New York NAPM business conditions index fell sharply to 44.8 from 61.3 in May. The drop in the New York NAPM took some of the shine off of improving risk appetite that has emerged in overseas trade. GBP selloff accelerated in reaction to report of weaker than expected US consumer confidence. GBP price direction remains closely tied to risk sentiment and the direction of equity markets. GBP declined 3 cents from the days highs. The GBP's initial rise to new highs for 2009 was impressive in light of the fact that the OECD warns that if the UK doesn't cut spending it will face hardship and UK bankers continue to see a long road to recovery for the UK financial system. In addition Professor Ferguson of Harvard says that the probability of a GBP crisis is around one in three. The trade continues to debate whether the UK recession is ending. Focus turns to Wednesday's release of UK services PMI price release of manufacturing PMI for further clues to the outlook for the UK economy. 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 1.6430 the June 29th low with resistance at 1.6745 the June 30th high.



## CAD

CAD opened higher in choppy trade supported by firmer Asian equity markets and rising crude prices. CAD gains were limited by Canadian economic data, a decline in US equity markets and a reversal overseas rally in crude prices. Canada's April GDP declined 0.1%. The April GDP decline was right in line with expectations but also marks the ninth straight month of weaker GDP growth in Canada. Canada's industrial and raw material prices were mixed last month. Industrial prices declined 1.1% and raw material prices rose 2.2%. The rise in Canada's raw material prices may dampen speculation that the Bank of Canada will consider adopting quantitative ease. 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 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.

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 opened higher with gains limited by mixed Australian economic data and uncertain outlook for the global economy. AUD rallied in overseas trade mainly supported by improving risk sentiment as Asian equity markets rise and by higher the price of crude sparked by Nigerian turmoil. European and US equity markets traded lower and crude prices gave back overseas gains limiting selling of USD inspired by risk appetite. Australia's May private sector credit dropped by 0.1%. This marked the first decline in consumer credit since December .New home sales declined 5.7%. These reports suggest that he outlook for the Australian domestic economy remains uncertain. Today's Australian data may increase speculation that the RBA will be forced to lower interest rates

before year-end to try to boost domestic growth. Monday, the AUD traded lower pressured by RBA rate cut speculation. 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. AUD downside was partly limited by a Deutsche Bank AG report forecasting improving growth outlook in 2010. Australian growth is highly dependent on export outlook improving global growth in 2010 would be a positive for the AUD. AUD traded to the days lows in reaction to report of weaker than expected US consumer confidence and a sharp selloff in US equity markets. Risk sentiment took a 360 degree turn in the US session as US economic data generates uncertainty about the US and global recovery.

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 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

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