

Daily Foreign Exchange Update

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CAD SHOWING RESTRAINT AHEAD OF FRIDAY'S JOBS DATA

- US and Canadian January trade data out today for USDCAD; BoC's Carney speaks.
- AUDNZD still at 10-year highs as RBNZ sounds more dovish than market expected.
- China's monthly data highlights that the recovery is on track, but inflation is rising.
- SNB expected to remain on hold at 0.25% today at 8am ET.

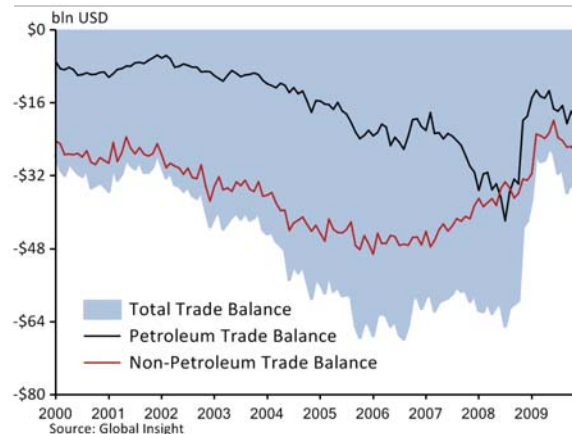
FX Market Update - Please join us for our FX strategy conference call - see p.3

The USD is weaker as we move into North American trading, losing ground as a rally in GBP and EUR from their session lows puts downwards pressure on the greenback. Global equities are mildly weaker, though Asia was mixed, and US government bonds are under pressure as short term yields edge higher with the **6-month T-bill yield near its highest level in six months**. Commodities are not suffering from much pressure today which is perhaps mildly surprising given the data out of China. Price data showed that inflation was more elevated than expected and is running at its highest level since October of 2008 (on both consumer and producer prices) which will do nothing but help to stoke policy tightening expectations. Monetary data including M2 supply and loan data came in as expected, showing some moderation (a positive). • Currencies are mixed with the GBP recovering to lead the majors, followed by AUD and JPY. The laggards include NZD, NOK and CAD, with the latter two not showing any propensity to rebound with the move higher in crude back to its open off of intraday lows. • It is appropriate that the market will get to see US trade data for January today as it follows from yesterday's data regarding another prominent US macro-deficit, the fiscal deficit. The February monthly budget statement indicated a record \$221bn shortfall, the largest on record, a piece of data that helped the USD to weaken sharply after the news before some stability was found. **The market expects a fairly stable read of -\$41bn out of the January trade deficit**, though the risks are certainly for a potential deterioration as the trade deficit began to increase once again in the second half of 2009. We are still far away from average monthly deficit levels of around \$60bn that held in 2005 through 2008, before the recession forced an improvement in the United States' trade balance. However, **both the petroleum and non-petroleum balances are deteriorating once again with the recovery** (the former at a more rapid pace than the latter). We've noted that the trend in foreign financing to support the external deficit has improved of late, which takes the pressure off of the USD, a positive dynamic since the aforementioned fiscal deficit is certainly not. S.T.

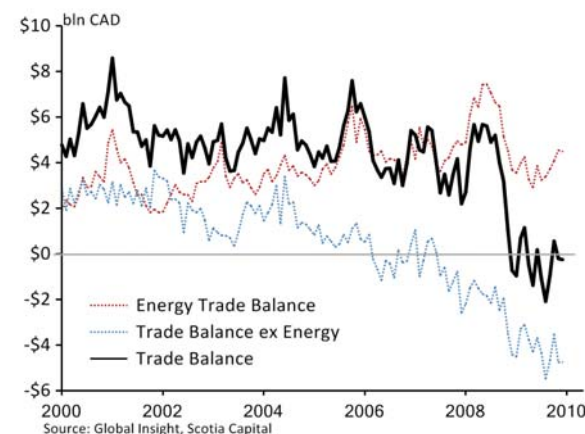
Americas

USDCAD (1.0270) • CAD is underperforming today, off 0.3% against the USD and not really responding to vacillations in oil prices, likely because the market is becoming focused on not only today's merchandise trade data, but more importantly tomorrow's employment data. **USDCAD has recorded new intraday lows for the preceding nine consecutive sessions, breaking through the previous 2010 low of 1.0225, leaving the market to target the 2009 low at 1.0207.** CAD traders may not be too willing to test lower so close to tomorrow's employment data as expectations for a positive read have been embedded in both Canadian bond yields and FX. **The market expects a 15.5K jobs build with an overwhelming bias for a positive data result**, heightening the risk of upside in USDCAD should we get a rather disappointing (or even negative) read. Surprise to the upside will further push the market's increasingly aggressive Bank of Canada expectations and we could very likely see the 1.0207 level fall following such a data release. Canadian January **trade data today is expected to show a marginal surplus of \$200mln** and we will pay special attention to the non-petroleum balance which has been the root cause of Canada's trade deterioration. In addition, **Bank of Canada governor Carney will speak today** (1:50pm ET) on "Principles for Interesting Times". There will be a media lockup for journalists but no press conference is to follow the event. S.T.

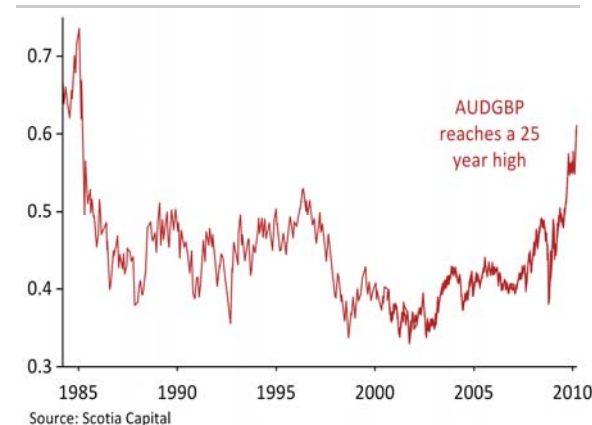
US TRADE DEFICIT TRENDING HIGHER



ENERGY EXPORTS ARE STABILIZING CANADIAN TRADE



AUDGBP REACHES A 25-YEAR HIGH



Europe

EURUSD (1.3660) • As we move into the North American session, **EURUSD is essentially unchanged**, as there have been no major developments or data releases in the last 12-hours. The general mood surrounding the outlook for EUR appears to be recovering. We expect the **range that has held since February 5th, 1.3436 to 1.3839, will continue to hold**. Today's pivots - see table - suggest that buying pressure will emerge at 1.3576 and selling pressure at 1.3711. C.S.

Asia / Oceania

USDJPY (90.50) • As we move into the North American session USDJPY is essentially unchanged. • **Japan's final Q4 GDP came in slightly weaker than expected, with growth now seen at 0.9% q/q and 3.8% annualized**. The disappointment was caused by lower than expected private inventory investment and accordingly is not as negative a development as the headline suggests. • **USDJPY has traded in a particularly narrow range over the last four sessions** and continues to hover around its 100-day moving average of 90.16. Upside pressures on USDJPY are mounting as both the government and central bank appear focused on avoiding too much USDJPY downside. In addition, the focus from carry traders seems to be increasing. **The correlation between USDJPY and interest rate differentials remains strong**, which leaves the currency vulnerable to any developments from the Fed next week. Significant sup-

port lies at the psychological 88.00, while resistance comes in at the 200-day moving average of 91.86. C.S.

AUDUSD (0.9160) • Even with yesterday's disappointing labour data, **AUDUSD has managed to break to a new month and a half high. AUD also looks relatively strong on its crosses** as AUDNZD is trading at 10-year highs, AUDEUR is at 13-year highs and AUDGBP is at 25-year highs. C.S.

NZDUSD(0.7010) • Yesterday the **RBNZ left interest rates on hold**, reiterated that current rates should remain stable until mid-2010, but Bollard sounded slightly dovish in his general comments. Accordingly, NZDUSD is flirting with a break below its 200-day moving average of 0.6976 and AUDNZD has broken back above 1.30. Though there are clear reasons for near term AUDNZD upside, we would expect that once we move closer to the beginning of the New Zealand's rate hiking cycle and the end of Australia's there will be a retracement in AUDNZD. C.S.

USDCNY (6.8266) • China has released its February round of data, the results of which are fairly mixed. **PPI and CPI were stronger than expected** (5.4% and 2.7%, respectively), **while industrial production was higher year-to-date than expected**, but lower year-over-year. New yuan loans fell to 700bn. Accordingly, though the data is somewhat mixed it still supports a fairly robust recovery in China. There has been only a marginal market reaction as **relief that growth in China is on tract is offset by worries over the potential for the economy to overheat and the impact that higher inflation might have on monetary policy**. C.S.

Commodities

Oil (82.20) • Oil continues to flirt with an attempt to break above its January \$83.95 high, but has yet to succeed. Yesterday's **DOE inventories were bullish as they came in below expectations** for oil, gasoline, distillates and refinery utilization. Stronger oil prices are helping to support CAD. The current 45-day rolling correlation between CAD and oil is strong at 0.84. 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	9.7	1.0267	0.0021	-0.0050	1.0524	1.0744	1.0225	1.0300
EURUSD	9.8	1.3659	0.0002	0.0077	1.4335	1.4330	1.3576	1.3711
GBPUSD	9.8	1.5038	0.0060	0.0007	1.6074	1.6216	1.4919	1.5111
USDCHF	9.0	1.0694	-0.0005	-0.0079	1.0388	1.0494	1.0655	1.0764
USDJPY	11.2	90.54	0.02	1.52	90.16	91.86	89.99	90.96
AUDUSD	13.1	0.9160	0.0005	0.0159	0.9059	0.8726	0.9118	0.9197
USDMXN	11.8	12.58	- 0.01	- 0.13	12.92	13.10	12.56	12.62
DXY (USD index)	6.7	80.38	- 0.07	- 0.19	77.60	78.01	80.17	80.72
CRB Commodity		274.62	-0.17	-3.09	275.79	265.40	N/A	N/A
Gold		1,106.85	-1.56	-25.35	1,114.70	1,042.57	1,097.67	1,122.06
WT Crude (Nymex)		82.27	0.18	2.06	77.48	73.20	81.04	83.26
Nat Gas (Nymex)		4.53	-0.03	-0.04	5.10	4.40	4.46	4.60
BoC Noon Rate		1.0243			CAD (close from Bloomberg not BoC):			1.0246

Pricing Source: Bloomberg

3/11/2010

Today's Releases & Speakers

	Period	Cons	Last	Significance
8:30 AM CA Capacity Utilization Rate	4Q	70.0%	67.5%	Low
8:30 AM CA New Housing Price Index MoM	JAN	0.4%	0.4%	Medium
8:30 AM CA Int'l Merchandise Trade	JAN	0.2B	-0.2B	Medium
8:30 AM US Trade Balance	JAN	-\$41.0B	-\$40.2B	Medium
8:30 AM US Initial Jobless Claims		460K	469K	Medium
10:00 AM MX Gross Fixed Investment	DEC	-4.8%	-7.1%	Low
12:00 PM US Fed's Flow of Funds				Medium
1:50 PM CA Bank of Canada Governor Carney Speaks in Ottawa				High
4:35 PM US New York Fed's Dudley Speaks to London Economists				Medium
4:45 PM NZ Retail Sales (MoM)	JAN	0.5%	0.0%	High
11:30 PM JN Industrial Production (MoM)	JAN F	--	2.5%	Medium
11:30 PM JN Capacity Utilization (MoM)	JAN F	--	1.4%	Low
2:00 AM GE Wholesale Price Index (MoM)	FEB	0.3%	1.3%	Medium
5:00 AM UK BOE's Dale to Deliver Speech				Medium
5:15 AM GE ECB's Weber Speaking in Bonn				Medium
6:00 AM EC Euro-Zone Ind. Prod. sa (MoM)	JAN	0.7%	-1.7%	Medium
7:00 AM CA Net Change in Employment	FEB	15.5K	43.0K	High
7:00 AM CA Unemployment Rate	FEB	8.3%	8.3%	High

Suggested Reading

- [Spain has the means to avoid Greece's fate](#), Luis Garicano, **FT** (March 10, 2010)
- [China data spur talk of further tightening](#), Geoff Dyer, **FT** (March 11, 2010)
- [Credit Market Springs to Life](#), Michael Aneiro, **WSJ** (March 11, 2010)
- [How to Handle the Sovereign Debt Explosion](#), Mohammed El-Erian, **FT** (March 11, 2010)

Our Monthly FX Strategy Call is **now available**, please dial in at your convenience.

Dial: 416-695-5800
Passcode: 57388427#

On this month's call we discuss:

1. Scotia's updated macroeconomic and foreign exchange forecasts.
2. The key factors supporting our view that CAD strengthens through parity in 2010. (beginning near the 5 minute mark)
3. Current short-term correlations and drivers in the FX market. (beginning near the 20 minute mark)

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

If you have any questions, please contact:

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Sacha Tihanyi at (416)862-3154, sacha_tihanyi@scotiacapital.com

The next call will be held on Wednesday April 14, 2010.

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