

FX Strategy Briefing

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Sterling on Thin Ice

- The dollar fell in early Monday trading but later pared losses on a WSJ report that Federal Reserve Chairman Ben Bernanke will begin laying the groundwork for credit tightening later in the year. There was no important US economic release today to influence the trade. Treasury Secretary Timothy Geithner predicted a slow economic recovery; however, not seeing a double-dip recession. Former Fed Chairman Alan Greenspan also foresaw a slow recovery while our latest US leading economic indexes signal a continuing economic expansion with employment growth in 2010. US economic growth is likely to be stronger than consensus expected unless the Fed tightens monetary policy too early. The S&P 500 declined 9.45 to 1,056.74. The yen was up modestly. Japan's current account surplus surged from a year earlier and the economy watchers index climbed for a second month. The euro pared earlier gains. European Southern sovereign and corporate credit risk climbed. Interest-rate spreads have widened since the European Central Bank began talking about exit strategies. The Australian and Canadian dollars declined modestly despite higher commodity prices.
- The GBP/USD dropped today to the lowest level since May 2009, not getting any support from the Bank of England's decision to pause its bond purchase program recently. Sterling is also pressured by mounting UK debts and concerns that this year's UK election will lead to a parliament where neither party will gain a majority. The pair has broken important support levels; however, having minor support from the tentative downward sloping trading channel. If this support is broken, there is not much support until the low 1.50s. Resistance is in the 1.59-1.60 area.



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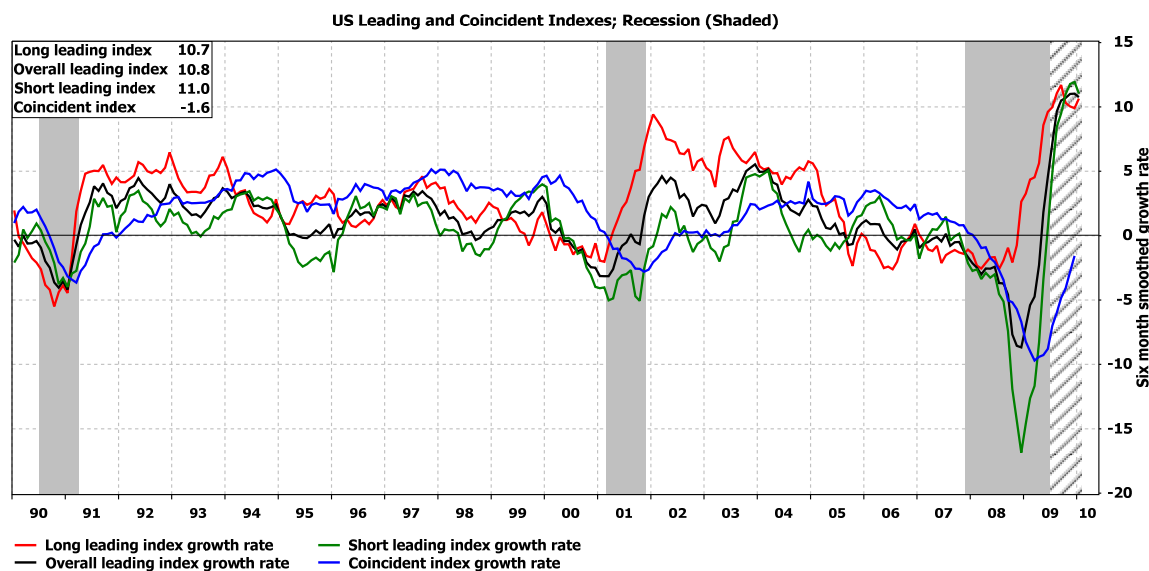
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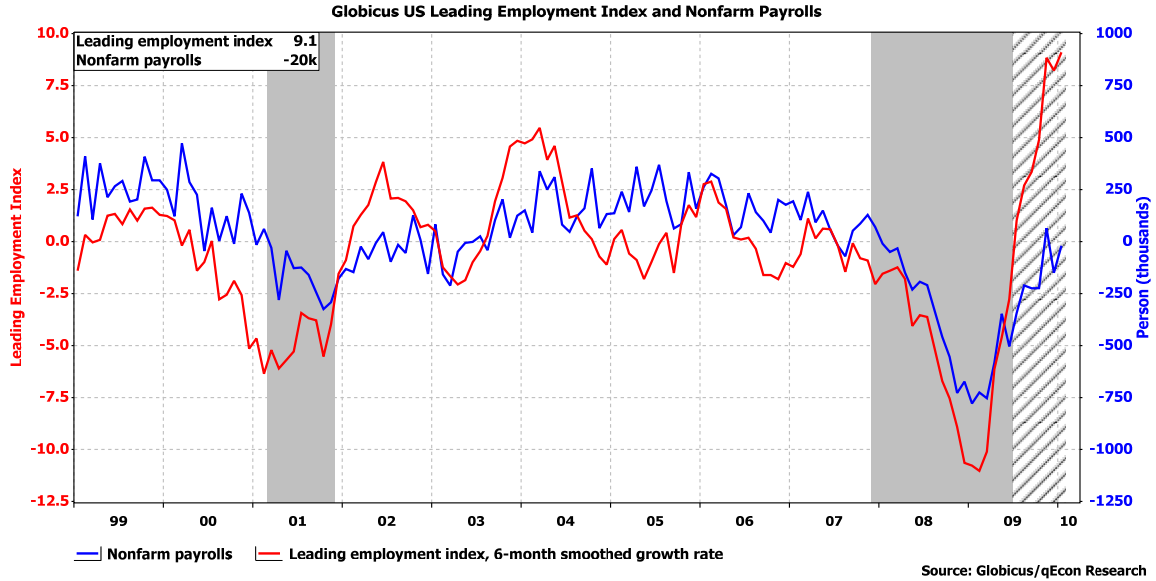
Financial and Economic News and Comments

US & Canada

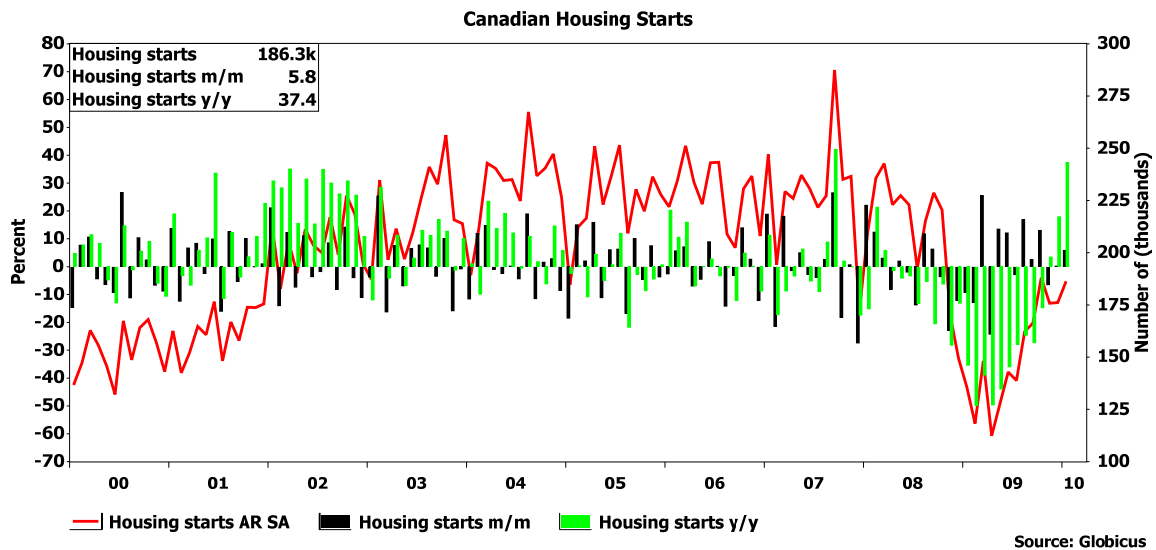
- The Globicus/qEcon Research leading economic indexes may be peaking at high levels, suggesting the US economic recovery is steadily progressing in 2010. The overall leading economic index' growth rate was at 10.8 in January, near an 11.0 high in December. The short leading index remained high at 11.0 in January, a tad below December's 11.9 high. The long leading index was at 10.7 in January, slightly below September's 11.7 peak. Overall, the leading indexes indicate the US economic expansion is intact for Q1-Q2 2010 and possibly for Q3 2010. Meanwhile, the coincident index, a measure of current economic activity and the length of a recession, has improved steadily and increased to -1.6 in December from -2.8 in November. US GDP expanded at a 5.7% annualized rate in Q4 2009, the second quarterly expansion and the fastest in six years, after growing at a 2.2% annualized pace in Q3, ending the longest stretch of declines since records began in 1947. The coincident index points to June 2009 as the trough of the great recession.



- The US has lost nearly 8.5 million jobs since the recession began in December 2007. The Globicus/qEcon Research leading employment index signals positive employment growth in the beginning of 2010. Since bottoming in February 2009 at -11.0, the leading employment index' growth rate had improved substantially, to 9.1 in January. However, sustainable positive job growth is unlikely to occur until several quarters after the end of the recession. In the 1990 recession it took over a year before positive job growth resumed, while in the 2001 recession it took even longer before employers expanded payrolls. The latest data from the Labor Department showed nonfarm payrolls declined 20K in January after a 150K drop in December. The unemployment rate fell to 9.7%, the lowest since August, from December's 10.0%, indicating labor market conditions have improved. The high unemployment rate ensures that the Federal Reserve will maintain extremely low interest rates until H2 2010. Unfortunately, the Fed does not pay any attention to exchange rates and a continuing dollar appreciation would indicate too tight monetary policy. The US economy remains in a serious debt deflation; thus, tighter monetary policy would not be the right medicine as it would worsen the financial situation for creditors, increase deflationary pressures, depreciate risky assets and possibly end the economic recovery.

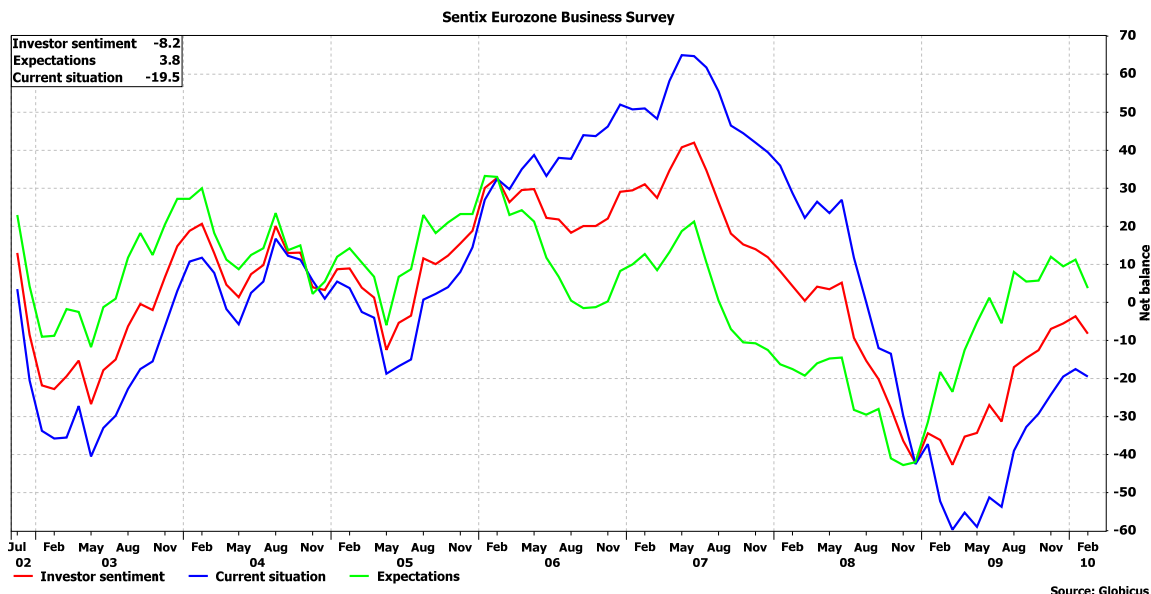


- Canada's seasonally adjusted housing starts rose a more-than-expected 5.8% m/m in January to a 186,300 annualized rate, the highest level in 15 months, from an upwardly revised 176,100 annualized pace in December, according figures from Canada Mortgage and Housing Corporation. The January rise was led by continued improvements in both single and multiple starts. January housing starts jumped 37.4% y/y. Housing starts totaled 149,081 in 2009 "with activity improving as the year progressed," the CMHC said.



Europe

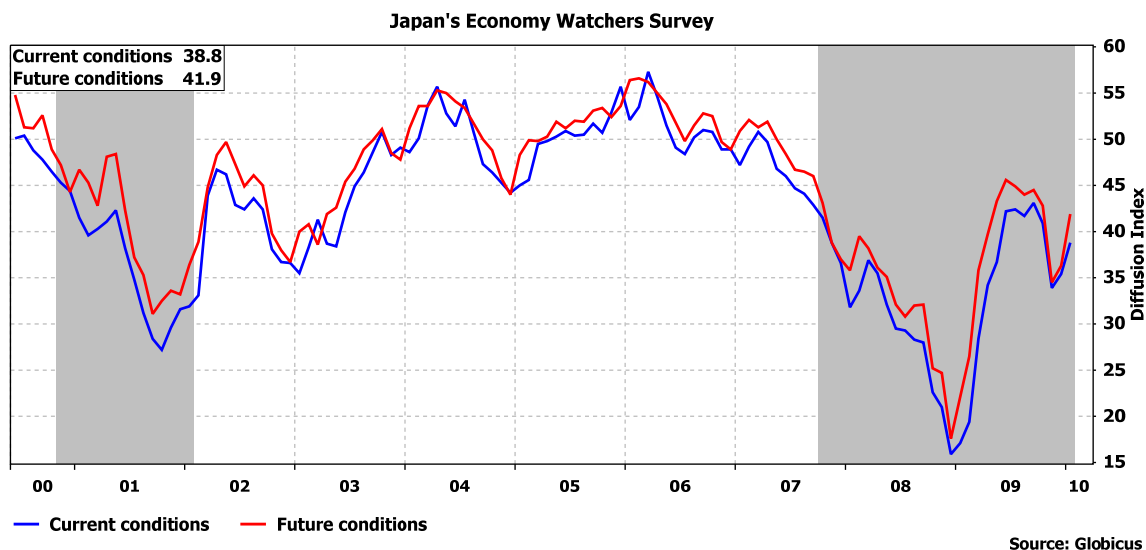
- The Sentix eurozone investor sentiment index unexpectedly declined to -8.2 in February from -3.7 in January, indicating eurozone investor confidence fell for the first time in seven months, data released by Sentix showed. The current situation index slipped to -19.5 in February from -17.5 in January. The expectations index dropped to 3.75 from January's 11.25.



- Switzerland's seasonally adjusted unemployment rate declined as forecast to 4.1% in January from 4.2% in December, while the non seasonally adjusted unemployment rate increased to 4.5% from December's 4.4%, according to data from the State Secretariat for Economic Affairs.
- Switzerland's real retail sales rose a more-than-expected 4.7% y/y nsa in December, the largest year-on-year rise since September 2008, after a downwardly revised 0.1% y/y decline in November, data from the Federal Statistical Office showed.

Asia-Pacific

- Japan's current account surplus surged 452.8% y/y to a lower-than-expected ¥900.8 billion (\$10.1 billion) in December, a fifth consecutive yearly expansion, but narrowed from ¥1103.0 billion in November, while the adjusted current account surplus shrank to ¥1100.5 billion from November's ¥1304.8 billion, according to figures released by the Ministry of Finance. The trade balance surplus widened to ¥631.2 billion in December from ¥490.6 billion in November. Exports rose 11.7% y/y in December, the first gain in 15 months, while imports declined 6.0% y/y.
- Japan's bank lending including trusts decreased 1.5% y/y in January after a 1.0% y/y decline in December, while the bank lending excluding trusts fell 1.7% y/y, the largest fall since September 2005, following December's 1.2% y/y slide, according to figures released by the Bank of Japan.
- Japan's merchant confidence rose for a second month in January. The Japanese current conditions index increased to a higher-than-expected 38.8 last month from 35.4 in December, according to the Cabinet Office's latest economy watchers survey. The future conditions index advanced to 41.9 in January from 36.3 the prior month.



FX Strategy Update

	EUR/USD	USD/JPY	GBP/USD	USD/CHF	USD/CAD	AUD/USD	EUR/JPY
Primary Trend	Positive	Negative	Neutral	Negative	Negative	Positive	Neutral
Secondary Trend	Negative	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Outlook	Negative	Positive	Negative	Positive	Positive	Negative	Neutral
Action	Sell	Buy	None	Buy	None	None	None
Current	1.3648	89.24	1.5582	1.0732	1.0755	0.8646	121.81
Original Position	1.4628	88.67	N/A	1.0340	N/A	N/A	N/A
Objective	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Stop	1.4360	87.30	N/A	1.0345	N/A	N/A	N/A
Support	1.3600	88.50	1.5550	1.0500	1.0550	0.8600	121.50
Resistance	1.3500	86.00	1.5300	1.0200	1.0450	0.8400	119.00
	1.4050	93.00	1.5900	1.0750	1.0800	0.8800	126.00
	1.4250	94.50	1.6100	1.0900	1.1000	0.9000	130.00

Tuesday's Economic Calendar

Time (EDT)	Region	Data	Period	Change	Forecast	Previous
2:00	Germany	Trade balance	Dec		€15.1B	€17.4B
2:00	Germany	Current account	Dec		€19.1B	€18.1B
2:00	Germany	CPI	Jan F	m/m	-0.6%	-0.6%
2:00	Germany	CPI	Jan F	y/y	0.8%	0.8%
2:00	Germany	CPI – EU harmonised	Jan F	m/m	-0.7%	-0.7%
2:00	Germany	CPI – EU harmonised	Jan F	y/y	0.7%	0.7%
4:30	UK	Visible trade balance	Dec		-£6.700B	-£6.784B
4:30	UK	Total trade balance	Dec		-£2.800B	-£2.912B
4:30	UK	Trade balance with non EU	Dec		-£3.100B	-£3.032B

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Time (EDT)	Region	Data	Period	Change	Forecast	Previous
4:30	UK	DCLG house prices	Dec	y/y		0.6%
10:00	US	Wholesale inventories	Dec		0.5%	1.5%
18:30	Australia	Westpac consumer confidence	Feb			5.6%
18:50	Japan	Machine orders	Dec	m/m	8.0%	-11.3%
18:50	Japan	Machine orders	Dec	y/y	-10.9%	-20.5%
18:50	Japan	Domestic corporate goods price index	Jan	m/m	0.1%	0.1%
18:50	Japan	Domestic corporate goods price index	Jan	y/y	-2.4%	-3.9%
19:30	Australia	Home loans	Dec	m/m	-4.5%	-5.6%
19:30	Australia	Investment lending	Dec	m/m		2.1%
19:30	Australia	Value of loans	Dec	m/m		-2.9%

Notes: N/A=not applicable/not available, ar=annual rate, sa=seasonally adjusted, nsa=non-seasonally adjusted, wda=working days adjusted, 3 mths=3 months, m/m=month-on-month, q/q=quarter-on-quarter, y/y=year-on-year, ytd=year-to-date, m=million, b=billion, t=trillion, unch=unchanged, a=advance, p=preliminary, r=revised, f=final, GDP=gross domestic product, CPI=consumer price index, PPI=producer price index, PMI=purchasing managers index

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New York, February 8, 2010, 17:00 EDT