Forex Outlook April 2013

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Introduction

Welcome to April 2013 monthly report from Forex Crunch. The first quarter of 2013 extremely busy, with a comeback of the debt crisis in Europe, a stronger yen and improving conditions in the US. April is money time for the Japanese yen, more tough tests for Europe after the Cypriot precedents, a challenge for the US as well, as it struggles between a growing economy and a fiscal drag. These are the main themes.

Specific currency outlooks follow. Each currency outlook consists of two parts: a fundamental overview and a high time-frame technical analysis. In addition, the relative strength index tries to predict how major currencies will rank during April. A timetable of key events and some extra additional notes for Forex traders end the report.

As always, feedback is more than welcome. I'd love to hear your comments at yohay@forexcrunch.com.

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Global Themes

The crisis in Cyprus, which set a few precedents, will probably continue haunting the euro during April. Another small country, Slovenia, could also gain some negative attention, joining its neighbor Italy which still hasn't resolved its political stalemate.

The weakness also extends to core countries, where the economies are suffering from an economic slowdown if not an outright recession.

Cyprus – Small Island, Big Precedents

The small island nation in the Eastern Mediterranean was never considered a systemic risk for the euro, but the precedents set there could be critical.

The country was weathering the global financial crisis quite well during the first years. A first blow came from an explosion that occurred in the summer of 2011 near a power plant. Half of the island's electricity supply was shut down.

The bigger blows came from Greece. Cyprus has an oversized banking sector, but it probably could have been able to continue on the same path had the banks not invested heavily in Greece. Private Greek bondholders first suffered the so called "Private Sector Involvement" (PSI) in March 2012 and then the bond buyback late in 2012. This put the major Cypriot banks in deep trouble.

The previous government received a loan from Russia and wasn't eager on receiving a bailout from the EU. The new government led by Nicos Anastasiades already moved forward with negotiations and on the weekend of March 16th reached an agreement which shocked the world.

As part of the bailout program, **the EU decided to tap into bank accounts: of all sizes and at all banks.** The original plan sought to tax 6.7% out of accounts up to 100,000 euros, and 9.9% of bigger accounts.

This decision contradicts the EU rules that state that accounts of up to 100K are insured, guaranteed – safe.

European leaders insisted that Cyprus is a "**special case**" and that its business model has to change. The opposition in Germany criticized the government for working on a bailout for Cyprus, which was seen by many as a bailout for Russian oligarchs – the special ones.

The president tried to have the parliament approve the measure in an emergency session. The backlash resulted in an extended bank closure beyond the bank holiday of March 18th. Eventually the parliament in Nicosia rejected the program and Cyprus returned to negotiations.

The agreement of March 25th already limited the losses to accounts over 100K and only at the two troubled banks. This is a more fair decision, but the damage has been done.

And while markets were looking for clarity regarding the details of the deal, the relatively fresh head of the Eurogroup explained in detail what would happen in the next bank bailouts – solutions that seem very similar to the Cypriot solution.

He later backtracked his words, rejecting the words "model" or "template". Other leaders followed and repeated the stance that Cyprus is special. **But yet again, the damage has been done**.

Banks have reopened in Cyprus and capital controls have been imposed. From the initial statement that these controls are planned for one week, a month or even months of closure are now possible.

And while some details about haircuts have been made, it's unclear how much money is actually in the banks. There are rumors that money has fled the country. In addition, there are allegations that a company owned by relatives of the president have squirreled away money before the bailout was announced.

During April, we will hopefully get a better picture of what's going on in Cyprus.

After two weeks of crisis, there is a notion that:

- Accounts under 100K are not 100% safe.
- Depositors could participate in future bank bailouts

- The European Union is not that unified: capital controls and "special cases" do not go hand in hand with the vision of the union.

ECB Reaction to Cyprus

The events in Cyprus haven't been fully digested by Europeans. We could see gradual withdrawals out of banks, or at least a slower repayment of LTRO loans.

The ECB lent out around 1 trillion euros in two operations that occurred in December 2011 and February 2012. In recent months, banks have begun repaying these loans. This is a sign of better conditions and is **akin to monetary tightening** – a stronger euro.

The ECB reports the LTRO repayments every week. If the pace of these repayments grinds to a halt, there is a lot to worry about.

In its April meeting, the European Central Bank isn't expected to announce a rate cut, but it could certainly offer easier collateral rules, or perhaps even a new lending program to reassure markets that the ECB provides a backstop.

But can the ECB restore confidence after this blow? Can another statement by Draghi, such as "we will do everything to preserve the euro, and believe me, it will be enough" **will be enough now**?

Weakness in the Zone

Italy

The February 24-25 elections left Italy with a political deadlock. Center-left leader Bersani was given the mandate to form a government, but as expected, he failed to reach an agreement with center right leader Berlusconi, nor with the alternative candidate Grillo.

The next step would have been calling new elections, but this cannot happen in the current situation: according to Italian laws, the president cannot dissolve the parliament in his last 6 months in office. President Giorgio Napolitano ends his term in May 15th. He clearly stated that he will not continue.

According to reports in the Italian press, Napolitano considered tendering his resignation, **but changed his mind due to a telephone call from ECB president Mario Draghi**.

The reports say that Draghi urged the president not to resign in order to maintain stability in these troubled times. The pro-EU prime minister Mario Monti continues to govern until a new government is formed, and reforms continue on "auto pilot". Monti's center party performed quite poorly in the Italian elections.

We don't know for sure what happened there, but we do know that Napolitano eventually appointed two groups of experts to try and find a solution. Some of the experts are from the mainstream center left and center right parties. The alternative party of Grillo is not represented there.

Will Bersnai and Berlusconi find a formula that would enable a grand coalition with a limited mandate to make reforms? Given the differences, this option seems remote, and it seems that Italy will eventually head to the polls once again.

As long as Italian politicians are busy finding solutions, the political situation in the euro-zone's third largest economy will remain on the backburner. But it is important to remember that nothing has been solved.

Germany and France, Spain and Slovenia

The core countries continue to decouple: the number of unemployed people in France is rising. Germany's exports to China already surpassed exports to France.

Yet also Germany isn't doing so well: Europe's largest economy contracted in Q4, b 0.6%. This was seen as a one-time event and many still expect Germany to return to growth in Q1 2013. But not all the figures point in that direction.

The number of unemployed people rose and PMIs are down from the highs. Even if Germany returned to decent growth, how long can the locomotive pull everybody on its own?

Spain's unemployment rate remains at sky high levels. There are also doubts about the deficit figures published by the government: 6.7%. This figure doesn't include the aid to banks.

Apart from the horrible unemployment, Spanish banks remain problematic. The events in Cyprus could weigh on the banks in the zone's fourth largest economy.

Slovenia: the small country of 2 million people has its own banking issues and it put off bond auctions due to the crisis in Cyprus. Has it lost market access? There aren't too many similarities to Cyprus, but rather similarities to Spain and Ireland.

Nobody thought that decisions about Cyprus would have an impact on the euro-zone, but the decisions set precedents. Slovenia has a new government since March 20th. The new PM and finance minister already sent calming messages, but the governor of the central bank, an ECB member, thinks differently.

Here is more about Slovenia and the debt crisis.

If Slovenia needs help, the decisions made there will be a test to European solidarity, regardless of the size of the bailout.

US – Fed expansion vs. Government tightening

Early in 2013, the US economy showed signs of accelerated growth through a wide array of economic indicators. This hasn't convinced the Federal Reserve to alter its policy, and perhaps with a good reason.

While the US avoided big tax hikes in a last minute deal, the expiration of the payroll tax cut and the sequester do seem to counter growth. If the US economy continues growing nicely despite these measures, it will certainly be a big winner and a locomotive for the whole world. Yet not everybody is convinced.

The cuts in government spending already took their toll in the fourth quarter: the US economy grew by only 0.4% on an annual basis. The Fed said that the economy "paused". One of the main reasons for this almost inexistent growth (first estimated as a 0.1% contraction) was a huge cut in defense spending.

One tax hike that did slip into 2013 is the expiration of the payrolls tax break. The reversal of this fiscal easing measure leaves more money in the pockets of Americans. While a few retailers reported lower sales in February, it is quite hard to put the finger on this tax. Retail sales for February were eventually positive.

What we don't know at the moment is the impact of the sequester: as part of the debt ceiling deal in the summer of 2011, Republicans and Democrats agreed on automatic spending cuts that would be enacted if parties wouldn't be able to reach an agreement.

The elections of November 2012 left the broad political picture unchanged and the parties reached only very few agreements so far. So, government spending is being cut. Tackling the long term budget deficit of the world's No. 1 economy is an important goal, but it isn't necessarily the perfect timing and the perfect quantities.

Ben Bernanke warned against front loading too much debt reduction right now. Against the fiscal tightening, the Fed continues offering monetary stimulus.

Since announcing QE4 in December and starting a policy of open ended QE and qualitative time frames for changing the interest rates, the Fed had two decisions in 2013 and made no policy changes. No meeting is scheduled for April, but minutes from the March meeting are due.

In the previous two editions of the meeting minutes, it has been "revealed" that there are also hawks in the FOMC: some members don't support the easy policy and/or wish to see QE unwinding towards the end of 2013. This is due to improving conditions or fear that with an ever-growing balance sheet, it will be hard to exit.

Each publication of the meeting minutes resulted in a stronger dollar due to these hawkish statements. This could happen in April as well. Yet it's important to remember that the doves are in full control of the Fed.

The economic recovery really needs to "twist the arm" of Bernanke for seeing a change now. And how is the economy doing?

Year after year, the US economy enjoys a good start to the year, but the recovery doesn't accelerate. Is it happening again?

- Housing: Existing home sales remain stable, but new home sales fell after climbing higher. Prices are going steadily higher.
- **Manufacturing**: PMIs are on the side of growth (50+) but the recent ISM number has been significantly lower.
- **Services**: So far, we're seeing strong growth in America's biggest sector. A score of 56 and a healthy employment component in February were certainly encouraging.
- **Jobs**: the gain of 236K jobs in February was impressive. Did the trend continue in March? Weekly jobless claims have reached 5 year lows by falling to averages around 340K. Yet again, the recent rise to 357K is somewhat worrying.

The US will publish the initial GDP estimate for Q1 2013 towards the end of April. Expectations are high: a growth rate of above 3%, which is already above stall speed and perhaps even a "self-sustained" recovery.

Dynamics of forex trading have changed and at the moment positive figures support the dollar across the board (not only against the yen) and weak figures hurt the greenback across the board.

Positive figures from the US are needed to maintain these dynamics. If we'll see a weak jobs report accompanied by other signs of weakness and a crisis in Europe, the dynamics could reverse to the "risk on / risk off" model where the dollar is sought after in times of trouble and sold when things improve.

At the moment, it seems that the US recovery has really accelerated, and that the road is just a bit bumpy.

Japan – Time to Deliver

The Japanese yen has gone a long way down since Shinzo Abe became the leading candidate for Prime Minister in late 2012. Abe won a landslide victory in the lower house, announced stimulus measures and kept rhetoric high

Later, he managed to appoint ADB chief Haruhiko Kuroda as BOJ governor alongside two other members. Abe doesn't control the upper house, but managed to obtain support for his candidates.

Kuroda entered his position in mid-March and just reiterated the policy goals: a 2% inflation level in 2 years. The government wants prices to rise from the current deflationary situation in order to ignite the economy.

The authorities also want a weaker yen to help Japanese exports and monetary stimulus. The outgoing governor Shirakawa announced more QE and also suggested that Japan will start open ended QE, like in the US, starting from 2014.

Kuroda will make his first decision on April 4th, and **expectations are huge after all the buildup**. **[However, Kuroda may disappoint in his first meeting]**.

Why? Apart from expectations being too high, there is a technical / political issue: Shirakawa brought forward his resignation by three weeks. Kuroda was only appointed for the interim period of these three weeks rather than for a longer one.

In his first decision, Kuroda may opt not to rock the boat and not to risk his re-approval by the upper house. This may disappoint markets who want to see immediate action. Kuroda could settle for more QE in the first meeting.

The BOJ convenes again in April, and after he wins a more comfortable seat, Kuroda could take bolder steps, such as bringing forward the open ended QE program.

The "nuclear option" of buying foreign bonds seems off the table at the moment: such a step would be considered as direct currency intervention by Japan – a step that would be considered inappropriate by its trade partners.

After the big upwards move, USD/JPY consolidated in the high range. We could see the pair falling even further before moving higher.

In any case, the elevated expectations could trigger elevated moves in USD/JPY and yen crosses during April.

Currency Outlooks

This section consists of a fundamental country specific outlook and a high time frame technical analysis for each currency against the US dollar. The first part concerning the US dollar is only technical, referring to the US Dollar Index. For the euro and the yen, which were covered in depth beforehand, only a technical section is available here. All the charts are weekly charts.

- A description on the lines follows each section.
- For shorter term outlooks, please follow the weekly outlooks on Forex Crunch, linked in every section.
- If you prefer to view the charts on a web page, just click on the image.

US Dollar Index Technical Outlook

After some range trading in January, the US dollar index was on a roll in February, and continued more steadily higher also in March. The downtrend resistance line was convincingly broken.

It has also left the 81.80 line behind, but fell short of the 83.50 line.

Lines

89.62 is the post financial crisis high and is the final frontier on top. 88.70 is another peak, seen in May 2010, when the Greece received the first bailout.

86.87 is a minor line, serving twice as resistance in the early stages of the crisis. 85 is a round number that provided some support when the index was trading at a high level during 2010.

84.10 was the peak in 2012, from where the downtrend resistance line begins. 83.50 was the peak of an upwards move in the middle of 2010, before QE2 became reality. The line was challenged in August, but the index couldn't settle above this line. It is a key line on the upside now.

81.80 served as support in 2010 returns to his role now after the breakout in early 2013. The index failed to reach this level in the surge of November 2012. 80.32 served as the top border of a tighter range. The bottom border of this range is 78.60, which was a cushion in April and also in January. This line worked perfectly well during September 2012 and will be tested if the index resumes its downfall.

In between, the 79.50 line serves as an important pivotal line within this range and it saw many battles over it.

77.50 is the next big support line. It worked as both support and resistance in 2009.

76 capped the long range trading of this index in 2011 and is strong support. 73.50 was the bottom border of that range.

The last line on the bottom is 72.70. For the major market movers, see the **Forex Weekly Outlook**.

EUR/USD Technical Outlook – At Lower Ranges

Since peaking above 1.37 early in the year, Euro/dollar has fallen and made a clear break below the uptrend support line that began in mid-2012.

On the downside, there is steady uptrend support line dating from mid-2010, which is too low at the moment.

Looking at the bigger picture, euro/dollar is still in the wide downtrend channel that began just before the financial crisis. This is the higher black line.

Lines

The 2011 peak of 1.4940 is a significant line as well on the upside. 1.4580 capped the pair in 2011 and also worked as support in 2009.

1.4282 was the peak of the surge in November 2010. The round number of 1.40 is important mostly due to its political implications.

The swing low of 1.3838 seen in mid-2010 was also of important at the beginning of 2010 as a cap and as a separator back in 2008. There are no significant lines between this line and the next one. 1.3485 capped it in early 2012 and 1.34 is the top border of the sideways range.

1.33 was a stubborn peak at the end of 2012 and is key resistance. The peak of 1.3170 is now weaker after being broken. It is the top of the trading range and served as a cushion when the pair traded higher. It was also a swing low in late 2011.

The round number of 1.30 is not only a psychological line but also used to be strong resistance. It was strong support and its break triggered a big fall. On the other side of the range sits 1.2805 – this line was tackled in the second half of 2012 and is fought over now.

1.2624 was the January 2012 bottom and also played a role beforehand. The first post crisis bottom at 1.2330 is now left behind after a struggle. It worked well as support. Despite being an old line, it is of importance.

Below, 1.2150 separated low ranges in two occasions, and safeguards the all-important round number of 1.20.

For more on the euro, see the **EUR/USD Weekly Outlook**.

British Pound – No Help From Weaker Currency – BOE In Transition

The British pound was hit badly during February and also in March. A combination of weak figures from the UK and a sweep of the dollar sent it plunging down.

After consolidating above 1.50, can the pair resume the falls? Not so fast. Contrary to many other countries, a weaker currency doesn't help the economy too much. In addition, the transition period in the BOE, the dilemma of the government and the euro-zone crisis all paint a mixed picture.

Economy

- The British economy returned to contraction in Q4 2012 after only one quarter of growth. The strong Q3 growth is now clearly attributed to the Olympic Games. Signs emerging during Q1 2013 point to another quarter of contraction, cementing the triple dip recession, even though not all of them are that bad. A first estimate of Q1 growth is scheduled for the end of the month.

- **Forward looking PMIs** haven't been that good: manufacturing fell again below the 50 point mark separating growth and contraction to 47.9 points. Construction deepened its drop to 46.8 points. However, the services sector is still growing according to Markit: 51.8 points in February.
- **Jobless claims**, which saw a few months of improvement, disappointed in February with a drop of only 1500 people. The unemployment rate remained stable at 7.8% in January.
- **Retail sales** fell by 0.6% in January but rebounded strongly, 2.1%, in February.

The weaker pound doesn't seem to help the British economy. **The disadvantage of a weaker currency is that imports are more expensive**: Britain's Consumer Price Index is on the rise again, getting closer to the upper band of the range: 3%. CPI rose to 2.8% (annually).

Dilemmas

So, the Bank of England has a tough dilemma: adding more monetary stimulus in the shape of expanding the QE program, or leaving policy unchanged in order to keep inflation under control?

The central bank has already warned about the weakening of the pound.

The dilemma caused a split in the MPC, with 3 members voting for more QE and 6 voting against. The outgoing governor Mervyn King was one of those voting for QE, and he was outvoted. **His influence is waning off**.

The incoming governor of the BOE and currently governor of the BOC Mark Carney will enter his position only in July. So, until Q3, it is hard to expect any significant policy changes, unless an extraordinary event hits the markets.

Also the British government has an ongoing dilemma regarding its austerity policy. On one hand, this policy contributed to lower borrowing costs, together with the central bank's bond buying and the inflow of euro-zone money.

On the other hand, the never-ending economic drag is making the government unpopular. In addition, this policy wasn't enough to maintain the UK's perfect triple AAA ratings: after the downgrade by Moody's, the UK doesn't have 9 As.

Euro-zone inflows

Greek money fled the country and found its way into the UK as the crisis intensified. Money of rich French people also made its way to the UK as the government wanted to impose higher taxes. And now, after the crisis in Cyprus, many Europeans could fear about the safety of their deposits in banks.

And once again, the British pound can benefit from this, as a **regional safe haven**. Yet again, this inflow also has some negatives: prices of homes in London are once again at sky high levels. British bonds don't yield too much, so property in one of the world's most important cities is seen as a good alternative.

All in all, the pound is likely to look for a direction in April. The key factor for decision making will be the GDP report late in the month. Beforehand, the euro-zone jitters are expected to have the biggest impact.

GBP/USD Technical Outlook

After breaking below uptrend support that accompanied the pair since mid-2012 , the pair continued sharply lower. So far, it bounced close to 1.48 and returned to a somewhat higher range: 1.50 to 1.5270.

Lines

1.7440 was a stepping stone on the way down during the peak of the crisis. 1.7042 is the post crisis peak reached during 2009 and never sought since. It is right above the round number of 1.70.

Below, 1.6750 was the peak of 2011 and also had a similar role during 2009. 1.6475 capped the pair several times in 2011 and is relevant is the pair succeeds in conquering 1.63.

1.63 was a peak in 2010 and later worked as a pivotal line. After many attempts to break higher and one big false break, the pair collapsed. The round number of 1.60 also had a significant role in the past, and now plays the role of important support.

The trough of 1.5780 was of high importance in 2011 and also in 2009. It proved its strength as resistance in June 2012. Quite close by, 1.56 had an important role as a support line in 2012, and it now works as a pivotal line in the current range.

The double bottom of 1.5270 seen at the end of 2011 and the beginning of 2012 is the lowest points since 2010 and remains strong.

Below the round number of 1.50, we find 1.48, which provided an important cushion at the beginning of 2010. 1.4610 separated the lower range in mid-2010 and is a minor line.

The bottom of 2010 at 1.4227 is significant on a big downfall. Last but least, we find the post crisis low of 1.3514.

For more on the pound, see the **GBP/USD Weekly Outlook**.

USD/JPY Technical Outlook – What's Next After the Consolidation?

Dollar/yen continued rising in February, but began slowing down and consolidating. 96.71 was the peak, and the pair is now below the closely watched 95 line.

Lines

High in the sky, 108 served as support before the financial crisis. 103.75 worked as support around the same era, 2008.

101.44 is the highest line here – it was a peak in early 2009 and serves as the beginning of a broken resistance line. The line is followed by the very round number of 100.

97.80 capped the pair in late 2009 and is the last important line of defense before the pair regains an extra digit. The round number of 95 is watched by many politicians. It now returns to work as resistance.

92.12 worked in both direction in 2009 and 2010 but is a weaker line after being broken. The ultimate support line in the shorter term is 90

Below, 89.10 was a peak in the summer of 2010, before the pair began descending. 88 was resistance back in 2010 and weakens now.

85.50 was the peak in 2011 after the coordinated intervention and is now support. 84.20 capped the pair back in March 2012. 82.87 was the line where the BOJ intervened in September 2010 and it played a role afterwards as well. It is currently a minor resistance line.

The round number of 80 was strongly guarded for some time and remains of psychological importance. It is now a line of struggle.

For more on the yen, see the **USD/JPY Weekly Outlook**.

Swiss Franc – Euro Crisis Returns to Boost CHF

The Swiss franc enjoyed a period of independence: EUR/CHF got away from the 1.20 line that the SNB fiercely defends, and **weakened on its own**. This sent USD/CHF higher.

The worries about the Cypriot precedents could strengthen the former safe haven franc, send EUR/CHF towards 1.20 and make USD/CHF a mirror of EUR/USD once again.

The 1.20 floor under EUR/CHF is in place for over a year and half. The main justification for the floor is fighting deflation. On this front, **Switzerland saw a refreshing change in February**: prices rose by 0.3%, contrary to expectations for a drop of the same scale, which was seen in January.

This one time change wasn't enough to change the mind of the SNB: in the quarterly rate decision, policymakers reiterated the previous stance of "unlimited amounts of foreign exchange" to defend the franc.

The levels of foreign currency reserves remained stable during this time, but a deeper crisis in Europe could cause the reserves to swell up.

Here are the main events to watch during April:

- April 5th 7:00: Foreign Currency Reserves

- 9th 5:45 Unemployment rate
- 9th 7:15 CPI and retail sales
- 16th 7:15 PPI
- 17th 9:00 ZEW Economic Expectations
- 23rd 6:00 Trade balance
- 30th 6:00 UBS Consumption indicator
- 30th 7:00 KOF Economic Barometer
- May 1st 7:30 SVME PMI
- 3rd 7:15 Retail sales

Despite the peg to the euro, USD/CHF remains technically interesting.

And if the situation in the euro-zone worsens quickly, the 1.20 floor could break. Nothing lasts forever, even if the SNB had exceptional success so far.

USD/CHF Technical Outlook

After the pair fell early in the year, it managed to recover nicely and finally made a convincing break above 0.9240. Conquering the 0.95 line was already a tougher task.

Lines

1.09 capped the pair during 2010 and provided support beforehand. 1.0435 was support in 2010 and an area of struggle.

The round number of parity returns to the scene. It is backed by 1.0066. 0.9783 was a double top and provides strong resistance. It showed character in August 2012.

The round number of 0.95 worked as support and has psychological importance as well. It successfully capped the pair in late 2012 and was broken recently. However, the pair didn't go too far.

0.9240 is the bottom of the current range, working quite well in October and November. It also provided some support back in March 2011. 0.9080, which was a trough recently, is also worth watching. The battle around this line is raging. Note that this line defends 0.90.

0.89, is another significant support line that proved its strength early in the year and also back in 2011.

0.8567 is worth mentioning on the downside. It served as support on the way down and then switched to resistance. Further below, 0.8330 was a strong line of support.

0.7820 is the final frontier before the big plunge to the all-time low at 0.7066.

Canadian Dollar – Economy Strengthening – Parity on the other side?

The picture for Canada didn't look so bright earlier in the year, but it has since improved quite impressively in quite a few parameters.

The loonie recovered from the lows, and it could challenge parity in April, especially as inflation numbers challenge the recent dovishness of the BOC.

- The Canadian economy ended 2012 with a squeeze in its economy: 0.2%. Also retail sales figures pointed to a serious slowdown. The picture brightened in early March when Canada reported a gain of 50.7K jobs in February and a small deficit in its trade balance.

- GDP: The growth rate of 0.2% in January 2013 exceeded expectations. Canada reports its GDP on a monthly basis, and the peek into Q1 is certainly encouraging.
- Inflation: Stronger inflation isn't that good for the citizens, but it is a positive for the local currency. **CPI leaped by 1.2% in February** and core CPI (which central banks follow closely), rose by 0.8% instead of 0.3%.
- Oil: After falling to a bottom in early March, oil prices are on the march once again, even if they remain shy of $100.

This doesn't imply a rate hike anytime soon: the current governor Mark Carney ends his term at the end of May and isn't expected to make any big decisions until then.

In addition, this rise in inflation could certainly be a one-off event that does not reflect any big change. But what it can do in the shorter term is change the language of the BOC and push the loonie higher.

The Bank of Canada traditionally had a relatively hawkish stance. It already made one round of rate hikes since the global financial crisis, and currently keeps the main rate at 1%, not close to 0% like in the US or Switzerland and above the 0.5% in the UK or 0.75% in the euro-zone.

Loonie traders will want to see if the figures in March were special, or a beginning of a trend. In particular: the employment data on April 5th and CPI on April 19th will be watched.

The BOC could be cautious regarding inflation in the April 17th meeting, as the leap in February will not necessarily be a trend at the time of the meeting.

All in all, the Canadian economy is doing well, enjoying the stronger US demand and currently not suffering too much from housing sector issues.

USD/CAD Technical Outlook

After crossing the parity line, USD/CAD continued rising in February and March, reaching a peak in early March. Since then, the pair is reversing and falling and is back under 1.02 once again.

Lines

1.1130 is an old line dating from 2009. It is still high. 1.0850 capped the pair in 2009 and 2010 and remains of high importance.

1.0677 also worked as strong resistance for many days, and was tackled again in Q3 2011. The round number of 1.05 is now a top in the range and can be challenged in the near future.

The round number of 1.03 was a battle line, and it seems that the pair overcame it. The 2009 low of 1.02, another round number, returns to the limelight.

The ultimate line of USD/CAD parity has a major role as the pair approaches this line from below. 0.98 returns to serve as an important cushion on the downside, where the pair bottomed out, despite the break lower.

0.9667 is a pivotal line on the way down, after working as support. The swing down to 0.9632 isn't significant at the moment. 0.9406 was the lowest post crisis level, and is the ultimate support line.

The 2007 of 0.9056 is way down.

For more on the Canadian dollar, see the **USD/CAD Weekly Outlook**.

Australian Dollar – Boomeranged from the Abyss – 1.06 Eyed

During February, the Australian dollar suffered from global fear and lost value. The boomerang came thanks to the new forex dynamics: issues in Europe had little influence on the Aussie and other commodity currencies.

The Aussie enjoyed its own better fundamentals. But will these be enough to tackle the tough resistance line?

- **Jobs**: Australia enjoyed two good employment reports: in January, Australia gained 13.1K jobs and in February it gained a whopping 71.5K jobs. However, many of these jobs are part time jobs. So, the next employment report will be closely watched: a big loss of jobs cannot be ruled out after the big leap.
- **GDP**: The Australian economy continued growing nicely in Q4: 0.6% and probably grew in Q1. It's hard to believe that a contraction was seen, especially as Chinese demand remained strong.
- **Capital Expenditure**: This could be a cause of worry: this figure dropped by 1.2% instead of rising by 1.1% as expected. The RBA watches this figure.
- **Mining**: After the big debate about "the end of the mining boom", things are quieter down under. This doesn't mean everything is perfect, just that the talk is calmer.
- **Rise in retail sales**: Outside the mining sector, Australia's economy didn't always shine: some PMIs are negative, housing is looking for a direction and the Australian consumer seemed reluctant. The recent rise of 0.9% in retail sales during February is certainly a positive on this background.

- **9 As**: Finance minister Swan bragged that Australia is in the exclusive club of countries which have 3 AAAs: a perfect credit rating from all three agencies. This also helps the Australian dollar.
- **Lower chance of a rate cut**: the RBA left the rates unchanged and [the statement didn't go in the direction of hinting about a rate cut](). The central bank seems reluctant to cut the rate under the post-crisis low. With the recent positive figures, we could see a high later in the year.

All in all, the Australian dollar certainly has reasons to rise. For a break of the impregnable 1.06 level, another month of excellent job gains is probably needed.

AUD/USD Technical Outlook

AUD/USD dropped under the 1.0150 line, but this proved to be a hammer pattern. Since then, the pair has been climbing higher, and is now capped by the long term downtrend resistance line, which was breached once.

The critical line remains 1.06, which was challenged so many times in the past.

Lines

The float-era high of 1.1080 is the ultimate line high in the sky. It wasn't a swing high but rather a significant hurdle. 1.0850 was a double top at the beginning of the year and is now resistance on strong upside moves.

The round number of 1.06 worked as support during two periods when the Aussie was trading higher. A third move towards this line didn't succeed, creating a triple top that is very important now. 1.05 capped the pair in November 2012 and also worked as support during 2011.

1.0350 was support during December and is notable now. It is the key to any downside moves. 1.0150 worked as support during September and October 2012 and is the bottom of the range. Breaking below this line will open the road to parity.

AUD/USD Parity is an important psychological line, although not so strong. 0.98 supported the pair at the end of 2010 and is minor support now.

0.96 provided an important cushion in September 2011 and also in June 2012. 0.94 is an important trough and also the cap of a long term range that lasted in 2009-2010. The round number of 0.90 will is of psychological importance.

For more on the Aussie, see the **AUD/USD Weekly Outlook**.

New Zealand Dollar – Strong Kiwi Justified but Backfires

The kiwi suffered from a verbal intervention by officials in New Zealand that expressed worries about the strength of the currency. However, the New Zealand dollar does have some reasons to remain strong, and it's not only the US QE program.

Positive:

- New Zealand's **trade balance** exceeded is not that stable, but was more positive than negative recently.
- **Manufacturing**: the Business NZ Manufacturing Index stands on 56.3 points – very nicely in growth territory.

- **Building consents**: the recent publication showed a rise of 1.9%, showing ongoing interest in kiwi housing.

Negative:

- **Employment**: New Zealand published employment data only once per quarter. The last figures were for Q4 2012 and they were relatively weak: while the unemployment rate dropped from 7.3% to 6.9%, the level of employment dropped by 1%, much worse than a gain of 0.4% that was predicted.
- **Central bank**: The RBNZ did acknowledge the strength of the economy, but expressed clear worries about the strength of the kiwi. It did actually managed to depress the NZD and this could happen again in April.

Main events for the kiwi in April:

- April 2nd 00:00 ANZ Commodity Prices
- 8th 23:00 NZIER Business Confidence
- 10th 22:30 Business NZ Manufacturing Index
- 11th 22:45 FPI
- 16th 22:45 Quarterly CPI
- 23rd 21:00 Rate decision
- 25th 22:45 Trade balance
- 29th 1:00 ANZ Business Confidence
- 29th 22:45 Building Consents
- May 1st 1:00 ANZ Commodity prices

All in all, NZD/USD is likely to remain in the current range: incoming flows support the kiwi (also thanks to the non-zero interest rate), while the central bank's comments could keep it down. The rates are expected to remain on hold once again at 2.5%, and the statement is the focus.

NZD/USD Technical Outlook

NZD/USD finally broke above the 0.8470 line in February and reached above 0.85. But, this rally didn't last, and the shooting start pattern ended with a big downfall: NZD/USD bottomed out only at around 0.8150, and made another rebound to above 0.8360.

Lines

The round number of 0.90 is in uncharted territory. The float-era high of 0.8842 is the ultimate resistance line.

0.8470 was the peak in 2012 and remains key resistance. The pair temporarily breached this line, but didn't go too far. 0.8360 was a very impressive cap to the pair during September 2012 and is a key line on the upside.

0.8175 worked well as support during September 2012 and is only minor now. 0.81 is the bottom of the current range, after working as such several times in recent months and also at the beginning of the year.

0.7975, which was a veteran peak back in 2010 returns to play a significant role as the pair stabilizes above the line. A loss would open the door for bigger falls. The round number of 0.78 worked as support in early 2011 and also in mid-2012 and is the next line.

0.7650 capped the pair on recovery attempts and also worked as resistance in 2009. 0.7450 was a stubborn bottom in May 2012 and was also a swing low in the fall of 2011.

0.7350 is significant on the downside. The pair got close to this line during Q4. The round number of 0.71 was a swing low in 2011 and a break lower would be a bearish signal. Under the round number of 0.70, the next line of support is 0.6815, which worked as such in early 2010.

Relative Strength Index

As there was no outlook for March, we will revisit the outlook for February.

February Revisited

1. USD
2. JPY: USD/JPY rose 1.1%.
3. NZD: NZD/USD dropped 1.3%.
4. AUD: AUD/USD fell 1.9%.
5. CHF: USD/CHF rose 2.7%.
6. CAD: USD/CAD rose 3.1%.
7. EUR: EUR/USD fell 3.7%.
8. GBP: GBP/USD dropped 4.3%.

The predictions for February were not so good: the relative strength of the kiwi and the weakness of the pound were predicted, but

1. NZD – The kiwi has potential to rise on the stronger economy, despite complaints about its strength. – Indeed, the kiwi had a relatively strong performance in February, but was run by the dollar. It recovered in March.
2. CAD – The Canadian dollar could compensate for the surprising fall – it still has reasons to rise. Wrong – the loonie continued sliding and recovered only in March.

3. CHF – As EUR/CHF maintains a safe distance from 1.20, we could see the franc strengthen against the euro and against most currencies. – The franc maintained a safe distance from EUR/CHF 1.20 and stayed in the middle.
4. EUR – The euro's rise against so many of its peers seems unsustainable, especially given the implications for Europe. Results could be mixed this time. The political mess in Italy pushed the euro much lower.
5. USD – The dollar will likely see mixed results again, and lose a bit to the euro – not as much as in January. The political mess in Italy helped the dollar.
6. AUD – The Aussie has quite a few reasons to fall, especially after refusing to do it in January. – The Aussie suffered, but not as bad as expected.
7. JPY – After the free fall, the yen could end February weaker, but not against all currencies. – The yen was weaker throughout most of the month, but the elections sent shooting higher.
8. GBP – the fall of the pound hasn't fully materialized yet. After losing quite a lot of technical support, the pound could end the month on the lower side. Correct – The pound extended its falls.

March Performance of Currencies

1. AUD/USD rose 1.9%
2. NZD/USD rose 1.4%
3. USD/CAD fell 1.3%
4. GBP/USD rose 0.3%.
5. USD
6. CHF: USD/CHF rose 1.3%
7. JPY: USD/JPY rose 1.6%
8. EUR: EUR/USD dropped 1.9%.

Predictions for April

1. CAD: The loonie has better fundamentals to rise, especially inflation.

2. AUD: The Aussie could challenge the 1.06 line, although it doesn't necessarily have enough reasons to push through.
3. NZD: Despite the unhappiness of the central bank, the kiwi could appreciate.
4. USD: Basically, there's room for more losses against commodity currencies on QE, while European currencies could surrender to the greenback.
5. JPY: It all depends on the BOJ, but expectations could be too high. The pair could struggle to resume the sharp uptrend.
6. GBP: After recovering from the falls, cable could slide, as Carney is awaited.
7. CHF: The franc could remain close to the euro, thus falling, with EUR/CHF inching closer to 1.20.
8. EUR: The fall in the euro due to the Italian elections, the Cypriot bailout and the new issues in Slovenia hasn't been fully priced in.

It's important to remember that these are merely speculations and not trade recommendations.

Key Events

Here are the key events that are set to impact currencies all over the world, larger than the scope of any individual country.

- April 2nd: Australian rate decision
- **4th: Japanese rate decision – first for Kuroda**
- 4th: UK Rate decision
- **4th: ECB rate decision – first after the crisis in Cyprus**
- **5th: US Non-Farm Payrolls**
- 5th: Canadian jobs
- **10th FOMC Meeting Minutes – a chance for the hawks to express themselves.**
- 11th: Australian employment figures.
- 15th: Chinese GDP – first major GDP release for Q1 2013.
- 17th: Canadian rate decision
- 23rd: Euro-zone Flash PMIs – these have a bigger impact.

- 25th: UK first release of GDP for Q1: Triple dip confirmed?
- 26th: Japanese rate decision
- **26th: US first release of GDP for Q1.**
- 30th: Canadian GDP.
- May 1st: FOMC decision
- 2nd: ECB rate decision
- 3rd: US Non-Farm Payrolls.

Sources for this report:

- FX Street Calendar (**available on Forex Crunch**).
- Forex Factory Calendar

Additional Notes for Forex Traders

Here are some additional notes for Forex trading during this month.

Volatility moving up

Volatility keeps on rising and rising. This provides opportunities, but also poses risks.

High leverage and wide stops can be disastrous to your trading account. When volatility is higher, reduce position sizes and minimize your risk. When volatility is lower, you can take a bit more risk, but don't gamble!

Apart from looking how to win in trading, it's important to limit your risk. Here are three basic methods for this.

Choosing a More Predictable Pair

Some pairs follow the rules of technical analysis in a better way, while others are quite unpredictable. This depends a lot on your trading system and on your style and these patterns change all the time. Nevertheless, here is a fresh list of the **5 Most Predictable Currency Pairs – Q2 2013**.

Resources

General Articles

- **5 Points on When to Go Pro** – Successful at forex trading and considering of doing it full time? There are a few steps on the way.
- **How to Choose a Forex Broker** – There are quite a few tools you can use before making this important decision.
- **Risk Factor Explained** – A deeper explanation about why the dollar falls on good figures and vice versa and under what conditions this will end.
- **Trading in Range or Catching Breakouts?** – What is your style? And what to look out for.

Recommended Sites:

- **TradingNrg** – For all you need to know about gold, oil and other commodities.
- **BO Crunch** – All you need to know about trading binary options.
- **ForexStreet.Net** – A great forex social site where you can interact with others.
- **Forex Live** – Fast forex updates
- **FXBriefs** – Forex Live veterans – fast forex updates.

That's it! As I've mentioned at the beginning, I welcome feedback, comments, suggestions, complaints and anything you wish to tell me about this report. Please send any feedback to yohay@forexcrunch.com.

Happy forex trading!