Our Guides - the **Technical Trader's Guide** and the **Macro Trader's Guide** both deal with these and many other markets in much more detail over multiple time- frames. **Key Trades Bulletins** subscribers receive a detailed report on every trade we enter for our Key Trades Portfolio. More details about all these products: CLICK HERE

Market Update 19th February 2010

The Dollar still looks strong against the Euro.

The Macro Trader's view:

The current Dollar rally began late in 2009 and was driven initially by some strong US economic data. But even when that data turned a little mixed, the Dollar continued to rally.

More recently the rally was driven by a sharp increase of risk aversion caused by the Greek debt crisis, as traders fretted about a Greek Government debt default which, if it occurred, could have spread to other developed economies suffering similar fiscal problems.

But now Greece has moved out of the spotlight after the Greek government received non-financial support from the EU/Euro zone leaders and Greece pledged to enact a fiscal austerity package aimed at sharply reducing the budget deficit. Yet the Dollar remains well bid. What other factors are now in play that offer such solid support?

The US and Euro zone economies have both recently published Q4 GDP data. The US showed growth on an annualized basis of 5.7%, much stronger than expected and clear evidence that recovery is under way.

But the Euro zone reported Q4 GDP of 0.1%q/q and -1.9%y/y. Even if the Euro zone number is annualized to make a better comparison with the US, the growth rate is only 0.4%. Clearly the US economy is doing very much better than the Euro zone. But not only that, the Euro zone economy has lost momentum and growth there has cooled off.

More worryingly still, the German economy, which remains the largest of the Euro zone and has been a motor for recent growth, was even weaker than the Euro zone 4th Quarter average at 0.0q/q.

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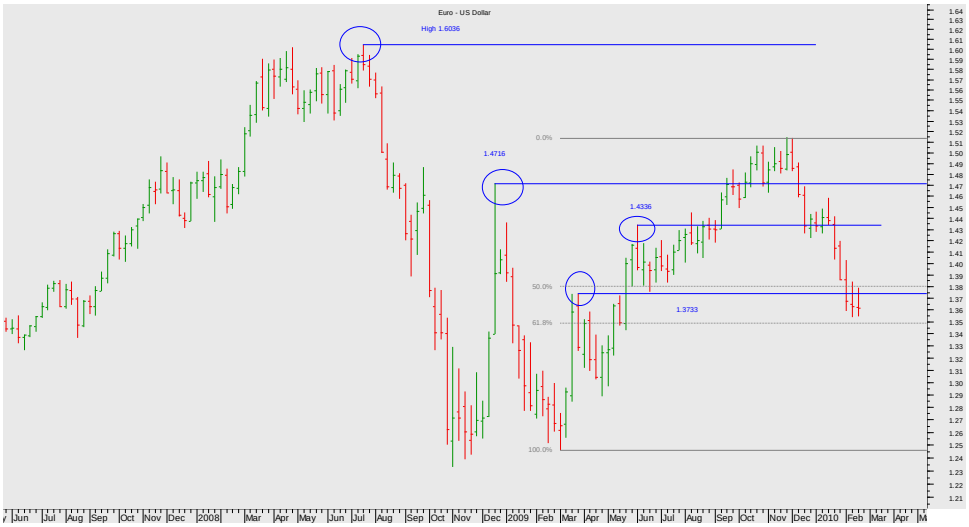
So the Dollar is benefitting from the US economy's clear out-performance of the Euro zone.

Moreover, the news this week that China has sold a large tranche of US Treasury bonds has failed to dent the Dollar's strength. Previously the Dollar had looked vulnerable to threats from China and others if they sought to diversify their foreign currency reserves away from the Dollar.

Another source of support is the Fed. Bernanke recently spelt out how the Fed would begin removing the extraordinary monetary policy stimulus put in place to avert a financial market meltdown. Of course he re-iterated the commitment to maintaining low official interest rates but traders see the Feds actions as starting to normalise monetary policy. This is a sure sign of recovery and that gives additional confidence in the US Currency.

So for now the Euro looks like emerging as the weaker of the two major global currencies as the Dollar claws back some of the losses it has sustained over the multi year period of weakness.

The Technical Trader's view:



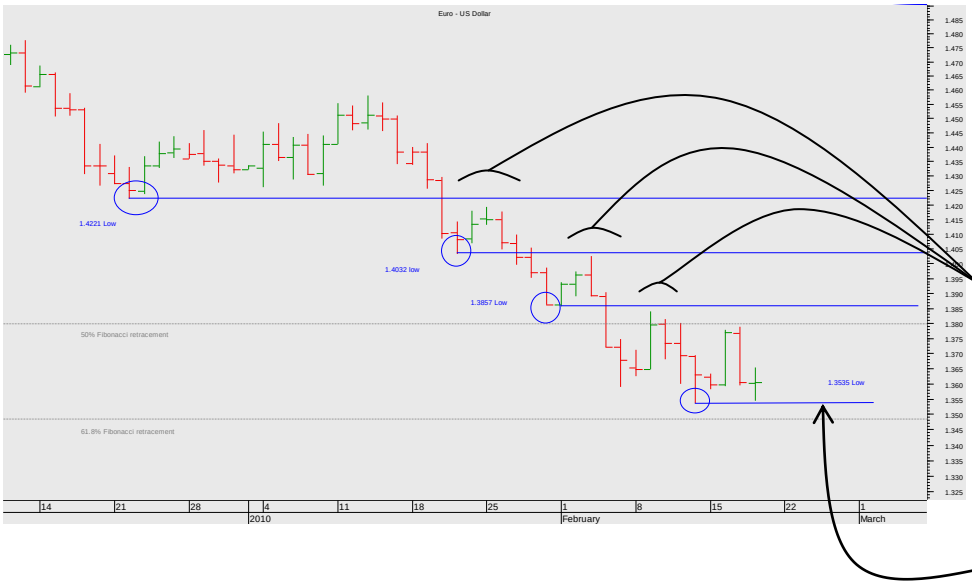
WEEKLY CHART

The two massive supports for the market – from the Prior Highs at 1.4336 and 1.3733 have been breached.

And with the latter, the 50% Fibonacci support at 1.38 has been smashed at the same time.

That looks poor.

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DAILY CHART

Bears will rejoice at the solidity of the bear trend over the last few weeks.

Note well how prior lows have been good resistance- where successive rallies have petered out.

The consolidation of the last two weeks looks set to break to the downside – watch for a break of 1.3535.

Continuing the bear trend.

Mark Sturdy

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