

Daily Foreign Exchange Update

Monday, February 8, 2010

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USD STRENGTHENING INTO NORTH AMERICAN DAY

- Quiet data week ahead though Bernanke will lay down exit strategies for lawmakers.
- No major news out of G-7 aside from progress on financial insurance levy.
- GBP underperforms on negative weekend press and reiteration from PIMCO.
- Nowotny says market has participated in "speculative exaggeration" over Greece.

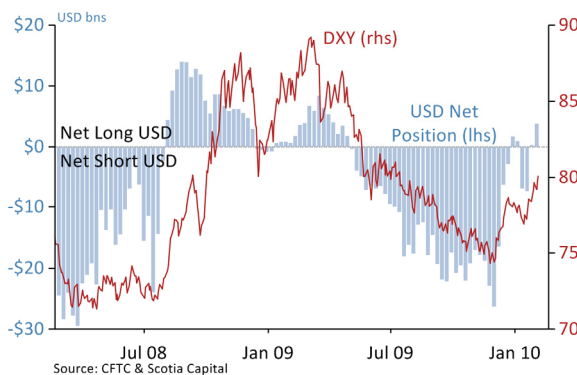
FX Market Update

The week is beginning with a more neutral risk tone as markets in Asia and Europe are mixed while US equities are flat. Commodities like oil, copper and gold are stable to higher on the day. However, as we head into the North American day, we are seeing currencies come under increasing pressure against the USD. The USD index is trading slightly lower, losing around 0.2% to hover above the 80 level, not yet showing any strong technical signs of reversing course. In today's trading, CAD, JPY, and NOK are doing well, though all but JPY are weakening against the USD as we go to print, and sterling is lagging all majors. • **With notions of sovereign risk still very present**, it is somewhat reassuring to see continued stability in the Greek 10 year, though Portugal and Spain remain elevated (looking at their respective 10 year bonds) compared to early December levels. While EUR is performing better today, the weight of the Eurozone periphery is still a factor moving into this week. Demonstrating this, CFTC speculative positioning data has shown that the aggregate net long USD position (see graphic) is due in great part to extended short positioning on the EURUSD pair. • There was **no major market moving announcement out of the G-7 following this weekend's meeting**. Talk of an insurance levy to address future bank bailout costs figured highly on the agenda, though on the macroeconomic level it simply appears that the message was to **maintain economic support** and to address budget deficits once the economic recovery is established. Though sovereign issues still remain well focused on Europe, the market will not give the rest of the major currency economies a pass forever in light of a lack of concrete deficit control plans. Sovereign risk has been a key market driver thus far in 2010, but budget planning for fiscal year 2011 is not too far away and the currency market will likely exact a toll on those currencies whose governments do not exhibit fiscal restraint to a sufficient degree. • **Fed Chief Ben Bernanke will appear before the House Financial Services Committee** this week (Wednesday) and address the Fed's plans on how it will manage its exit strategy, with particular focus on its ability (given to the Fed in October of 2008) to pay interest on excess reserves (see middle graphic). The Fed will use its ability to pay interest on excess reserves to ensure that banks face a disincentive to utilize these reserves to extend credit by making the risk-free opportunity cost of lending high enough. This in turn will help to ensure that the growth rate of broader monetary aggregates (like M2) do not rise uncontrollably and that inflation remains under control. This is good for the US economy and, all else equal, good for the USD so long as credibility is established on the effectiveness of this tool. • It will be a quieter week for economic data, though the US will see trade and budget info as well as retail sales. Europe and the UK get industrial production data, though Eurozone advanced Q4 GDP will have a potentially significant market moving power should it come in far off consensus given what has been happening to the euro. S.T.

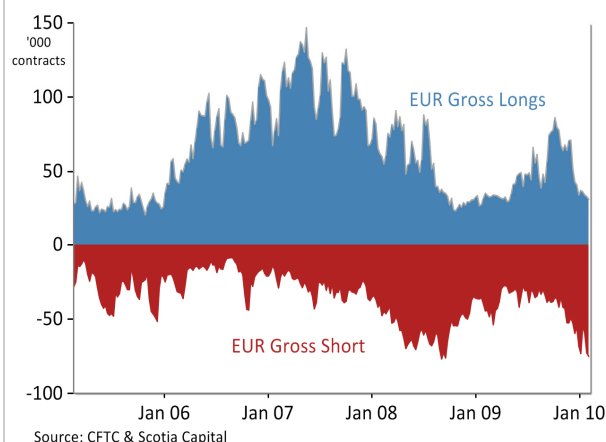
Americas

USDCAD (1.0700) • CAD is outperforming, up 0.1% against the USD to lead the rest of the majors. USDCAD continued to push higher last week and through the key 1.0750 level, though we are currently trading lower. **The early November high at 1.0870 looks to be the next key level ahead of 1.10**, though USDCAD's 200-day moving average sits as resistance at 1.0853. Trend support for the pair comes in at 1.0630, followed by 1.06 and the 50-day moving average at 1.0558. January Housing starts are on tap for Canada today, with the market expecting 180K to continue the recovery trend off of the April 2009 low just above 120K. S.T.

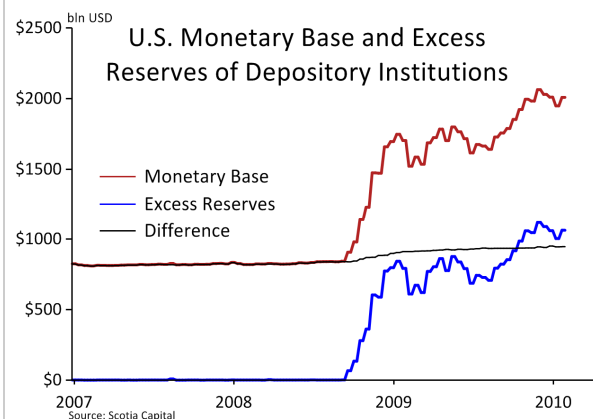
SPEC. USD POSITION MOVES FURTHER NET LONG



CFTC - SENTIMENT WEIGHS AGAINST EUR



BERNANKE TO ADDRESS EXIT STRATEGIES



Europe

EURUSD (1.3670) • EUR managed to briefly break back above 1.37, but has since dropped back. Sentiment remains bearish. Even today's release of **Sentix investor confidence disappointed**, coming in at -8.2. Friday's weekly CFTC data revealed that the net short EUR position increased to \$7.6bn (43.7k contracts). This is the **largest net short position on record** and highlights the extreme negative sentiment that is weighing on the EUR - see chart on page 1. • As we move into a fresh week, focus has shifted to whether or not EUR has gone too far and past what would be fundamentally justified. The ECB's Nowotny warned that markets have engaged in "**speculative exaggeration**" over the vulnerability of Greece and the Eurozone generally. However, until markets are given some reassurance that the EU has a strategy to deal with sovereign weakness, it is unlikely EUR will be able to muster a rally. There are some rumours today that the **BIS is hosting a last minute central bank meeting in Australia**, which has caught some headlines. The EU is hosting their own summit this week, which could prove interesting. • Technically, the outlook for EUR is bearish. Today's pivots indicate that buying pressure will emerge at 1.3595, while selling will come in at 1.3755 - see chart. C.S.

Key Pricing & Levels

	30 Day Hist Vol	Spot	1 Day Change	1 Week Change	100 Day MA	200 Day MA	Pivot 1st Support	Pivot 1st Resistance
USDCAD	10.1	1.0703	-0.0013	0.0086	1.0558	1.0853	1.0638	1.0774
EURUSD	8.4	1.3661	-0.0017	-0.0251	1.4599	1.4349	1.3583	1.3743
GBPUSD	8.9	1.5571	-0.0070	-0.0382	1.6250	1.6252	1.5479	1.5719
USDCHF	8.0	1.0735	0.0009	0.0159	1.0274	1.0519	1.0656	1.0804
USDJPY	11.3	89.31	0.06	-1.20	90.17	92.58	88.80	89.85
AUDUSD	13.2	0.8667	-0.0017	-0.0236	0.9052	0.8585	0.8589	0.8734
USDMXN	12.8	13.24	0.10	0.32	13.04	13.15	13.14	13.29
DXY (USD index)	7.0	80.34	-0.10	1.03	76.67	78.17	79.96	80.70
CRB Commodity		258.55	-5.12	-7.04	273.05	261.47	N/A	N/A
Gold		1,068.25	1.95	-36.60	1,096.57	1,023.07	1,050.76	1,079.84
WT Crude (Nymex)		71.35	0.16	-2.90	75.70	70.73	69.25	73.69
Nat Gas (Nymex)		5.64	0.12	0.19	4.98	4.28	5.46	5.74
BoC Noon Rate		1.0725	CAD (close from Bloomberg not BoC):					1.0717

Pricing Source: Bloomberg

2/8/2010

Today's Releases & Speakers

	Period	Cons	Last	Significance
8:15 AM CA Housing Starts	JAN	180.0K	174.5K	Medium
12:45 PM CA Bank of Canada Deputy Governor Duguay	40217			Medium
7:01 PM UK BRC January Retail Sales Monitor	40217			Medium
7:01 PM UK RICS House Price Balance	JAN	27.0%	30.0%	Medium
1:00 AM JN Machine Tool Orders (YoY)	JAN P	--	63.4%	Low
2:00 AM GE Trade Balance	DEC	15.0B	17.4B	Medium
2:00 AM GE Imports SA (MoM)	DEC	3.0%	-5.9%	Medium
2:00 AM GE Current Account (EURO)	DEC	19.1B	18.1B	Medium
2:00 AM GE Exports SA (MoM)	DEC	-0.1%	1.6%	Medium
2:00 AM GE CPI - EU Harmonised (MoM)	JAN F	-0.7%	-0.7%	Medium
4:30 AM UK Visible Trade Balance GBP/Mn	DEC	-£6700	-£6784	Medium
4:30 AM UK Total Trade Balance (GBP/Mln)	DEC	-£2800	-£2912	Medium
7:30 AM US NFIB Small Business Optimism	JAN	--	88	Low

Suggested Reading

- [Lenders Warn of Mortgage Shortages](#), Norma Cohen, **FT** (February 8, 2010)
- [Housing Rebound in Canada Spurs Talk of a New Bubble](#), Phred Dvorak, **WSJ** (February 8, 2010)
- [Fed to Bare Tightening Plan](#), Jon Hilsenrath, **WSJ** (February 8, 2010)
- [Is Greek Tragedy Too Much Drama](#), Tom Lauricella, **WSJ** (February 8, 2010)
- [Europe Needs to Show it Has a Crisis Endgame](#), Wolfgang Munchau, **FT** (February 8, 2010)
- [G7 Tries to Ease Fears over Greek Contagion](#), Anna Fifield, **FT** (February 8, 2010)

GBPUSD (1.5575) • GBP is underperforming today, having lost 0.36% against the USD and 0.5% against EUR. The move is partly on comments from PIMCO **that they don't see value in UK bonds, but do in emerging markets** and partly due to negative weekend press focusing on the UK's fiscal position. • Since the USD reached its low on November 26th, EUR has lost 8.75%, while sterling has lost 5.75%. The UK does not have the same complex Eurozone system, however it too faces large deficits and difficult decisions in order to bring in fiscal responsibility. This combined with the BoE's decision last week to not extend its asset buying program has weighed on sterling. The currency has broken through support provided by the October 1.5708 low and is now testing psychological support at 1.5500. • There was no data released today, but this is an important week as on **Wednesday the BoE will release its quarterly inflation report**. C.S.

Asia / Oceania

USDJPY (89.40) • Yen is essentially flat to where it closed the North American session on Friday. Over the last week the yen has outperformed, gaining 1.3% against the USD, 3.1% against EUR and 3.7% against GBP. Last week there were no major Japanese data releases but **deleveraging spurred by risk aversion created a positive environment for the yen. Until we have more clarity from Europe we would expect this trend to continue**. The only tier one data release this week will be machine orders, expected to rise 8.0% m/m. • USDJPY continues on its long-term downward trend and is below its 12, 6 and 3 month average. Near-term technical studies are pointing to ongoing range trading. C.S.

Commodities

Oil (71.70) • Selling pressure in oil increased late last week, as rumours circled that a major hedge fund was dumping its long positions. Technically, the 200-day moving average of 70.73 has so far held as support. The current correlation between CAD and oil is high, sitting at 0.81. C.S.

We will be hosting our monthly FX strategy conference call this Wednesday, February 10th, 2010.

The call will focus on:

- 1) The USD rally and the outlook from here
- 2) USDCAD forecast into year-end

Last month's call is still available. To dial into the call:

Dial: 1-800-408-3053 or 416-695-5800

Pass code: 91177978#

For more information please go to:

<http://www.scotiafx.com/conference/index.htm>

Conference call commands

Press 1 – Skip backward 5 seconds

Press 3 – Skip forward 5

Press 4 – Skip backward 5 minutes

Press 6 – Skip forward 5 minutes

Press 5 – Pause the playback

The next call will be held on Wednesday February 10th, 2010.

If you have any questions, please contact:

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