

Thursday 02/07/2009



- Global markets remain unsettled ahead of US payrolls data & ECB meeting
- Euro falls after newspaper report doubting Russia's banking sector
- Optimism over global recovery takes a knock as dollar rallies
- Sterling falls against majors as dollar buying sees cable drop below 1.64
- China renews its call for a new international monetary system

**US Dollar:** The dollar took full advantage of a fall in risk appetite yesterday as it took back losses made earlier in the week against both the euro and pound. There is still no clear direction however as the currency market participants wait for several releases of key US data over the next day or two as the results of the latest European Central Bank policy meeting. Optimism about the global recovery took a knock, not only because of the unexpected decline in the US Conference Board's consumer confidence index but also from the disappointing Tankan survey in Japan earlier Wednesday. The Dow Jones fell by 1.0% and the Nikkei lost 0.2%, pushing the dollar upwards. The buck took nearly a cent off the pound to trade at \$1.6384 and has continued to rally this morning to break down through the \$1.64 level. The dollar also made gains against the euro, which was helped by concerns regarding the Russian banking sector, prompting players to sell the risk sensitive unit—the euro. EUR/USD did break down through the \$1.40 level, but there has been a slight recovery for the euro against the buck this morning to push back up towards the \$1.41 level. Today all eyes will be on the highly anticipated non-farm payrolls numbers with the markets looking for a figure around -360k. **Data 13.30: Change in Non-Farm Payrolls expected -375k from -345k & Unemployment Rate at 9.6% from 9.4%. 15.00: Factory Orders 0.5% from 0.7%.**

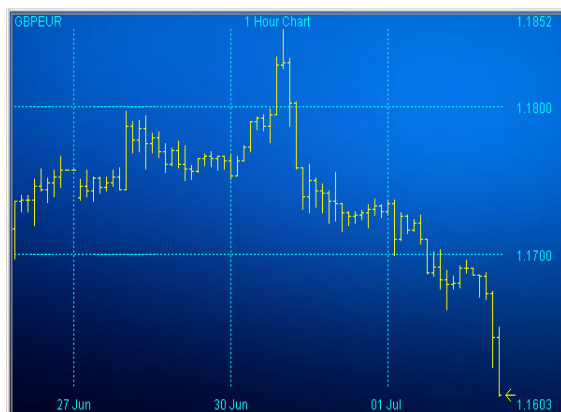
**Pound:** Sterling managed to trade sideways against the dollar yesterday but was hanging on by its fingernails. A swing away from what are perceived as riskier trades saw the dollar take gains over its rivals. The pound took this in its stride, but seems to have let go this morning as cable dropped below the \$1.64 level, a three and a half cent loss since Monday. The fallout from such a dismal GDP number earlier in the week seems to be still hanging over the pound. This story also seems to be affecting the pounds position against the euro, despite a sell off for the single currency after news reports concerning Russian banks. We saw a loss of nearly a cent yesterday and sterling's decline has continued into this morning's trade to hit a week low of 1.1623. This is despite the up and coming meeting with the ECB where it is due to release its decision on interest rates. This usually keeps the markets steady until a result is known, making the dive in the value of the pound even more dramatic. **Data 09.30: PMI Construction.**

**Euro:** The euro was under pressure against the dollar yesterday as risk sentiment evaporated as market participants ran for the cover of the greenback. The single currency also slipped against its major rivals in Asian trade this morning because a newspaper report raising doubts over Russia's banking sector saw players selling the euro. The report worsened players sentiment on the euro, and made Japanese investors sell the currency. Earlier in the day, the UK's Daily Telegraph newspaper reported that Russian banks may need to raise \$60 bn in fresh capital to cover an increasing number of bad loans, citing a Fitch Ratings analyst. The euro did however keep its pressure up on the pound, as sterling still seems to be weighed down after its dismal GDP data earlier in the week. The markets will now focus on the ECB interest rate decision due at 12.45. **Data 10.00: E/Zone Unemployment Rate at 9.3% from 9.2% & E/Zone PPI YoY at -5.7% from -4.6%. 12.45: ECB Rate Decision expected unchanged at 1.0% followed by the ECB Press Conference.**

**General:**

- China renewed its call Thursday for a new international monetary system that would be representative of more currencies, and said it hoped the US dollars exchange rate will be stable because of its role as the main reserve currency.

**Sterling—Euro Chart**



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**Mid-prices**

GBP/USD	1.6351
GBP/EUR	1.1606
EUR/USD	1.4083
GBP/JPY	1578.01
GBP/AUD	2.0386
GBP/NZD	2.5701
GBP/ZAR	12.711
GBP/CHF	1.7631
GBP/CAD	1.8797
GBP/SGD	2.3679
GBP/THB	55.46
GBP/HKD	12.665

Red-down; blue-up (on close)

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