

US economy faltering

Data from the US economy consistently disappointed last week and the figures reveal a slowing recovery in the world's largest economy. Recoveries are faltering all over the world, not least in Japan and the UK, and there are growing concerns over a slowdown in Chinese growth. This sort of global uncertainty is not triggering the traditional dollar safe-haven flows that we have seen in the past. Investors are focusing on the effect that the poor data is having on the US Federal Reserve's interest rate outlook.

Last week's preliminary US GDP figure for the second quarter of this year came in at a disappointing annualised figure of 1.8%. With US inflation subdued, the labour market problematic, and US growth so tentative, the Fed looks highly unlikely to tighten monetary policy this year. This has seen the greenback erase some of the gains made earlier on in May due to eurozone debt concerns.

The monthly US non-farm payrolls are due on Friday, and are expected to show a poorer figure than the past two months. In light of this, the dollar could continue to feel the pressure.

Some progress on the Greek issue

Last week started poorly, with the Spanish government suffering a crushing defeat in regional elections and with rating agencies downgrading the outlooks of Belgium and Italy. However, the euro has gained some support on the back of some encouraging news from Greece. It looks as if a resolution will come by the end of June, and the sounds out of the talks suggest another aid package, and not a debt restructure, will be the route taken.

There are bound to be a few scares ahead as the negotiations continue over coming weeks, so the euro will remain vulnerable to further losses. Eurozone inflation ticked a little lower this morning, but the figure remains above the

ECB's target. We still anticipate that Trichet will indicate a July eurozone rate rise in his monthly press conference on 9th June. This should give the euro a boost. Eurozone growth data showed a slight slow-up last week, but confidence in the German and French economies remains strong. In any event, the market is far more responsive to news and rumours out of the eurozone periphery.

UK economy in focus this week

After a quiet week last week, the UK economy is back under the spotlight this week. The standard set of manufacturing, construction and services sector growth figures are released on consecutive days from Wednesday. For sterling to hang on to the gains it has made of late, it may require some improved economic figures. Sterling's strong performance last week was not based on merit; it had more to do with the UK currency representing a safer alternative to the single currency.

End of week forecast

GBP / EUR	1.15
GBP / USD	1.6675
EUR / USD	1.45
GBP / AUD	1.5150

The euro/US dollar pair is back up trading just under \$1.44, and this has helped sterling make gains up past \$1.64. Sterling/euro scaled heights of €1.16 last week, but has come back down to €1.1450, thanks to some improved sentiment towards the single currency early this week. The US dollar seems likely to remain out of favour this week, but again this is based on the assumption we can avoid a major disappointment from the debt situation.



Sterling / Euro

Current Resistance and Support levels:

1 st resistance:	1.1474
2 nd resistance:	1.1534
1 st support:	1.1428
2 nd support:	1.1363











Sterling / US Dollar

Current Resistance and Support levels:

1 st resistance:	1.6515
2 nd resistance:	1.6545
1 st support:	1.6450
2 nd support:	1.6305

Economic Releases

Date & Time	Currency	Economic Release	Forecast	Previous
Wed 1, 02:30	AUD	GDP q/q	-0.3%	0.7%
Wed 1, 09:30	NZD	Manufacturing PMI	54.3	54.6
Wed 1, 13:15	USD	ADP Non-Farm Employment Change	177K	179K
Wed 1, 15:00	USD	ISM Manufacturing PMI	58.4	60.4
Thurs 2, 02:30	AUD	Retail Sales m/m	0.4%	-0.5%
Thurs 2, 02:30	AUD	Trade Balance	2.13B	1.74B
Thurs 2, 09:30	GBP	Construction PMI	53.8	53.3
Thurs 2, 13:30	USD	Unemployment Claims	427K	424K
Thurs 2, 15:00	USD	Factory Orders m/m	-0.3%	3.4%
Thurs 2, 23:45	NZD	Building Consents	-5.0%	2.2%
Fri 3, 09:30	GBP	Services PMI	54.4	54.3
Fri 3, 13:30	USD	Non-Farm Employment Change	194K	244K
Fri 3, 13:30	USD	Unemployment Rate	9.0%	9.0%
Fri 3, 15:00	USD	ISM Non-Manufacturing PMI	53.7	52.8

Current Interest Rates	
 UK = 0.50%	 AU = 4.75%
 US = 0.25%	 NZ = 2.50%
 EU = 1.25%	 CA = 1.00%
 JP = 0.10%	 CH = 0.25%

Date & Time	Currency	Announcement/Event
Tues 31, 14:00	CAD	BOC Rate Statement
Wed 1, 14:00	EUR	ECB President Trichet Speaks
Wed 1, 15:00	USD	Treasury Secretary Geithner Speaks

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