



# FX Weekly

May 2, 2010 – May 7, 2010

## **Trichet says Default is out of Question ; NFP shows Job Growth ; Strong CAD data**

Sunday saw the EU and IMF agree on a \$147 billion dollar bailout of Greece that was fully supported by German Chancellor Angela Merkel. The news was digested well by the market and didn't interrupt the fire sale of EUR/USD that has been persistent as of late. The bailout addresses funding questions in the short term, but most people on the sidelines seem to agree that serious fiscal reform is ultimately needed to avert future disasters in the sovereign debt space. EUR/USD stayed on the offer for the better part of the week until Germany's Lower House of Parliament (Bundestag) and Upper house (Bundersrat) approved the vote to bail Greece out completing the final act of legislation amongst the 16 Euro Zone countries involved.

Thursday happened to be one of the most volatile days in recent memory. Within a five minute time span, both the Dow and S & P 500 had dropped a whopping 580 pts and 56 pts (respectively). The Dow at its very worst was down 8.8%, which is the worst showing since 1987. The VIX was up 50%! We ended the day modestly lower compared to earlier levels with both the Dow and S & P's closing down near 3.0% for the day. Treasuries were mostly higher, with yields falling off towards the close on safety buying. The USD was supported on a flight to quality versus most other pairs, excluding the Yen, which seemed as a risk off casualty for the better part of the afternoon.

NFP showed strong growth in April, rising sharply to 290k with job gains distributed across different sectors. We also had two upward revisions in the two previous months totaling 121k. A soft spot amidst all the data was the unemployment rate edging up 9.9 percent.

Canada seems to be in a sustainable economic recovery after last week's strong jobs data showed unemployment jumping by 109K in April. Gains within the employment space in Canada have seen climbing numbers of almost 40k a month over the past six months.

The S&P 500 Index opened lower than Fridays close at 1184 and finished off the week just above 1100. The DJIA finished close to 600 pts off its Monday open price. The 2's and 10's finished off the week at .83 and 3.45, respectively.

There are lots of important data releases next week. Watch out for: Fed Announcement on Monday. Trade Balance Tuesday. Crude Oil Inventories on Wednesday; 1.0M (forecast). Unemployment Claims; 440k (forecast) / Bernanke Speaks on Thursday. Friday the US has Core Retail Sales; 0.5% (forecast) and Retail Sales (m/m); 0.3% (forecast) followed by the Prelim U of Michigan Consumer Sentiment; (73.5 forecast)



## Technical Outlook

### EUR/USD

**Previous Week (Open – Close):** 1.3327 – 1.2750

**Previous Week (% Change):** - 4.3%

**Trend:** Bearish

**Divergence:** No

Level	Resistance	Support
1	1.3114	1.2788 (Broken)
2	1.3345	1.2585
3	1.3693	1.2515

### Overview

The markets suspicious reaction to the IMF – EU aid package illustrates a widely held view that this huge number is at best a band aid that should restore some confidence in the short term, but long term focus continues to be on structural reforms. Greece received close to one trillion; how much for Spain, Portugal, and Ireland?

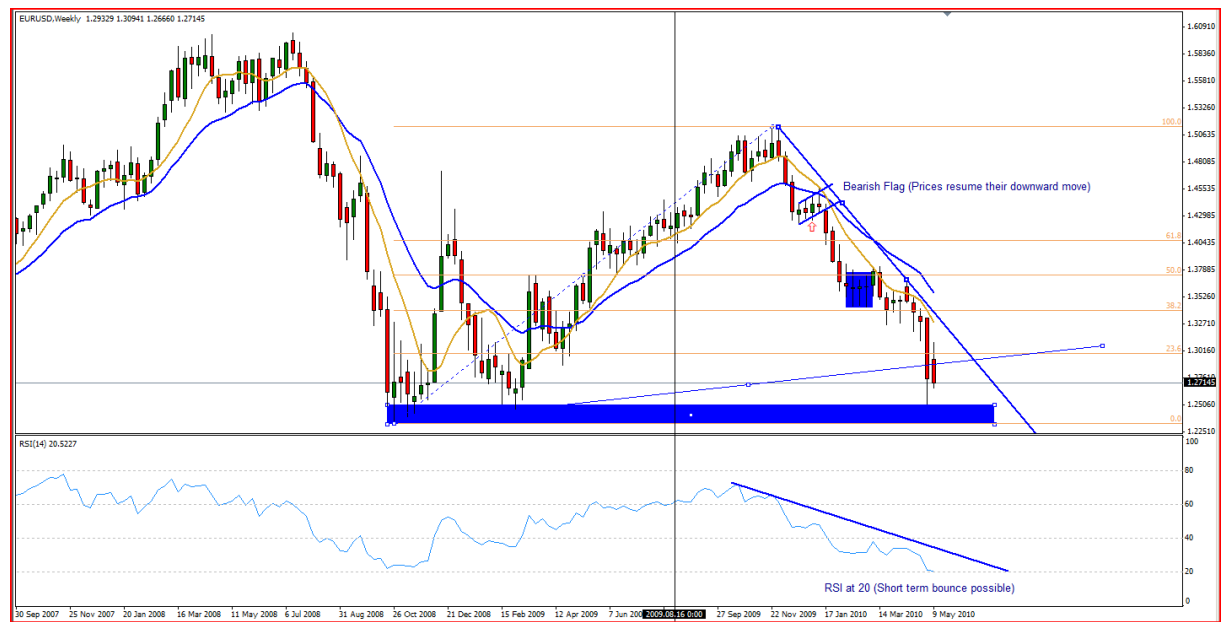
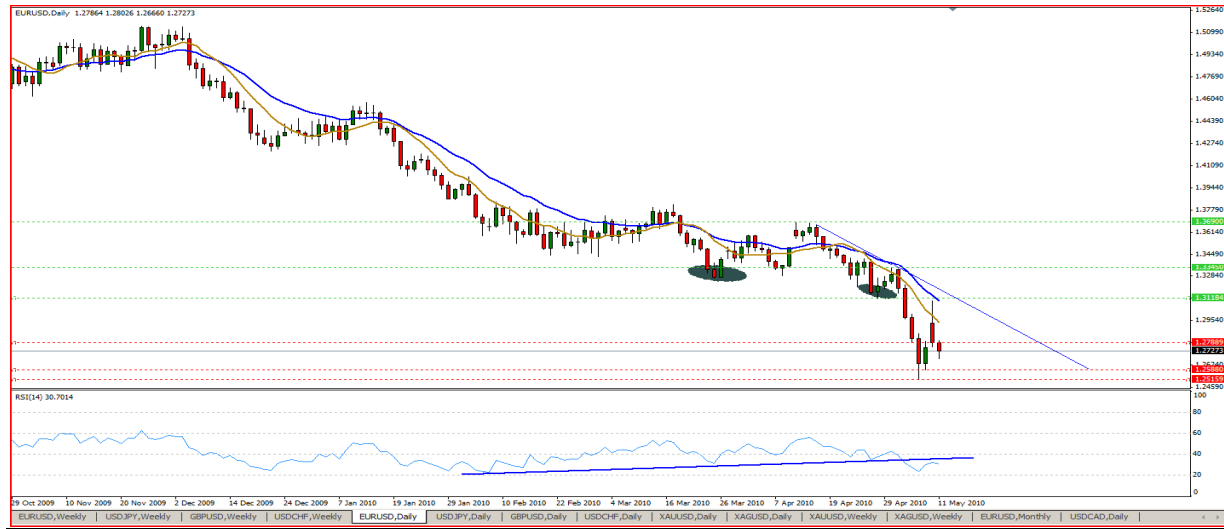
On the news front, German Retail Sales (m/m) were worse than the expected 0.0%, printing a negative 2.4%. Retail Sales in Europe, ex- Germany / France, came in at 0.0%. With consumer spending on the decline and continued focus on credit troubles out of the EU, it may be awhile before the EUR gains some steady footing vs. the USD given the dollars status as a safe haven play.

### Major EU News Next Week:

- o French Industrial Production (m/m); 1.0% (0.3% forecast)
- o ECB President Trichet Speaks
- o Flash GDP (q/q); (0.1% forecast)
- o Industrial Production (m/m); (1.1% forecast)

### Daily & Weekly Chart

The EURUSD continues to maintain a bearish technical set up in spite of the size of the EU - IMF bailout. RSI broke below the 40 level in the early stages of last week, with RSI and price confirming a new yearly low of 1.2515. From here, prices stabilized with the EUR markedly higher at 1.2750 for the week. Moving averages and a downward sloping trend line could be seen by market participants as aggressive selling areas on any retrace towards 1.29 and 1.30. MA's continue to be bearish, steepening as price action heads lower. The 1.2788 area listed as broken support is an interesting pivot area in the short term. The low made on NFP Friday, 1.2585, was an area of concentrated buying by market participants and prices seemed to have consolidated around the 1.2788 pivot area from here. The weekly chart illustrates the lower end of the support that may be of interest to those looking to buy or cover shorts. The rectangle detail in the chart has a two big figure range from the 2010 1.2515 low to the October '08 low of 1.2329.

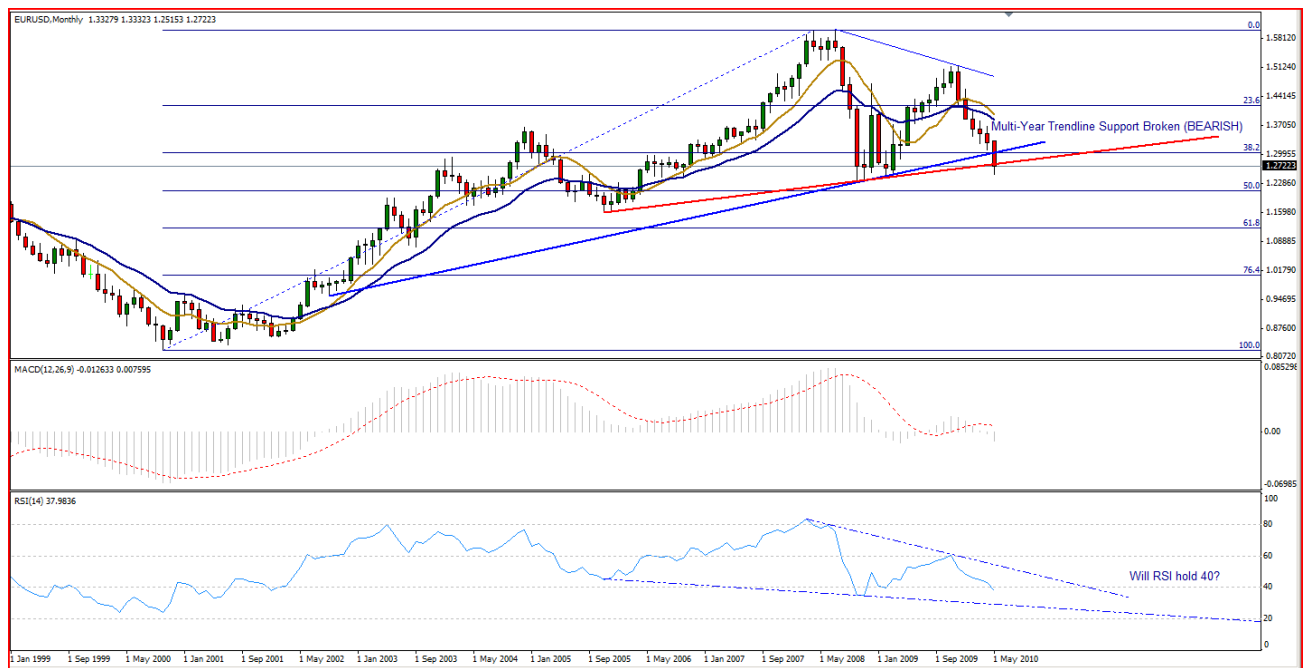


Charts Provided By: MetaTrader 4

Chart Legend: RSI (14), EMA 20, SMA 9

### Monthly Chart

We decided to use a monthly EURUSD chart to illustrate the scope of the move lower and highlight just how far we can go before some measure of technical support kicks in. The monthly EUR/USD chart is in a bearish technical set up after breaking long term and medium term trend line support. RSI remains somewhat bearish and has shifted towards a test of the crucial 40 level. A break below here could see an acceleration of price action to the downside. Although unconfirmed, the MACD seems to be heading towards zero, which may indicate a bearish centerline crossover. A break below center on the MACD along with RSI going through the 40 level on this monthly EUR/USD chart would confirm further bearish bias going forward into Q2. Moving averages remain in a bearish set up, with the 9SMA on course to cross with the 20EMA, with price comfortably located below both MA's. Moving averages are both heading sharply lower after a brief flattening of the 20 EMA. The longer term trend remains downward with a possibility of some short term relief depending on the conviction of market participants as we head past the 1.2350 support area and target the 50% Fib level at 1.2107.



Charts Provided By: MetaTrader 4

Chart Legend: RSI (14), EMA 20, SMA

**GBP/USD****Previous Week (Open – Close):** 1.5313 – 1.4799**Previous Week (% Change):** -3.3%**Trend:** Slightly Bearish (Possible Election Bounce)**Divergence:** None

Level	Resistance	Support
1	1.5173	1.4475
2	1.5397	1.4108
3	1.5518	1.3650

**Overview**

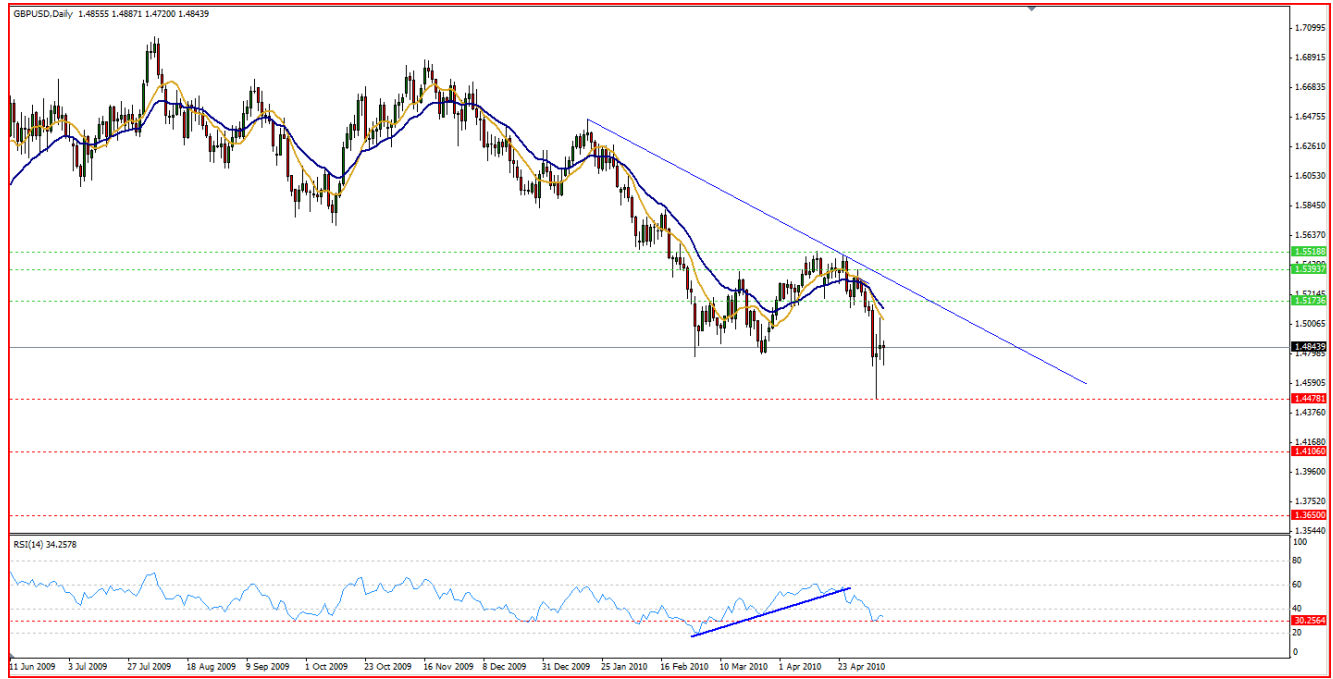
After the bank holiday Sterling traders were happy to see a higher Manufacturing PMI number, indicating a bit of expansion in this area and building on last month's solid posting of 57.2. The actual number was 58, higher than the 57.5 forecast. Construction was better as well, with PMI in construction better than expected number of 58.2 (forecast was 53.5). Services PMI ahead of the Parliamentary election was sour, along with the election results. Conservatives fell short of the 326 seats needed to secure an overall majority. It is the first time since 1974 that a British general election returned a hung parliament. Labour lost 90 seats in its second place showing with Liberal Democrats filling in 3<sup>rd</sup> place. The results seem to be a net positive for Sterling, with most market participants favoring a conservative victory to combat deficit problems.

**Major UK News Next Week:**

- Asset Purchase Facility (200B expected)
- Official Bank Rate (.50% expected)
- BRC Retail Sales Monitor (y/y) / RICS House Price Balance (11% expected)
- Manufacturing Production (m/m) (0.3% expected)
- Claimant Count Change (-20.1K)
- BOE Gov. King Speaks
- BOE Inflation Report
- Trade Balance (- 6.5B)

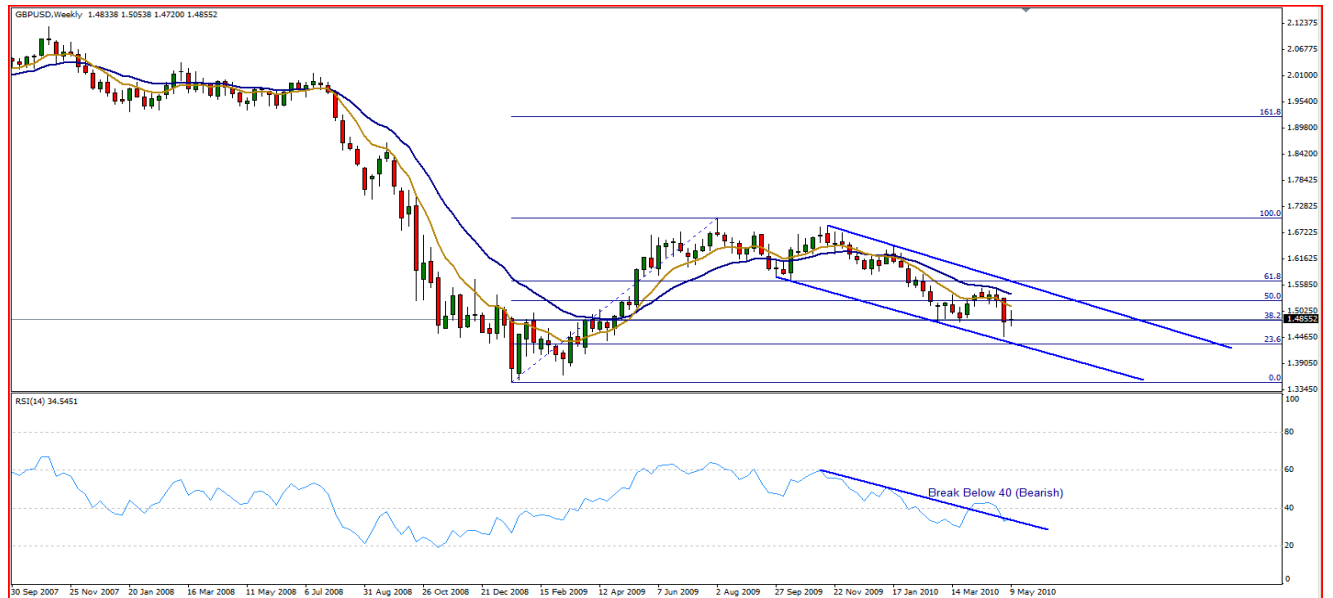
**Daily Chart**

The sterling dollar pair had a wild end to last week, losing 600 pips from Thursdays open to the Fridays low. The pair may have put a small bottom in for the time being on that Friday low of 1.4475, which will act as first support if we begin to head lower again. We'll look to 3.30.09 for the next area of support. It was from here that prices put in a bullish hammer candle stick after three days of aggressive selling. The low bid on that day 1.4108. Further out we'll target 1.3650 as our third area of support. As for resistance, we would point to first to 1.5173. This was the high price on 5.5.10 and was an area of support for the better part of April before prices broke lower. From here, 1.5390 should also be regarded as resistance. Moving averages closed below this area before the downward acceleration in price occurred and was also the last attempt at a move above 1.54. RSI had cut through 40 towards the latter end of last week only to bottom out just above 30. If prices rebound further, RSI may move ahead through 40 which may provoke aggressive buying by market participants looking to get long or cover short positions. Both MA's are in a bearish technical set up; with prices leveling just a tad above last Thursdays range (1.50-1.51). This area should provide stiff resistance with MA's moving lower ahead of the downward sloping trend line (in place since mid Jan, 2010).



### Weekly Chart

The weekly GBP/USD is sitting in a slightly bearish technical set up with prices confined within a bearish channel. Moving averages have kept price advances at bay in recent weeks. Prices broke below the 9 SMA towards the end of last week leading to aggressive selling. RSI continues to turn sharply lower and a possible divergence may develop if RSI fails to make a new low relative to new lows made in price. Again, the UK elections have an important role to play in future price action.



Charts Provided By: MetaTrader 4

Chart Legend: RSI (14), EMA 20, SMA 9

**USD/CHF****Previous Week Range (Open – Close):** 1.0754 – 1.1078**Previous Week (% Change):** 2.92%**Trend:** Bullish**Divergence:** None

Level	Resistance	Support
1	1.1245	1.1025
2	1.1405	1.0924
3	1.1622	1.0813

**Overview**

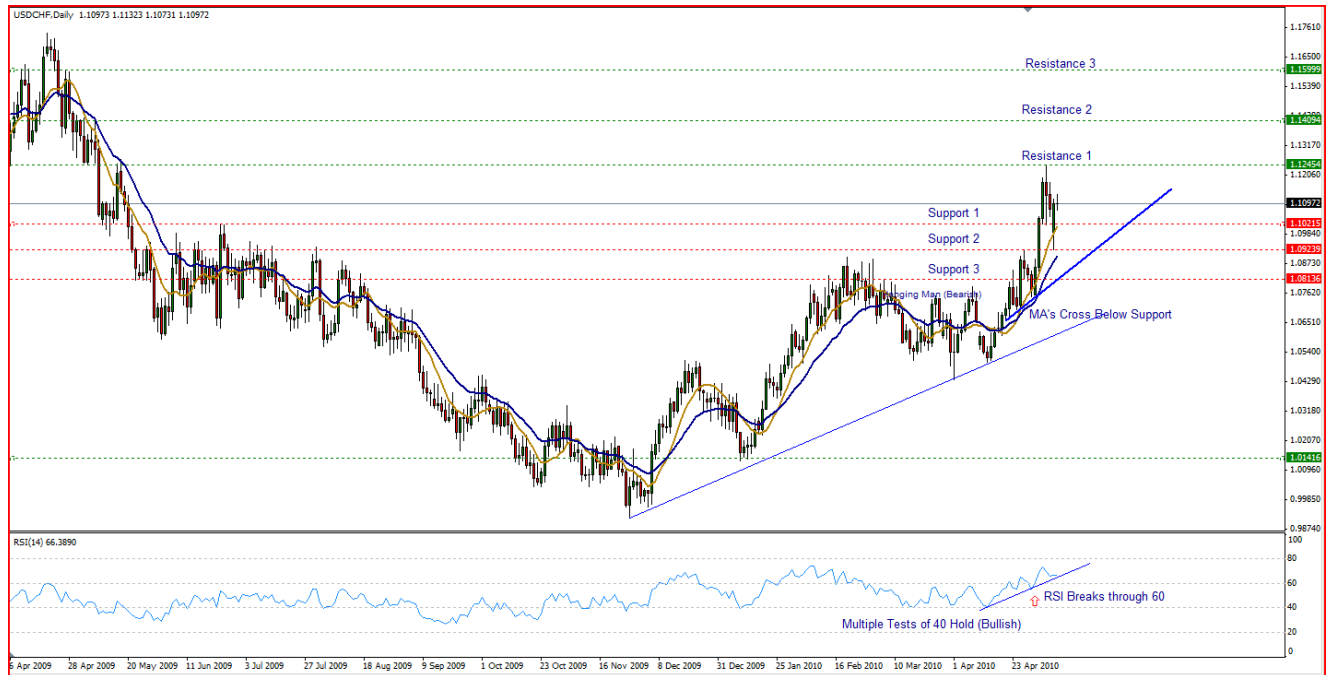
The following economic data out of Switzerland was mostly better than expected. Monday was the release of the SVME PMI, which continues to show robust expansion. The survey bested both the previous and forecasted numbers, printing 65.9. On Thursday, Swiss CPI was also higher than the forecast of 0.8 at 0.9. Consumer prices have been consistently rising in Switzerland compared with last month, which is very simply shown by comparing last month's print of 0.1. Seasonally adjusted employment was released and stayed on par with previous releases at 4.1%..

**Next week's CHF related news:**

- SECO Consumer Climate;
- SNB Hildebrand Speaks on Tuesday; PPI (m/m);
- Thursday is a Bank Holiday.

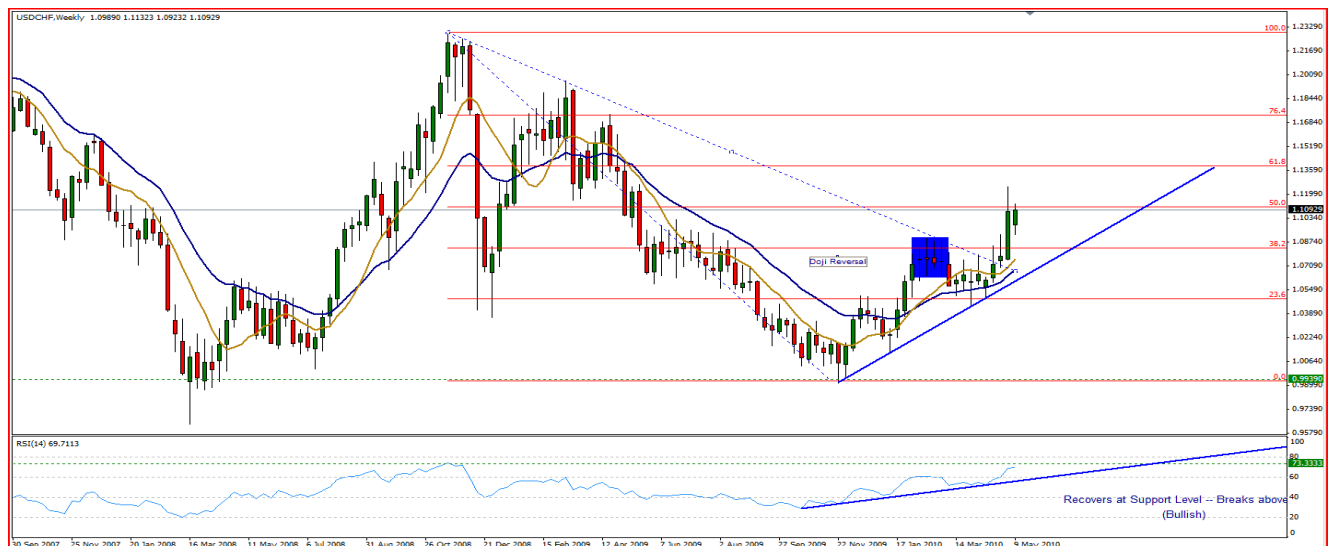
**Daily Chart**

The daily USD/CHF chart remains in bullish set up after blowing through all of the resistance areas mentioned in last week's article. We've had a 50 percent retracement on our way to the 2008 high off of the lows from 2009. This is visible on our weekly chart. After several weeks of indecision by market participants in Q1, the move has been convincingly higher with accelerated moves through 1.0850 on a break of the 60 level on RSI. Initial resistance starts at 1.1245, the high price put in on 5.6.210 and also part of a double top of sorts going back to late May 2009. Further resistance is located at 1.1405. Farther out, we see the high price on an inverted hammer candlestick on 4.10.2009 as resistance ahead of the 2009 yearly highs. Because of the somewhat bullish set up in this pair, we've bumped up our support levels considerably. First support remains located at 1.1025, followed by 1.0924 (the high price on the spinning top candlestick, 4.28.10). Further support is located at 1.0813. RSI has cleared 60 and seems assured of higher price action. This week's CPI data may be a red flag, but with moving averages bullish on top of everything else, the path of least resistance remains upward.



### Weekly Chart

The weekly USD/CHF chart has entered a bullish technical set up. The upward sloping trend line remains intact and will continue to be an area of aggressive buying. We have up for 50% of the move from the 2009 highs and present levels may be an area of considerable profit taking. However, continued consolidation above the 60 area in RSI and a flight to dollar quality should promote higher price action into next week. Moving averages are slightly bullish, with the 9SMA located just above the 20EMA, while price is located above both MA's. The longer term trend remains upward.



Charts Provided By: MetaTrader 4

Chart Legend: RSI (14), EMA 20, SMA 9



**USD/JPY****Previous Week Range (Open-Close): 93.93 – 91.58****Previous (% Change): 0.26%****Trend:** Slightly Bearish**Divergence:** None

Level	Resistance	Support
1	93.20	91.66
2	94.00	89.80
3	94.98	88.12

**Overview**

It was a fairly quiet week in Japan with 3 days worth of banking holidays clearing up the first half of the week. The only relevant economic data to be released was the Monetary Base (y/y). The release of this data, which is positively correlated with interest rates, was higher than the forecasted number (2.4%). The 2.9 % (actual) rise from a year earlier showed growth in current account deposits at the central bank, which rose 14.6% from 13.0% in March.

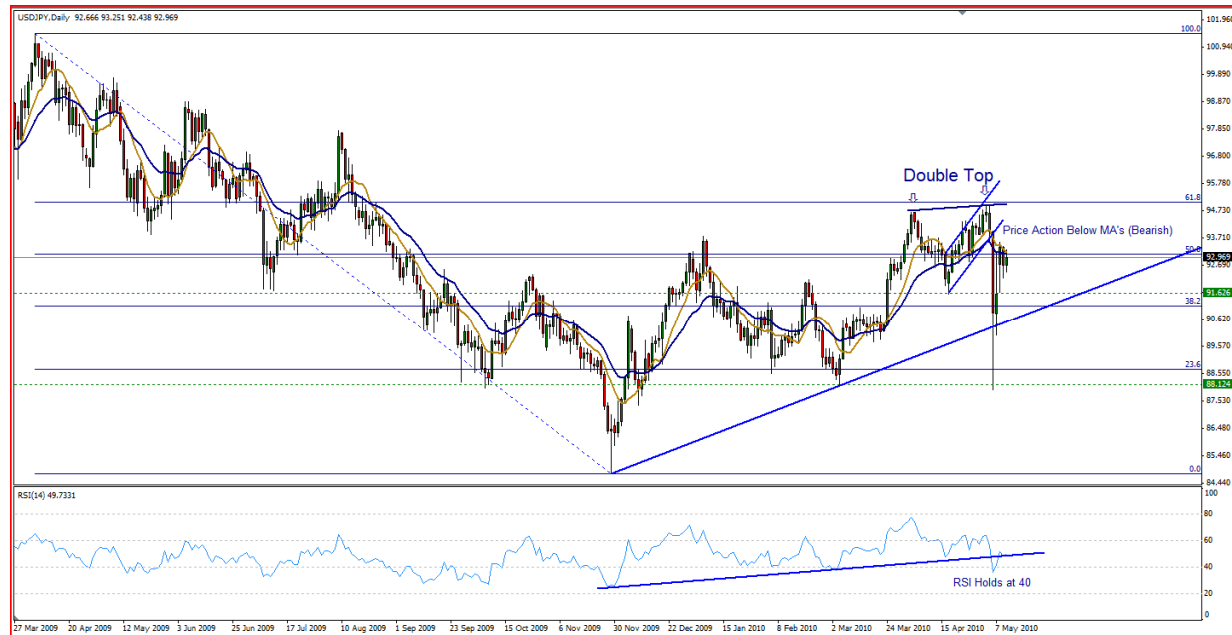
Japanese Finance Minister Kan commented on the volatility in FX, noting that recent moves have been extremely volatile as of late but should stabilize over time. He reiterated the common understanding between the G-7 nations that disorderly moves within the FX space are undesirable.

**Major Announcements out of Japan Next week:**

- Monetary Policy Statement
- Overnight Call Rate
- Leading Indicator

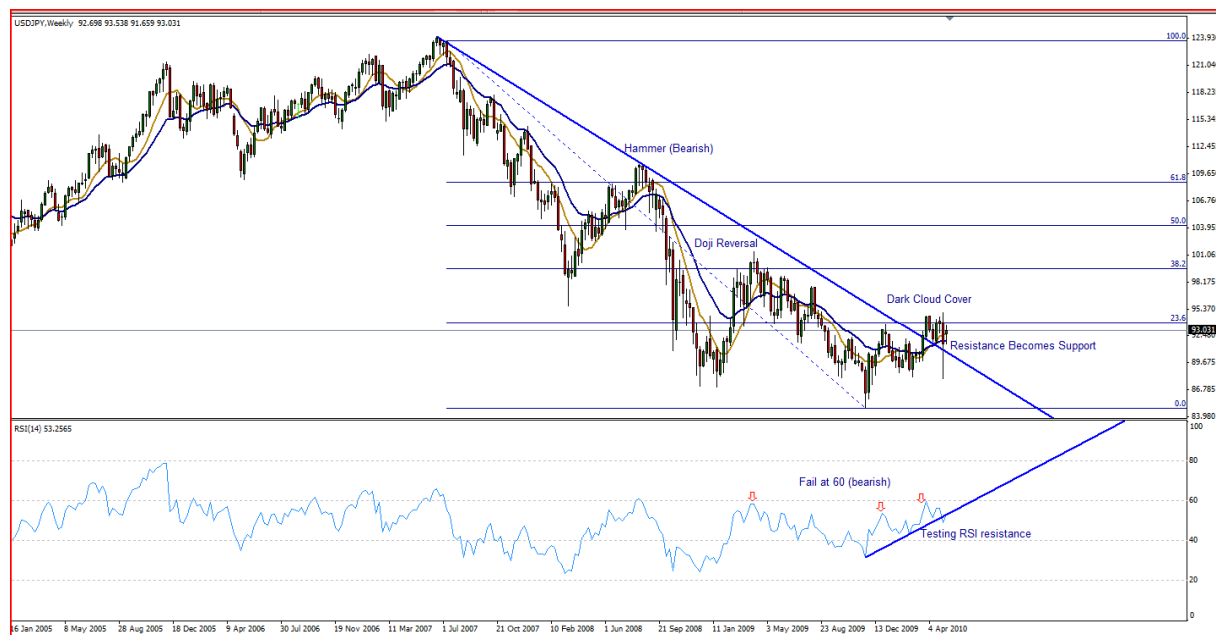
**Daily Chart**

The daily USD/JPY chart has entered into a slightly bearish technical set up. A flight to quality will hurt USD/JPY with investors dumping carry in order to position into less riskier assets. We put in a double top near the 95 level and saw prices quickly reverse direction after a failure to hold above the lower end of what could be a considered a price channel, with prices closing below both the 9 SMA and 20 EMA the very next day. An upward sloping support trend line is now in place and will continue to act as an area of aggressive buying. Initial resistance is located at 93.20, which was the high on Fridays close. Further resistance is located at 94.00 and lastly around the 95 big figure, which is the area in which the double top was put in. Initial support is located at 91.66. Further support is located at 90.05 followed by 87.95, the low of 5.6.2010 and an area that has provided support going as far back as December of 2009. RSI is in a slightly bullish technical set up, recently dipping below the 40 level before moving sharply higher. Moving averages have entered into a bearish set up, with the 9SMA sitting just above the 20EMA, while price is located below both MA's. The path of least resistance has turned downwards.



### Weekly Chart

The weekly USD/JPY chart remains in a bullish technical set up. Long term resistance has been covered around the 91.50 / 92 big figure and has become an area of buying interest. RSI has swung towards more of a bearish stance after multiple failures at 60. This week should be meaningful for the pair given how well RSI and Price have behaved. A break above 60 will scare short term sellers until the move higher plays itself out. Moving averages remain in a slightly bullish technical set up, with the 9SMA located slightly below the 20EMA, while price is located above both MA's. The longer term trend remains upward.



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Chart Legend: RSI (14), EMA 20, SMA 9



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