



FX Strategy Briefing

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USD/JPY Gains on BOJ Easing Speculation

- The dollar was higher against the yen but lower versus the euro on Wednesday. China's exports soared by the most in three years and concerns over Greece's deficit eased. The US budget deficit rose to a record \$220.9 billion in February and wholesale inventories unexpectedly slid in January for a second month. The S&P 500 rose 5.16 to 1,145.61. The euro advanced. Former European Commission President Romano Prodi said the Greek budget deficit crisis is "completely over." The cost of insuring European debt using credit default swap fell. The euro's gain was limited by an unexpected drop in German exports. Sterling declined as January UK factory output unexpectedly fell for the first time in five months. The commodity currencies were boosted by strong Chinese trade data. The AUD/USD rose for a fourth consecutive day and the USD/CAD fell for a ninth straight day.
- The USD/JPY rose on speculation that the Bank of Japan might be considering further monetary easing measures. The BOJ policy board members are divided but leaning toward easing of its monetary stance, a Reuters report showed. The BOJ seems under pressure from the government to combat deflation. The USD/JPY was pressured by recent better-than-expected Japanese economic data. The seasonal factors also pressured the pair at the end of the Japanese fiscal year (March 31) as companies repatriated foreign earnings. The USD/JPY rose to the 50-day moving average today. The pair had failed to break its long-term downtrend despite several attempts. There is strong resistance in the low 90s from the downtrend and the 200-day moving average. A new test of these important resistance levels is expected, but we may have to wait until the repatriation flows subside. If these resistances are broken, the USD/JPY will turn very bullish.



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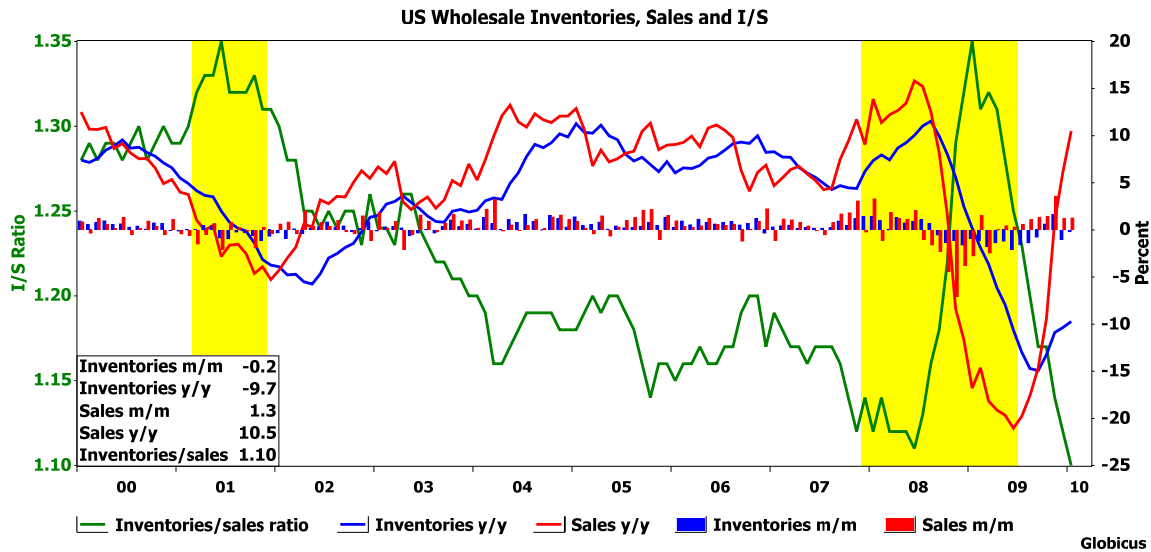
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Financial and Economic News and Comments

US & Canada

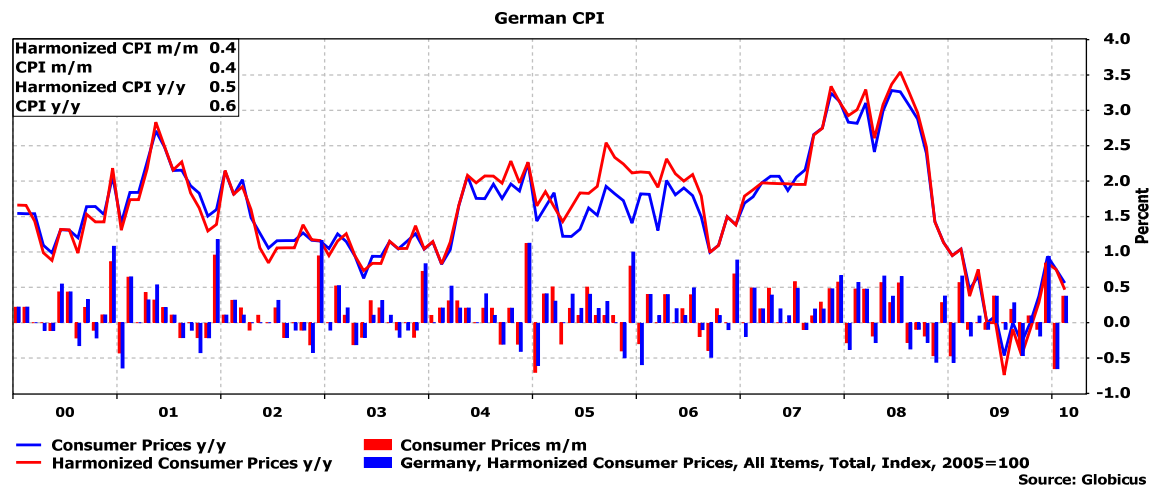
- US wholesale inventories unexpectedly declined 0.2% m/m to \$382.2 billion in January after a revised 1.0% m/m decrease in December, according to figures from the Commerce Department. Wholesale sales rose 1.3% m/m to \$346.7 billion, a 10th consecutive monthly gain and the largest since November, following an upwardly revised 1.2% m/m December advance. The inventory-to-sales ratio at the end of January declined to 1.10, the lowest since records began in 1992, from 1.12 in December, compared with 1.35 in January 2009. Inventories fell 9.7% y/y in January while sales rose 10.5% y/y.



- The US budget deficit widened to a record \$220.9 billion in February from a \$193.9 billion deficit in February 2009, figures from the Treasury Department showed.

Europe

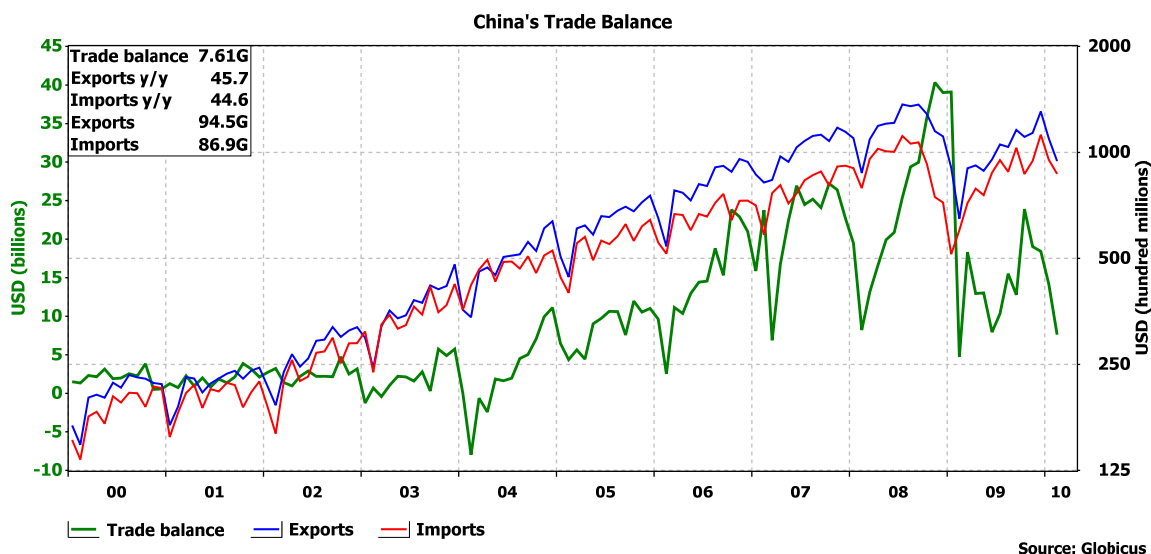
- German consumer prices increased 0.4% m/m in February (vs. preliminarily reported 0.2% m/m) after a 0.6% m/m decline in January, and the consumer-price inflation rate eased to 0.6% y/y (vs. preliminarily reported 0.4% y/y) from January's 0.8% y/y, according to final February CPI data released by the Federal Statistical Office. The harmonised index of consumer prices, calculated for European purposes, increased an upwardly revised 0.4% m/m in February after a 0.6% m/m decline in January. The HICP rate eased to an upwardly revised 0.5% y/y from January's 0.8% y/y.



- Germany's seasonally adjusted exports unexpectedly fell 6.3% m/m in January, the first fall in 5 months, after an upwardly revised 3.4% m/m gain in December, according to figures for the Federal Statistical Office. Imports climbed for a second month, rising 6.0% m/m, following an upwardly revised 5.0% m/m December advance. Exports increased 0.2% y/y in January, a second year-on-year gain, while imports declined 1.4% y/y. The trade surplus unexpectedly narrowed to €8.0 billion (\$10.9 billion) in January from a downwardly revised €13.4 billion in December. The current account surplus shrank to €3.6 billion from December's downwardly revised €19.9 billion.
- UK industrial production unexpectedly declined 0.4% m/m in January, reversing a 0.5% m/m advance in December, according to data from the Office for National Statistics. January IP fell 1.5% y/y, following a revised 3.7% y/y December decrease. Manufacturing production unexpectedly fell 0.9% m/m in January, the first fall in five months, after a 0.9% m/m gain in December. January manufacturing production was up 0.2% y/y, the first year-on-year increase in almost two years.
- UK GDP grew 0.3% in the three months ending in February after rising an upwardly revised 0.6% in the three months ending in January, according to GDP estimates by the National Institute of Economic and Social Research.

Asia-Pacific

- Japanese private-sector machinery orders, excluding volatile ones, declined 3.7% m/m to ¥723.8 billion (\$8.0 billion) in January after a 20.1% m/m gain that was the largest since August 2000, the Cabinet Office said, adding later that machinery demand is "bottoming." January core machinery orders slipped 1.1% y/y, following a 1.5% y/y December decline.
- Japan's domestic corporate goods prices posted a second month-on-month gain in February, increasing 0.1% m/m, after a 0.3% m/m January advance, according to the Bank of Japan corporate goods price index. February CGPI was down 1.5% y/y, a 14th consecutive year-on-year decline, following a 2.1% y/y January slide; thus, increasing concerns over the effect of deflation on the Japanese economic recovery. The numbers came in as forecast.
- China's trade surplus narrowed to \$7.61 billion in February, a one-year low, from \$14.17 billion in January, according to figures from the Customs Bureau. Imports rose 44.6% y/y to \$86.9 billion in February, a fourth straight rise, after a record 85.5% y/y jump in January. Exports climbed 45.7% y/y to \$94.5 billion, a third consecutive gain and the most since February 2007, following a 21.0% y/y January advance. Commercial and residential property prices in 70 cities grew 10.7% y/y in February, the largest gain in almost two years, a separate report showed.



- The Westpac–Melbourne Institute Australian consumer sentiment index increased 0.2% m/m to 117.3 in March, suggesting Australian consumer confidence rebounded this month from February’s decline as the Reserve Bank of Australia raised the benchmark interest rate 25 basis points to 4.00% on March 2, according to a Westpac Banking Corp. and Melbourne Institute survey.
- Australia’s home-loan approvals unexpectedly fell 7.9% m/m in January, the largest fall in almost a decade, to 51,056, after a revised 5.1% m/m decline in December, according to figures from the Australian Bureau of Statistics. The total value of loans slipped 3.3% m/m to A\$21.16 billion (\$19.37 billion) in January. The value of lending for owner occupied housing declined 5.0% m/m to A\$14.74 billion in January, while the value of lending for investment housing increased 0.9% m/m to A\$6.42 billion.
- The Reserve Bank of New Zealand maintained the official cash rate at 2.50%, as forecast. RBNZ Governor Alan Bollard said: “The New Zealand economy is recovering broadly as expected and growth is predicted to pick-up further through 2010....We continue to expect to begin removing policy stimulus around the middle of 2010.”

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	Positive	Neutral	Neutral	Neutral
Outlook	Neutral	Positive	Negative	Neutral	Neutral	Neutral	Neutral
Action	Sell	Buy	None	Buy	Buy	None	None
Current	1.3652	90.49	1.4984	1.0694	1.0249	0.9150	123.58
Original Position Objective	1.4628	88.67	N/A	1.0340	1.0256	N/A	N/A
Stop	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Support	1.4060	87.30	N/A	1.0345	1.0150	N/A	N/A
Resistance	1.3550	88.00	1.4970	1.0500	1.0200	0.9000	120.00
	1.3400	86.00	1.4800	1.0200	1.0000	0.8800	116.00
	1.3850	92.00	1.5200	1.0850	1.0400	0.9200	125.00
	1.4050	94.00	1.5500	1.1100	1.0600	0.9350	130.00

Thursday's Economic Calendar

Time (EDT)	Region	Data	Period	Change	Forecast	Previous
4:00	EMU	European Central Bank Monthly Bulletin				
8:00	Switzerland	Swiss National Bank interest rate decision			0.25%	0.25%
8:30	Canada	Capacity utilization rate	Q4		70.1%	67.5%
8:30	Canada	International merchandise trade	Jan		C\$0.20B	-C\$0.25B
8:30	Canada	New housing prices	Jan	m/m	0.4%	0.4%
8:30	US	Trade balance	Jan		-\$41.1B	-\$40.2B
8:30	US	Initial jobless claims	Mar 6		457K	469K
8:30	US	Continuing claims	Feb 27			4.500M
23:30	Japan	Industrial production	Jan F	m/m		2.5%
23:30	Japan	Industrial production	Jan F	y/y		18.2%
23:30	Japan	Capacity utilization	Jan F	m/m		1.4%

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, LEI=leading economic indicators index, PPI=producer price index, PMI=purchasing managers index

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