

Daily Foreign Exchange Update

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USD BROADLY WEAKER; HESITANCY AHEAD OF EU SUMMIT

- USD is weaker but most moves are minor as market awaits Greek debt deal, EU summit, China's PMI and finally NA employment next week.
- CAD flirts with parity as USD weakens and risk appetite is strong.
- EUR - a close above 1.3184 would keep upward momentum intact. Spanish unemployment of 22.9% is ignored as market hopes for EU summit.
- GBP follows EUR higher and breaks above resistance even as speculation over another round of QE rises after King's comments and soft GDP.
- CHF - speculation over SNB action as EURCHF flirts with 1.2000 floor.
- USDJPY falls back into range as Fed action drives yields & USD weakness.
- NZD maintains rally on stronger trade data; retraces medium-term losses.

FX Market Update - There have only been minor news developments since yesterday's NA close; but as we end the week markets remain in risk-on mode. The potential for a Greek debt deal and positive developments from the EU summit on Monday combined with extraordinarily loose monetary policy from the G4 is supporting risk taking today. Next week's EU summit, Chinese PMI and North American employment releases will be key to determining market sentiment from here. The USD is broadly lower, with JPY as the only currency to have had a significant move. It is up 0.7%, mainly on the shift in the US-JN interest rate spread. The rest of the currencies are up between 0.2% and 0.3%, keeping the USD under pressure, but with most currencies still in recent ranges. Today's US GDP (consensus 3.0% q/q annualized) is what we have to look forward to today. C.S.

Americas

USDCAD (1.0005) • CAD is strong having gained 0.2% against the USD and flirting with parity once again. There is no Canadian data expected today, with the exception of 3-year seasonally adjusted employment revisions. Over the weekend, Governor Carney will speak on a panel at Davos titled "the global economic outlook 2012", but there will be no publication of his comments. **Technicals support the downward move in USDCAD**, with the 9-day moving average (1.0082) well below the 21-day (1.0145); the MACD providing no signs of reversal and the RSI at just 35, suggesting there is more downside possible before reaching oversold levels. The next level of support is the 200-day moving average at 0.9951 - see chart. C.S.

Europe

EURUSD (1.3150) • EUR is strong, having gained 0.3% since yesterday's close; however today's close will be important for the outlook for next week. As the middle chart suggests the bulls will need a close above 1.3184 to maintain upward momentum. Ongoing short covering into the weekend is likely even as today's strength essentially ignores an above expected rise in the Spanish unemployment rate (now at 22.9%) and weaker than expected retail sales, falling -6.2%. The weak economic backdrop of Europe (ex-Germany) makes a sustained rally in EUR unlikely. However, the EUR trading pattern suggests that it is too early to attempt to pick a top. Weekend risks lies with Greece followed by the EU summit on Monday. C.S.

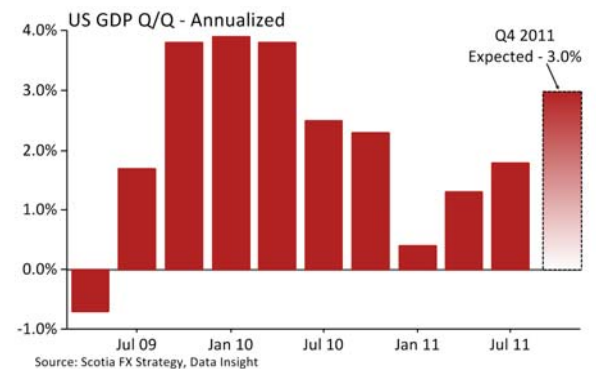
USDCAD TECHNICALS SUPPORT DROP



EUR - BULLS NEED A CLOSE ABOVE 1.3184



US GDP EXPECTED TO HAVE ACCELERATED INTO 2012



Progress on the negotiations over Greek debt appear to be slow, but considering the market reaction it appears that most expect a deal to be revealed shortly. Rumours have shifted from a 4% coupon down to 3.7% or 3.8%; however there are also increasing fears that Greece will require another round of bailouts (to the tune of €20bn). C.S.

EURCHF (1.2077) • CHF is flat vs EUR, having risen 0.7% on a ytd basis. The 2012 gains in CHF have driven EURCHF down to its lowest levels since mid-September 2011, following the implementation of a floor at 1.2000 on September 6th. EURCHF has traded within a relatively narrow range, bound by 1.2060 and 1.2090 since mid-January, suggesting hesitation on the part of market participants to test the SNB's resolve in maintaining the floor. The current proximity to the floor has led to speculation that the SNB may sell CHF to force upward movement in the EURCHF cross. Today's release of the KOF leading indicator, a negative 0.17 print vs expectations of minus 0.1, will likely add to the SNB's determination to protect Swiss exporters and the broader economy, and this week we have seen an increase in rhetoric supportive of action on the part of central bank policymakers. E.T.

Asia / Oceania

USDJPY (76.88) • JPY has gained 0.4% vs the USD, outperforming the majors and further retracing the decline seen earlier this week (driven by the deterioration in Japan's trade figures). CPI data have been released and came in as expected, falling 0.2% y/y. JPY has been an outper-

former over the past two sessions, gaining 0.8% vs the USD, amid broad-based USD weakness resulting from the Fed events. The recent movement has brought USDJPY back to the lower end of its range since the October 31st intervention, with the potential for a return to the limited (roughly 76.30 to 77.30) trading range seen over the course of January. E.T.

NZDUSD (0.8245) • NZD is flat vs the USD while outperforming on the crosses as we approach the North American session. The relative outperformance in NZD is being driven by trade data that saw the country record its first surplus since July, as higher export prices (dairy) drove gains. NZD has been an outperformer among the majors in the past week, rising 2.2%. NZDUSD is currently trading close to its late October highs near 0.8250, marking a full retracement of the late 2011 losses. Near term support is seen at 0.8100, followed by 0.7950, given recent congestion. Meanwhile, resistance lies at 0.8300. Technicals are suggestive of a continuation in the bullish trend, albeit at a muted pace of appreciation. Movement is expected to be driven by broader market sentiment in the absence of tier one domestic data, the next being employment figures set for release on February 8th. E.T.

Key Pricing & Levels

	30 Day Hist Vol	Spot	1 Day % Chg	1 Week % Chg	100 Day MA	200 Day MA	Pivot 1st Support	Pivot 1st Resistance
USDCAD	7.2	0.9997	0.20	1.34	1.0192	0.9951	0.9970	1.0037
EURUSD	9.6	1.3142	0.26	1.64	1.3379	1.3858	1.3085	1.3191
GBPUSD	8.6	1.5703	0.10	0.83	1.5666	1.5968	1.5658	1.5742
USDCHF	9.6	0.9191	0.17	1.70	0.9151	0.8732	0.9156	0.9228
USDJPY	5.5	76.94	0.73	0.16	77.19	78.30	76.61	77.55
AUDUSD	9.2	1.0665	0.29	1.71	1.0170	1.0409	1.0606	1.0706
USDMXN	9.1	12.93	0.34	1.81	13.57	12.72	12.83	13.04
DXY (USD index)	8.0	79.20	- 0.23	- 1.26	78.59	76.62	79.00	79.47
CRB Commodity		317.42	0.33	1.75	312.74	327.41	N/A	N/A
Gold		1,722.52	0.15	3.40	1,683.42	1,647.78	1,706.63	1,734.63
WT Crude (Nymex)		99.92	0.31	1.57	93.57	95.20	98.97	101.13
Nat Gas (Nymex)		2.62	1.04	12.33	3.41	3.85	2.51	2.77
BoC Noon Rate		0.9986	CAD (close from Bloomberg not BoC):					1.0018
Pricing Source: Bloomberg		largest	loss gain					1/27/2012

Today's Releases & Speakers

Time (EST)	Country	Release	Period	Cons	Last	Significance
08:15	EC	ECB's Draghi Speaks on Restoring Growth and Confidence in Davos				High
08:30	CA	Revisions: Canada Employment				Medium
08:30	US	GDP QoQ (Annualized)	4Q A	3.0%	1.8%	High
09:55	US	U. of Michigan Confidence	JAN F	74.0	74.0	Medium
10:00	US	Fed's Dudley to Speak on Regional Economy in NYC; Q&A				Medium

Suggested Reading

- [How to Equip the IMF for the Crises of Our Time](#), L. Bini Smaghi, **FT** (January 26, 2012)
- [A Less Opaque Fed Will Become Boring](#), R. Harding, **FT** (January 26, 2012)
- [Greek Debt Talks to Resume](#), C. Paris, **WSJ** (January 26, 2012)
- [Europe Rests on Monti's Shoulders](#), P. Stephens, **FT** (January 26, 2012)
- [Banks Face Bind Over Cash Pile](#), D. Enrich, **WSJ** (January 26, 2012)
- [Europe Could Learn from US Debt Scramble](#), G. Tett, **FT** (January 26, 2012)
- [China: The Paradox of Prosperity](#), **Economist** (January 26, 2012)

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