

# FXDD this Week: Week of May 26<sup>th</sup> to May 30<sup>th</sup>

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This week the economic data starts to heat up again.

The US has another key housing statistic when New Home Sales are announced on Tuesday. Durable Goods will be released on Wednesday and the 2<sup>nd</sup> release of the US GDP for the 1<sup>st</sup> quarter will be announced on Thursday.

The Eurozone economic releases will be highlighted by the CPI and Unemployment on Friday.

The UK will have the Nationwide House Price index which is scheduled to be announced on Wednesday.

Japan has Retail Sales on Wednesday and CPI on Thursday.

Finally, the commodity currencies are highlighted by New Zealand Trade Balance on Sunday night and Building Consents on Thursday. Canada will announce 1<sup>st</sup> quarter GDP on Friday.

In addition to the key economic releases, the following key speakers and events will take place

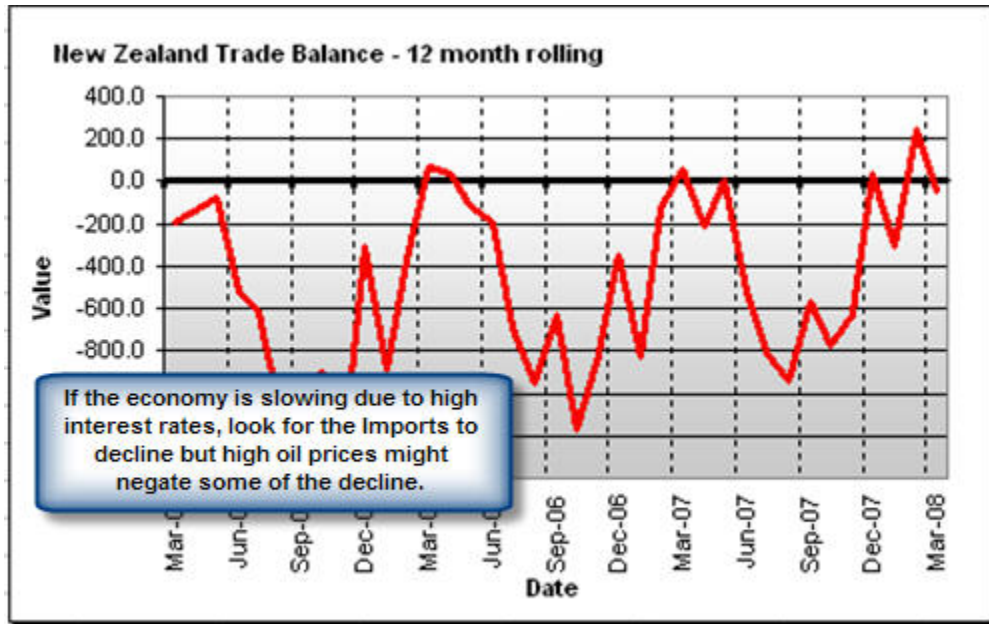
- Monday-Tuesday: Tentative: Germany Flash CPI for May
- Tuesday at 8:15 AM, Fed's Kroszner speaks.
- Tuesday at 11:50 AM, Fed's Yellen speaks
- Tuesday at 11:45 PM NZ Finance Minister Cullen speak on economy
- Wednesday at 3:30 AM EU Alumina Speaks
- Wednesday at 12:50 PM, Fed's Stern speaks on the economy
- Wednesday at 9:00 PM Fed's Fisher speaks on Inflation/Debt

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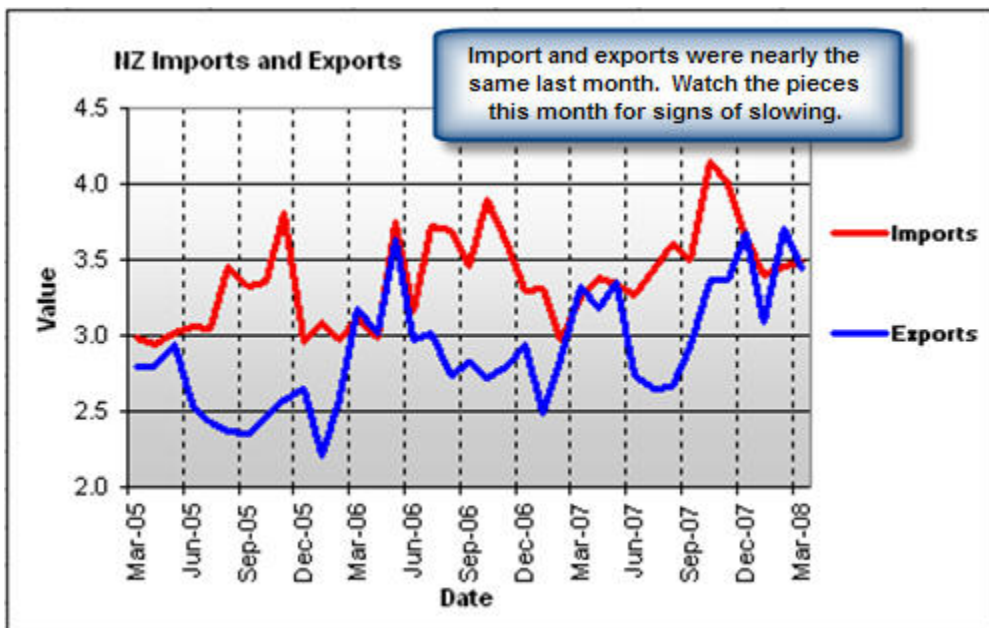
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Sunday, 6:45 PM EDT: New Zealand Trade Balance, Expectation



The New Zealand Trade Balance will be released on Sunday evening at 6:45 PM EDT. Last month the trade balance headed back into deficit as export growth stalled. Exports make up 30% of the New Zealand of the economy. The country has been suffering through a drought which has had an impact on the dairy and livestock available for exports



The exports were reported at 3.44 billion last month down from 3.70 billion in February. On the

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import side imports rose to 3.49 billion from 3.46 billion. The trade balance went into deficit at -50 million.

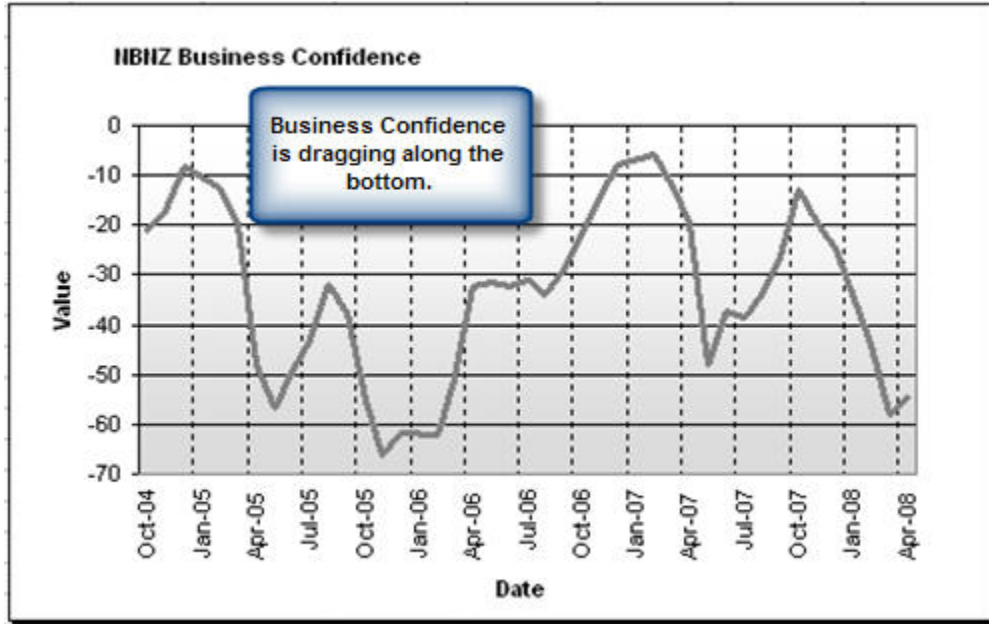
This month the expectation is for the deficit to get larger going to -150 million. A larger trade deficit is a drain on a country's GDP.

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Monday, 11:00 PM EDT: New Zealand Business Confidence, Last -54.8



The **New Zealand Business Confidence** for the month of May is scheduled to be released on Wednesday at 11:00 AM EDT. Last month the measure rose to -54.8 from -57.9, the lowest reading in 17 years. Confidence increased in retailing construction and services but fell in manufacturing and agriculture.

The record high interest rates of 8.25%, high inflation and slowing housing market is making consumers hesitant to spend and makes business reluctant to spend or hire. In addition, the drought which has plagued the region is slowing export growth. The country's trade balance will be released on Sunday evening and will give a clue as to the direction of trade.

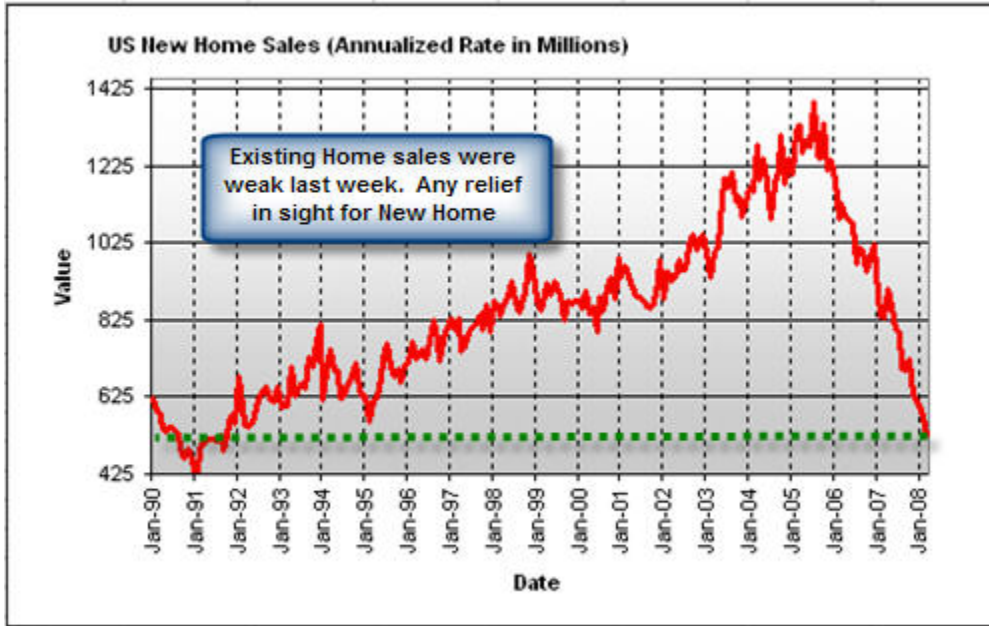
A weaker reading should pressure the New Zealand dollar.

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Tuesday, 10:00 AM United States New Home Sales, Expectation 520,000 Annualized Units versus 526,000 Units last month. Last month's Supply 11.0 months.

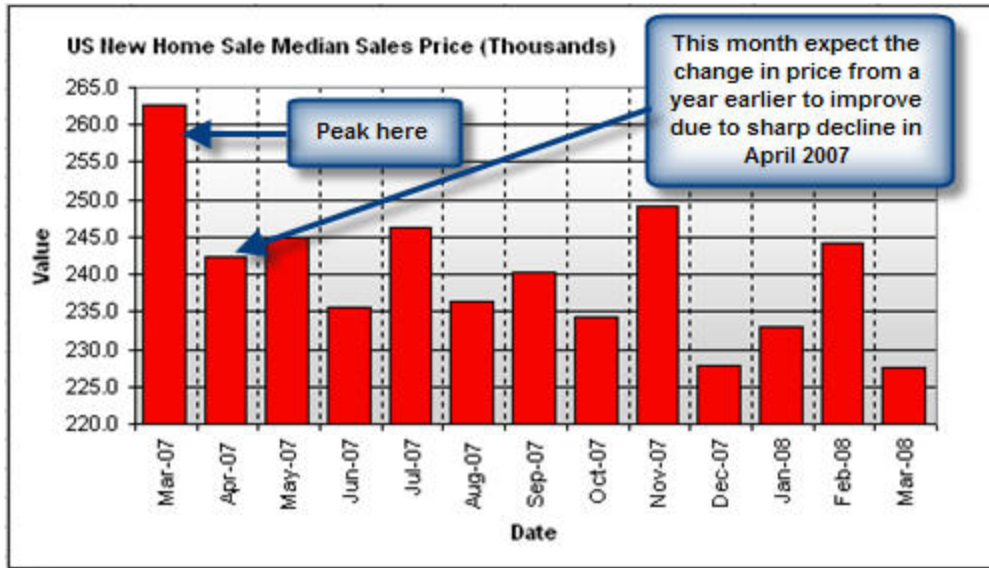


On Tuesday at 8:30 AM EDT the **United States New Home Sales** report for the month of April will be released. This is the second of the two major measures of the state of the US real estate market. New Home sales represent 15 to 20 % of the market with Existing Home sales representing the balance. Existing Home Sales on Friday showed a decline to 4.89 million units from 4.94 million units the previous month. In addition, the month supply of homes on the market rose to an 11.2 months supply as more houses came on the market than were sold.

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The New Home Sales data last month came in at an annualized 526 million units. This was the lowest level since October 1991. Meanwhile, prices have declined by 13.3% from a year earlier with the median price falling to \$227,600. The peak of prices was a year ago when it reached \$262,600. Expect the change from a year earlier to show improvement this month due to the sharp fall in prices a year ago.

On the supply side, the number of New Homes on the market increased to 11 months, the highest since 1981. Until that time that the supply is absorbed, the prices of homes will continue to decline.

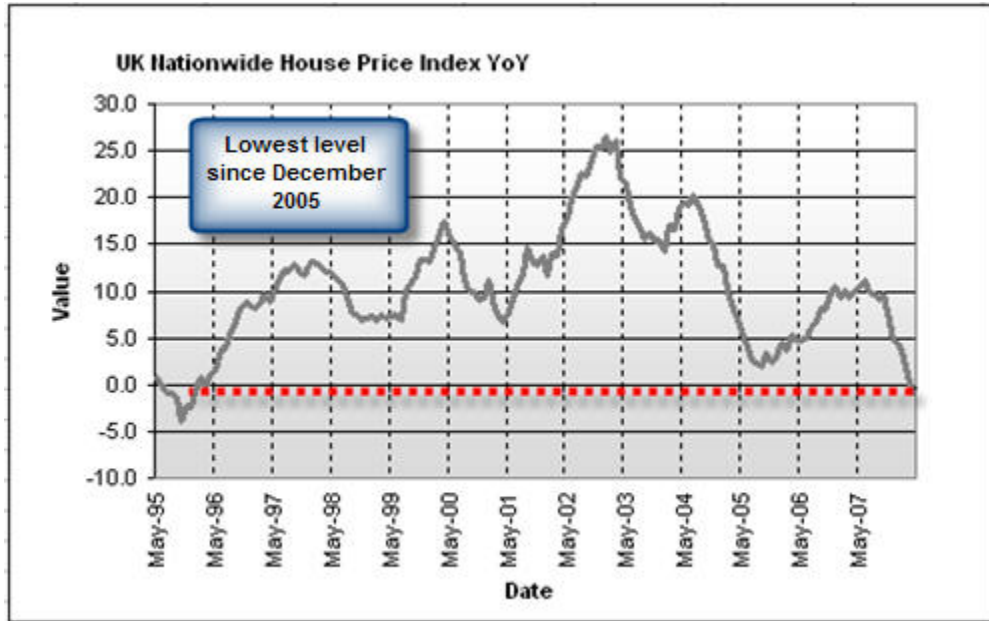
For this month the expectation is for the numbers to show another decline to 520,000 units. This would represent a decline of 1.1%.

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**Wednesday, 2:00 AM EDT, UK Nationwide House Prices, Expectation -0.5% versus -1.1% last month. Year on Year -2.1% from -1.0%**



On Wednesday at 2:00 AM EDT, **Nationwide** Building Society, the UK's fourth largest mortgage lender, will announce the **House Price index** for the month of May. Last month the home prices showed a decline of 1.0% from a year earlier with the average sale price dropping to 178,555 pounds. Mortgage lenders approved the fewest new loans in 9 years as they tightened credit standards to avoid further losses on their loan portfolios due to the weak housing economy. This has helped worsen the decline.

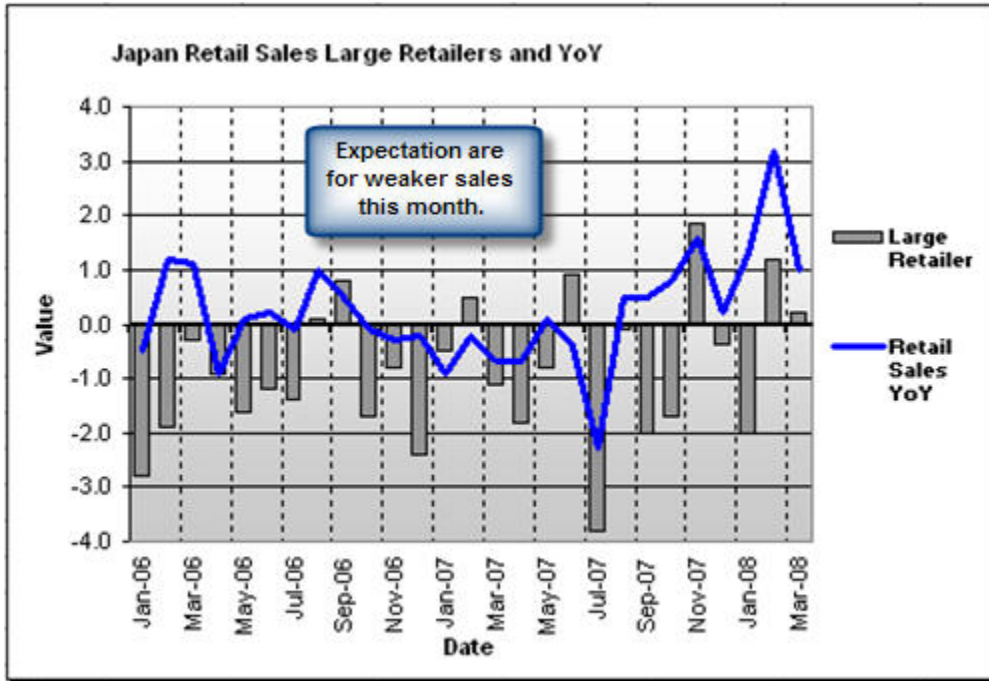
The expectation this month is for the prices to show a slight improvement to -0.5%. However, the risk would probably be toward a weaker number. Nevertheless, the pound should remain supported on the back of the higher expectation for Year on Year inflation. The upper band of the Bank of England inflation target is 3.0% which is exactly where the rate is currently. With energy prices continuing to rise dramatically, the risk is to the upside. As a result, the focus of monetary policy would turn toward controlling inflation rather than growth.

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Wednesday, 7:50 PM EDT, Japan Retail Sales, Expectation +0.6% versus +1.0% YoY. The Large Retailers Sales Expectation: -1.2% versus +0.2%



**Japan's Retail Sales** for the month of April will be released on Wednesday at 7:50 PM EDT. Last month total retail sales increased by 1.0% from a year earlier. The sales have been positive for 8 months in succession. However the main driver for the increase has been higher energy and food prices and as a result the increase does not necessarily reflect a stronger consumer. A measure of the Largest Japanese Retailers showed that sales were up 0.2% from a year ago, with department store sales down -1.2% while the sales at Supermarkets up 1.2% reflecting the higher cost of food.

This month the expectation is for the headline retail sales to show a Year on Year easing to plus 0.6%. This would be the slowest pace since December 2007 and the third straight decline. The Large Retailer Sales are expected to fall 1.2% when compared to last year.

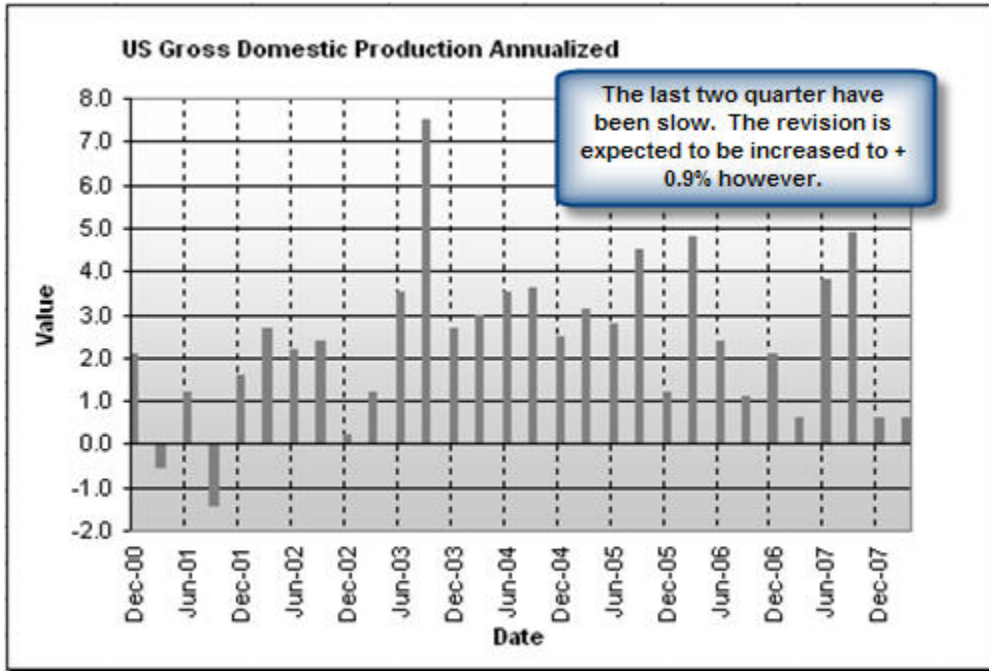
Weakness in the economy should lead to a lower Yen. A lower yen would may Japan exports more competitive abroad and help boast the economy. However, it could also be inflationary as it raises the cost of imports. Since Japan is reliant on foreign oil purchases, this would likely lead to higher inflation.

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Thursday 8:30 AM EDT: United States GDP 1<sup>st</sup> Quarter, Expectation 0.9% up from previous estimate of 0.6%, Core PCE expected to be +2.2%. Consumption, +1.0%.

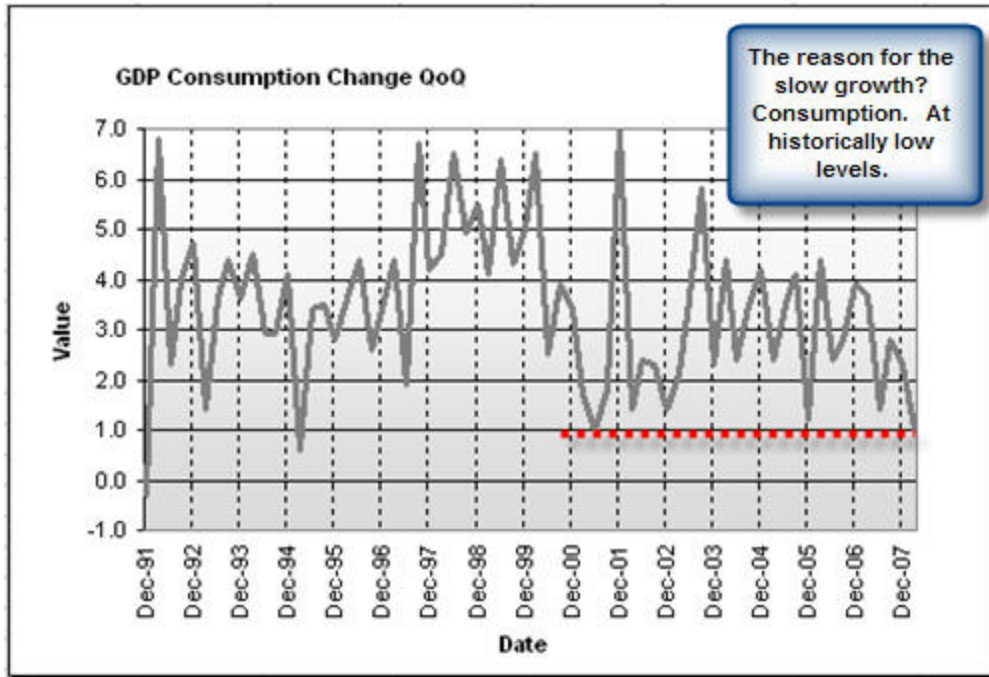


On Thursday at 8:30 AM EDT, the **United States estimate for GDP** for the 1<sup>st</sup> quarter will be revised. The initial estimate released on April 30<sup>th</sup> showed that GDP grew by a slow 0.6%. This was equal to the 4<sup>th</sup> quarter growth. The initial estimate was boosted by increases in inventories. Ex Inventories the number would have been negative. Slowing consumption is a main contributor to the slow growth. Consumption, which represents around 2/3rds of GDP rose by 1.0% for the quarter which was the slowest pace since the second quarter of 2001 when the US was heading into the last recession.

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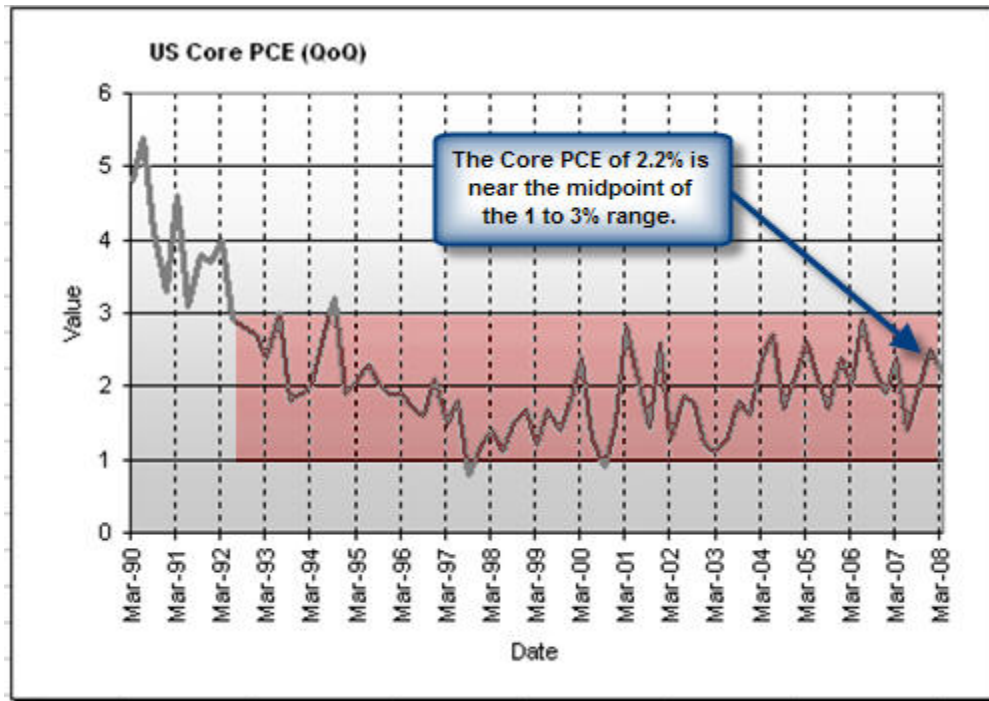
The revision is expected to show improvement to 0.9%. Improved trade should be the main contributor to the growth.

In addition to the growth measures, the GDP Price Index will be released and is expected to show a gain of 2.6%.

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Finally, the core PCE which is the Federal Open Market Committee’s preferred inflation gauge is expected to show a gain of 2.2%. The Core PCE strips out food and energy inflation. Both the GDP Price Index and the Core PCE measures are expected to be unchanged from the initial estimate.

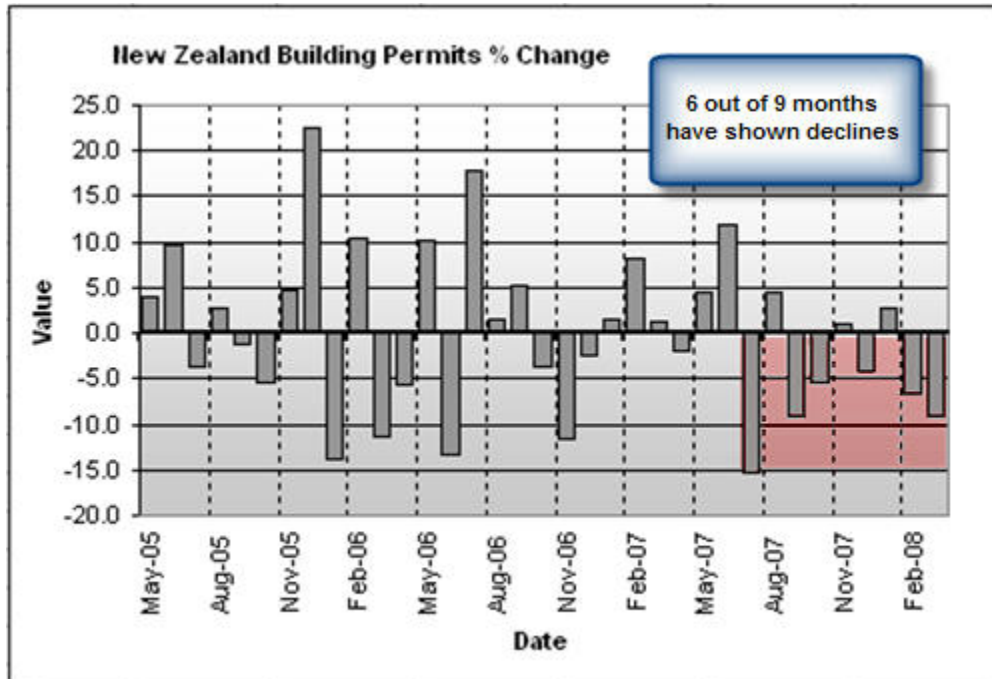
Traders and analysts will be looking at the components of the report for clues as to the future growth potential and inflation.

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Thursday 6:45 PM EDT: New Zealand Building Consents, Last -9.1%, 6 of 9 months have shown declines.



On Thursday at 6:45 PM EDT, the **New Zealand Building Permits** data for the month of April will be released. Last month the number continued to reflect the slowing housing market which is reacting to the higher interest rates. The hope is the slowing housing market, will likewise slow inflation and allow the Reserve Bank of New Zealand to lower interest rates. Last month the number of permits declined by 9.1% from -6.6% in the previous month. This was the 6<sup>th</sup> decline in the last 9 months. Compared to a year earlier permits are down 31 percent.

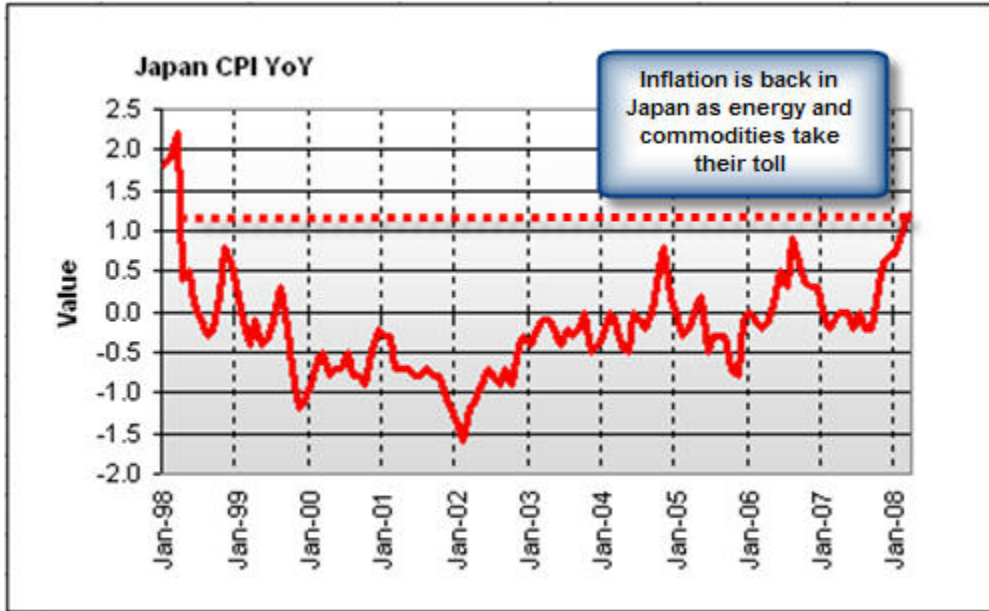
The market will be looking to see if the housing remains pressured. Last week the Finance Minister announced tax rate cuts which are intended to boost the economy.

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## Thursday 7:30 PM EDT: Japan CPI, Expectation

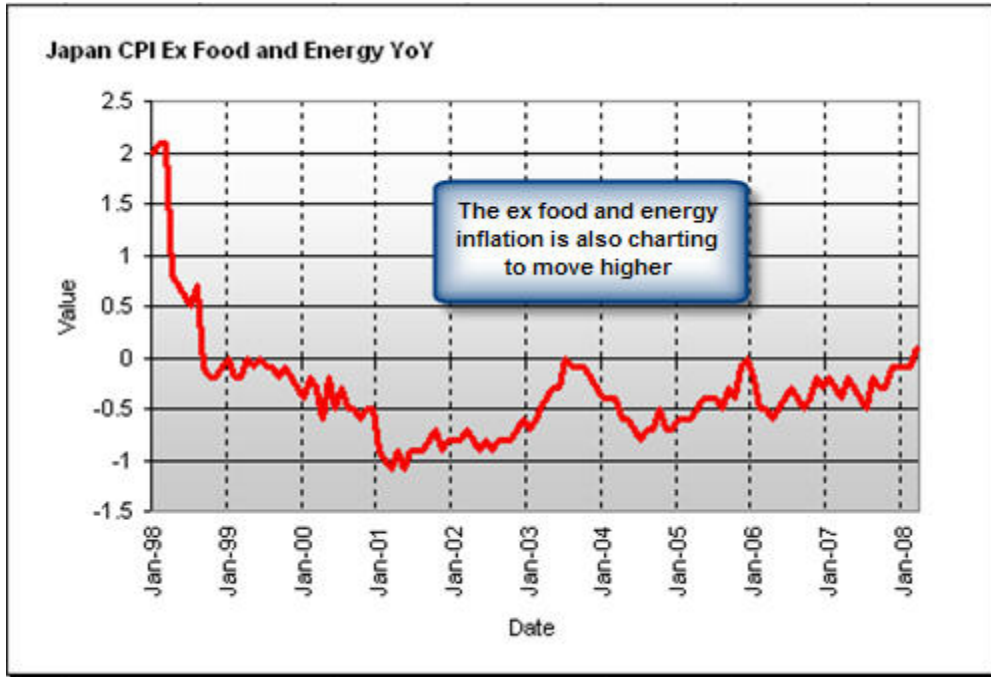


On Thursday at 7:30 PM EDT, the Japan CPI will be released. Last month, consumer prices on a Year on Year basis, increased to +1.2% on the back of higher food and energy prices. The headline inflation is the highest level since March of 1998. The higher inflation is threatening Japan's economic growth as consumers incomes are not keeping up with the higher prices.

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The Core inflation rate which takes out the Food and Energy came in at 0.1% on a year on year comparison last month. Although low, it still represents the highest level since August of 1998.

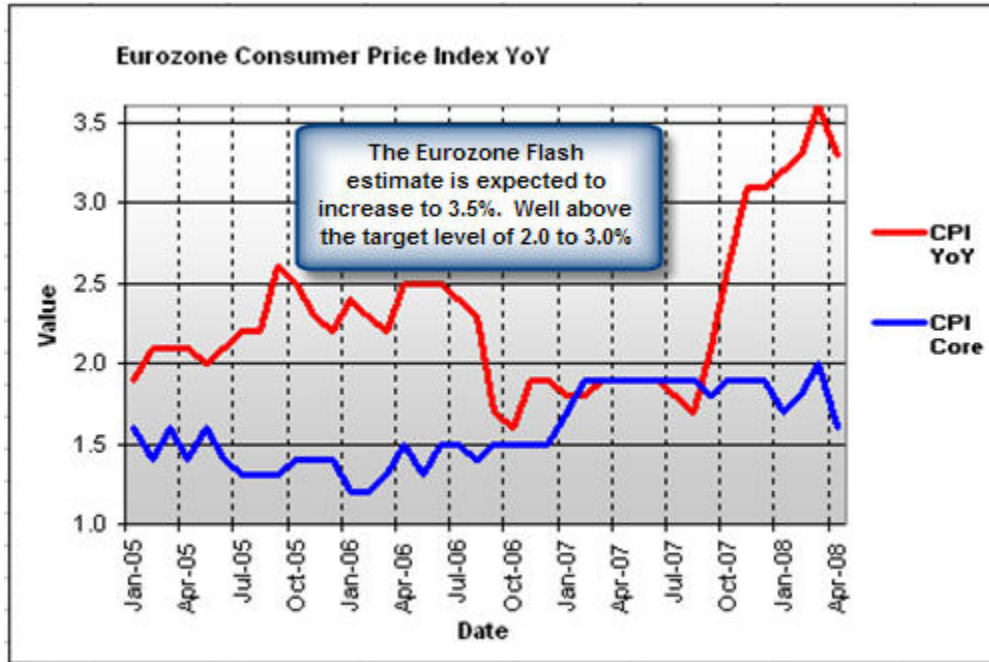
This month the expectation is for the headline inflation to slow to +0.9% and the core measure to also slip slightly to 0.0%.

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Friday 5:00 AM EDT: EUROZONE CPI Flash Estimate, Expectation



The **Eurozone CPI Flash** estimate for the month of May will be released at 5:00 AM on Friday. Although a preliminary estimate, it tends to accurately reflect the actual value for the month.

The Eurozone key inflation measure is targeted at 2-3% by the ECB. The current rate dipped to 3.3% last month which was below the expectations. However, this month the momentum to the upside is expected to continue as higher energy and food costs have squeezed producer profits and forced the passing on of some of the costs to consumers.

The expectation this month is for the CPI to increase to 3.5%.

Looking ahead, future year on year inflation is dependent on the current change in the inflation rate compared to the change a year ago. In May for instance, the current increase will replace the value from a year ago. Last May, prices increased by 0.2%. A value this month greater than 0.2% would likely increase the year on year inflation rate. With energy and food continuing to show strong gains, a month on month increase of 0.2% is becoming more difficult to beat. Hence, the expectation for a higher year on year inflation rate.

Over the next successive three months the comparisons to a year ago look even more difficult. In June, July and August of 2007, the monthly changes in inflation were +0.1%, -0.2% and +0.1%.

It is this backdrop that the ECB is looking at and which keeps them cautious on the inflation outlook. Unless, the inflation pressures lessen, and energy and commodities reverse, the expectation would more likely lead to 4% headline inflation in the near term versus a reading in the 2% region.

Trading foreign exchange is risky and should only be done with risk capital that will not change your lifestyle. FXDD does not guarantee any recommendation made within its commentary. Traders should make market assessments and take trading positions based on their own personal market analysis, risk tolerance and financial condition. In addition, care should be made to only use leverage which is congruent with your personal risk tolerance. Although care was taken in creating this report, FXDD does not guarantee the accuracy of the information

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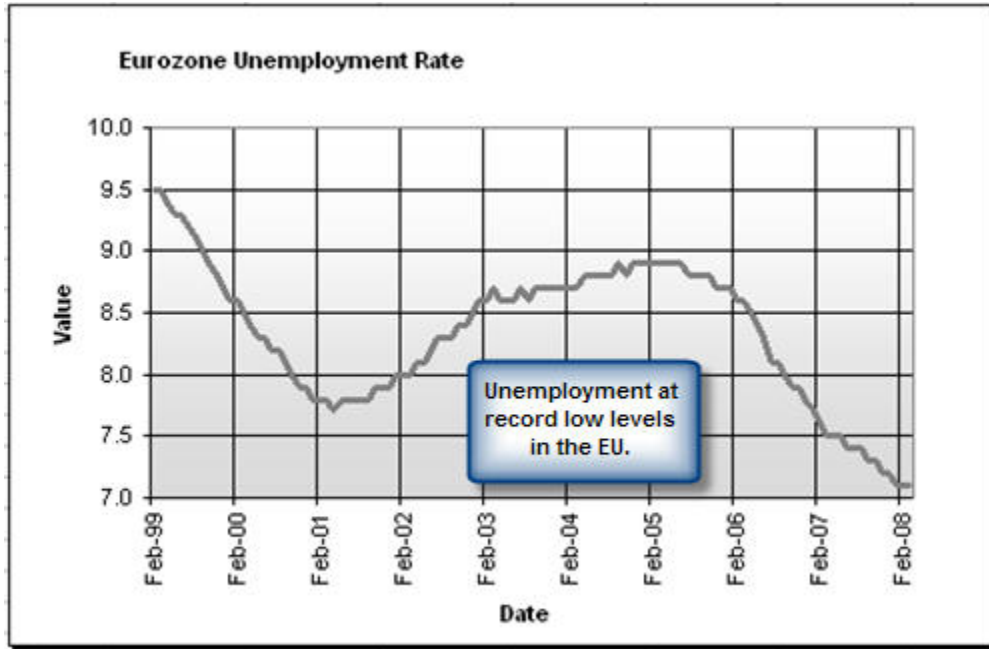
Note that from May 26<sup>th</sup> to May 28<sup>th</sup> the German inflation figures will be released for the German states. This will give an indication of the Eurozone inflation rate.

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Friday, 5:00 AM EDT, Eurozone Unemployment, Expectation:



At 5:00 AM EDT, the **Eurozone Unemployment rate** for the month of April will be released. Last month the rate remained at the all time low level of 7.1%. This is down sharply from the recent high of 8.9% which occurred in June of 2005. A strong export market is cited for the growth in employment and decline in the unemployment rate.

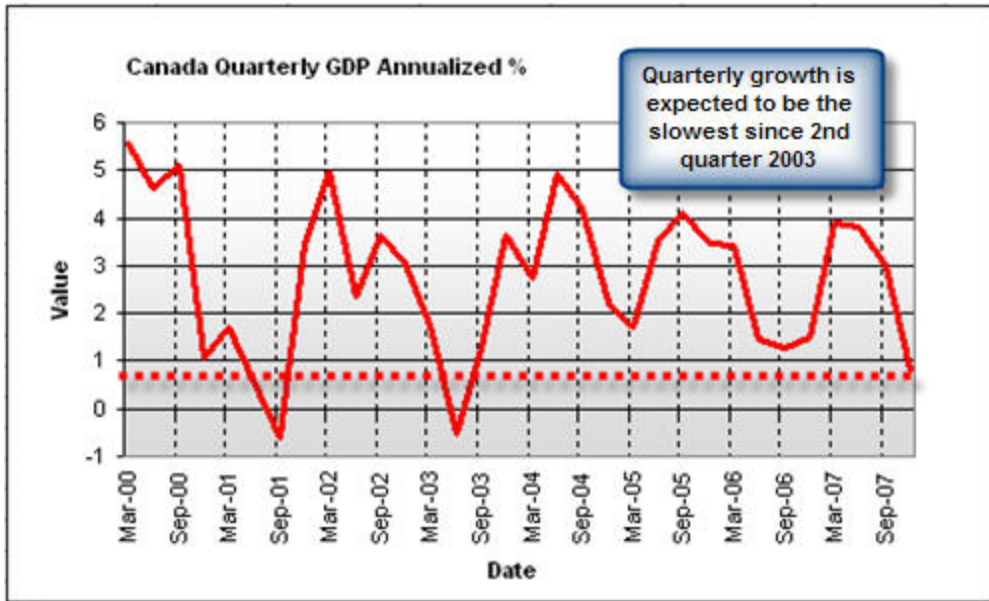
This month the expectation is for the rate to remain at 7.1%. The relatively low rate has the ECB worried about wage inflation – especially from the unionized workers who would want wages to keep pace with inflation. Such inflation is what the ECB is trying to steer away from.

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Friday, 8:30 AM EDT, Canada GDP for the 1<sup>st</sup> quarter, Expectation:



Also on Friday, the **Canada GDP** figures for the 1<sup>st</sup> quarter will be released at 8:30 AM EDT. In the 4<sup>th</sup> quarter, GDP grew by a small 0.8%. This represented the lowest level since the 3<sup>rd</sup> quarter of 2003. Since that time, the monthly estimates for GDP have been mixed with January increasing by 0.6% while February decreasing by 0.2%.

For the third and final month for the quarter, the GDP is expected to be unchanged from February. This should translate into another slow quarterly growth rate of 0.4% - the lowest since the 2<sup>nd</sup> quarter of 2003.

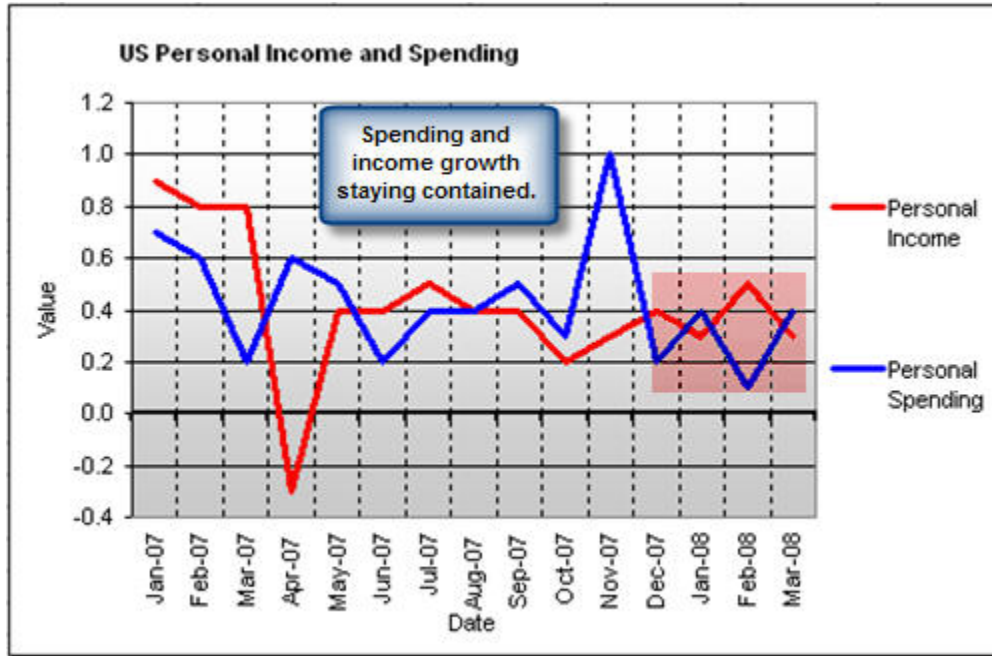
The Bank of Canada has cut its base rate from 4.5% in November to 3% currently in an attempt to stimulate the economy. The expectations are for another cut at its next policy meeting on June 10<sup>th</sup>. Some think that the pace and magnitude of the cuts, however, will slow as a result of higher inflation. Last week, the CPI increased by a higher than expected rise of 0.8 month on month. However, retail sales slowed. The mixed economy may keep focus on oil and the currency. Lately, the Canadian dollar has been supported by stronger oil. Canada is an exporter of oil and higher prices benefit their oil economy.

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8:30 AM EDT, US Personal Income and Spending, Expectation: Spending +0.2% versus +0.4% and Income +0.2% versus +0.3%.



The final key statistic will come out of the United States on Friday when the monthly **Personal Spending and Income** figures for the month of April are released.

Income growth is important as it supports spending and can also be an indication of wage inflation. The Spending measure is likewise important as the US consumer accounts for over 2/3rds of US GDP. Slow consumer spending equals slow GDP.

Last month spending rose by 0.4%, while income rose by 0.3%. When spending increases by more than wages the consumer must either spend on credit or from savings. Although last month showed higher spending, the trend lately has been for slower consumer spending, suggesting a more cautious consumer in the face of the housing and credit fallout.

This month the expectation is for an increase of 0.2% in **Personal Income**, and another slow increase of 0.2% for **Personal Spending**.

The United States seems to be at another crossroad as the underlying economy remains weak due to the continued housing slowdown. However, the effects of the stimulus package have not been fully felt. Nevertheless, the current expectations are for the Fed to remain on the sidelines as fears of inflation start to threaten price stability. Weaker data coupled with rising inflation would not be a positive scenario for the United States economy, nor the dollar.

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- Greg Michalowski, Chief Foreign Exchange Analyst