

**Interest Rate & FX
Strategy**

Daily Currency Briefing

Still no support for the dollar in sight

- **Strong NZ retail sales in Jan keep rate hike speculation alive**
- **Jap Eco Min Ota: consumption picking up but wage growth slow**

The EUR view: The German ZEW index, which is expected to continue its upward trend in March from historically low levels according to our Economics team, may be tarnished by recent stock market jitters. A negative surprise can't be excluded, but we expect limited impact on the euro as long as the figure doesn't see a dramatic fall. Against a backdrop of robust income growth, the long awaited downturn in US consumer spending has still not arrived, although at first glance US retail sales seem to suggest it has. Since retail sales are reported at current prices, the fall in energy prices at the end of 2006 gives a distorted impression. The yoy growth rate of real consumer spending was +3.5% in January. Largely unchanged auto sales and gasoline prices suggest that there was little change in Feb, though. Since retail sales rose little more than prices in Feb, today's figure won't support the dollar much. Moreover, even if consumer spending remains pretty robust in Q1, it will slow down notably from Q2 on. Overall, not much news to generate a shift in current sentiment today, which is dollar negative due to recent mixed US data. The 1.3060-1.3260 range is likely to prevail, with risks skewed to the downside for the USD.

JPY: As recent IMM data shows, JPY short positions have almost been cut by half as of March 6. Since the lows in EUR/JPY at 150.75 last week, though, the JPY has lost ground again, which suggests that market confidence is slowly rising again. However, markets remain nervous and investors are cautious in selling CHF and JPY again. Further gains in EUR/JPY are likely to be slow and the risks to see temporary reversals remains. In the short-term, 155.75-156.00 proves good resistance in EUR/JPY, but another attempt towards 158-159 should be on the cards in the next weeks.

Currencies		Percent
EUR/USD	1.3166	0.36
EUR/CHF	1.6124	-0.40
EUR/GBP	0.6828	0.72
EUR/JPY	154.45	-0.53
USD-Index	83.91	-0.37

10-year yields		Basis points
USA	4.54	-3.9
Euroland	3.92	-3.9
UK	4.81	-0.8
Japan	1.61	-1.1

Stock markets		Points
DOW	12318.62	42.30
EuSTOXX50	4066.78	-24.89
FTSE 100	6233.30	-11.90
Nikkei	17178.84	-113.55

Commodities		Dollar
Crude oil, Brent in \$	60.42	0.52
Gold, ounce in \$	650.80	-1.30

Event risk calendar

14 March	US Q4 current account
15 March	US tic data
15 March	SNB rate decision
19/20 March	BoJ rate decision
21 March	FOMC rate decision
30 March	US PCE core index
2 Apr	US ISM index

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Today's events

Major Markets		Period	Market	CBCM	Previous	Impact
10:30 UK	Trade balance	Jan, in bn. £	-7.0	-6.6	-7.1	Neutral
11:00 GER	ZEW indicator	March	3.2	5.0	2.9	Positive
11:00 EUR	Industrial production	Jan, yoy	4.1%	4.5%	4.0%	Positive
13:30 USA	Retail sales	Feb, mom	0.3%	0.2%	0.0%	Positive
13:30 USA	Retail sales ex autos	Feb, mom	0.3%	0.2%	0.3%	Neutral
15:00 USA	Wholesale inventories	Jan, mom	0.1%	0.1%	0.0%	Neutral

CAN: BoC Governor Dodge speaks (13:00)

USA: US Sec of Treasury Paulson hosts conference on capital markets (13:00)

Local Markets		Period	Market	CBCM	Previous	Impact
09:00 SVK	Core inflation	Feb, yoy	2.5%		2.7%	Positive
09:00 SVK	Consumer prices	Feb, yoy	2.7%		3.0%	Positive
09:00 HUN	Consumer prices	Feb, yoy	8.7%		7.8%	Positive
09:00 CZK	Industrial output	Jan, yoy	6.0%		3.0%	Positive
12:00 ZAR	Manufacturing production	Jan, yoy	6.4%		5.0%	Positive

Local Markets Speculation continues about the possible end to the forint's exchange rate band (+/-15% around the central parity of EUR/HUF 282.36). At present EUR/HUF is traded at 249, i.e. approx. 3% from the bottom intervention level. Robust inflation data might lead to a further appreciation of the HUF today thus further fuelling such speculation. The purpose of the existing exchange rate band, in place since 2001, has come under scrutiny. On the one hand the euro accession is still far away. Moreover the central parity of EUR/HUF 282.36 now seems too high. The abolition of the band at this point in time could cause a further unintentional appreciation of the forint and we therefore consider it more likely that this step will be taken at a later stage.