

EUR Drivers	Talking Points	FX View	Volatility
All await ECB tomorrow	Although the 3m EURIBOR-OIS spread continues to trade around 92bp there is a narrowing bias is reflected on the daily chart and with the OIS rate no longer holding the ability to drop significantly further, the narrowing of the spread might very well accelerate,	EUR failed to hold onto early gains in the Asian session despite positive news out of Fitch that it is not expecting to cut France's AAA rating. This goes to show the level of short commitment on the pair and going against the trend may not prove wise at present given the risk/reward dynamics.	There is still a risk of a short squeeze which cannot be ruled out. Keep long vol positions tight with a risk of a EUR pull back evident.
AUD Drivers	Talking Points	FX View	Volatility
Job vacancies for Nov Risk off trading	Reuters reporting that a tropical cyclone bearing down on west Australia forced the closure of some of the world's largest iron ore ports and several offshore oil fields on Wednesday, the first major series of shutdowns in what is forecast to be a tempestuous summer.	The USD has taken back a bit from a number of currencies and the AUD is one of them. We are currently slightly weaker against the greenback this morning with the pair trading just below the 1.0300 mark. AUD will watch the EUR closely and further downside is favoured given the likelihood of players adding to short EUR-USD positions at current levels.	Front month vol at 12.4% after moving within a whisker of the 12% mark yesterday. The uptick corresponds with the weakness in spot AUD. View is that we should trade in a 12-12.8% range for the session on the 1m. Risk reversals on the same tenor marginally down at 1.6 this morning.
CAD Drivers	Talking Points	FX View	Volatility
Commodity prices and USD risk/reward profile to be watched.	WSL reporting Canada's Conservative government is contemplating a more aggressive budget-cutting campaign than previously indicated, as it drives to reduce the country's deficit. Deeper cuts, and at a faster pace, are now likely in this year's budget, due to be released by the government in late Feb or March,	Some heavy losses have been seen of late but it is possible that this pullback is a bull flag given the gains in early trade this morning. Use a break below 1.0149 as confirmation of the losses to target 1.0072. A break above 1.0196 will confirm that the flag is evolving - then target 1.0240	Vol continues to come off across the curve but we could well expect some buying around current levels should the CAD open weaker at the London open. We could see the pricing action track that of the AUD which has already come off in the Asian session
CHF Drivers	Talking Points	FX View	Volatility
Nothing out data wise	BBG Reporting. Swiss stocks climbed for the first time in four days as a meeting of Germany's chancellor with the International Monetary Fund boosted optimism that policy makers are taking steps to solve the euro-region debt crisis.	The bias on the stochastic is down but trade so far today has generated a bullish engulfing candle formation A break above .9531 can be used to confirm the early gains - then target .9594. A break below .9501 will confirm the bias - target .9461	Favour consolidation as players assess the movements in spot, mixed curve movements, however risk reversals have come off.
JPY Drivers	Talking Points	FX View	Volatility
Safe haven trading,	Traders have noted that investors continue to favour the JGB market as a safe haven for new cash despite the 10yr JGB auction scheduled for tomorrow. The 10yr JGB yield has edged lower back toward year lows seen in Nov, currently at 0.979%.	Slight uptick against the greenback this morning, but by in large the JPY continues to hold its own against the USD which will be worrying from an intervention point of view, Highs around 78 are just not sustained and this could prompt another round of action from the BoJ	USD-JPY reversals are trading close to neutral after years of being biased toward USD puts and JPY calls across the curve which may spur more fears of intervention given the fact that we are seeing levels last approached in 2003/04 on R/R.
GBP Drivers	Talking Points	FX View	Volatility
Trade figures due out today, No auctions for today	BBG Reporting that U.K. shop-price inflation slowed in December to the lowest in 16 months as retailers discounted electrical goods and clothes to lure holiday shoppers, the British Retail Consortium said.	Mixed view this morning, A break above 1.5490 will confirm the buy signal in which event 1.5559 can be targeted. A break below 1.5445 will confirm that the flag is evolving - then target 1.5374	Expect some consolidation at the start of the session post the pull-back seen in both vol and risk reversal over the past session.

USD Drivers	Talking Points
10yr bond auction to be closely watched	The US Treasury drew record demand at its \$32 billion 3yr note auction last night . The auction's bid-to-cover ratio came in at 3.73, the highest since at least 1993. The bond priced at 0.37%, yields flat on the day. The bulk of demand came from dealers who took 56.1% of the offer, while indirectly accounted for 38%. Direct bidders came in at a 2-year low of 5.3%

International developments worth watching

- *Company/sector related news drives EU stocks higher, not significant rise in risk sentiment; Asia stocks thus mixed o/n*
- *US 3yr Treasury draws record demand at auction, US forcing itself ever closer to debt ceiling again*
- *Debt accumulation combined with stronger US growth, rising inflation risks to pressure Treasuries through 2012*
- *EUR-USD fails to hold break above 1.2800, next move seen to the downside; risk/carry trade keeps AUD, NZD buoyant*
- *Corporate credit risk continues to gradually decline; funds flow to EMs on record start in issuance this year*
- *Oil prices range-bound given opposing impact from Iran risks, Europe worries; bias stronger to the upside*

Spot Technical Analysis

Resistance	USD-CHF	USD-JPY	EUR-USD	GBP-USD	USD-CAD	AUD-USD
R4	0.9628	77.41	1.2861	1.5595	1.0268	1.0363
R3	0.9594	77.32	1.2818	1.5559	1.0240	1.0353
R2	0.9531	77.23	1.2778	1.5527	1.0220	1.0329
R1	0.9522	76.94	1.2761	1.5490	1.0196	1.0294
Level at the time of techs	0.9515	76.89	1.2741	1.5458	1.0177	1.0272
Support	Levels	Levels	Levels	Levels	Levels	Levels
S1	0.9501	76.78	1.2727	1.5445	1.0169	1.0263
S2	0.9482	76.73	1.2664	1.5394	1.0149	1.0224
S3	0.9461	76.65	1.2642	1.5374	1.0109	1.0201
S4	0.9451	76.58	1.2584	1.5360	1.0072	1.0174

GBP-USD: The stochastic has generated a crossover buy signal but the losses in early trade so far suggest that a bear flag could be evolving. A break above 1.5490 will confirm the buy signal in which event 1.5559 can be targeted. A break below 1.5445 will confirm that the flag is evolving - then target 1.5374

EUR-USD: The stochastic is showing an upside bias but the losses in early trade suggest that the recent rebound could be a bear flag formation. Use a break above 1.2761 as confirmation of the bias to target 1.2818. A break below 1.2727 will confirm the flag - then target 1.2664

USD-JPY: The stochastic has given a crossover sell signal but it is possible that the recent pullback represents a bullish "rising three" method. Use a break above 76.94 as confirmation of the candle formation to target 77.32. A break below 76.78 will confirm the sell signal - then target 76.58 for now

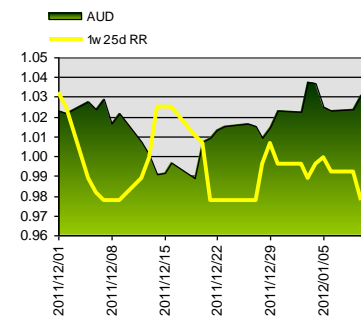
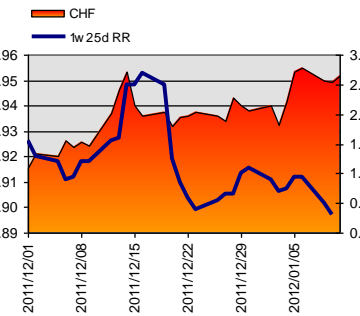
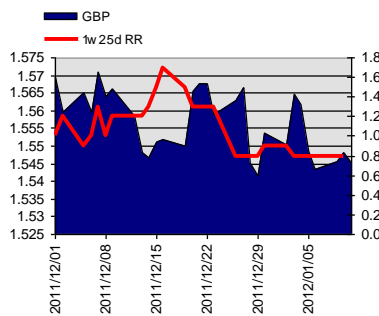
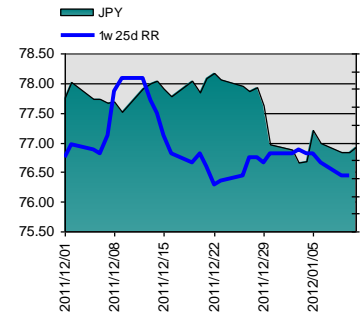
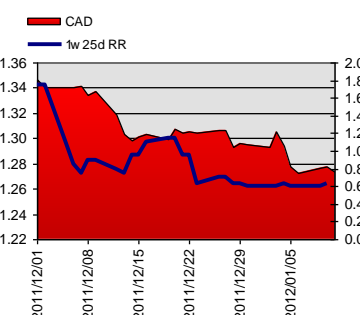
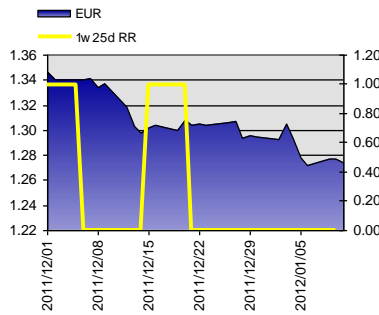
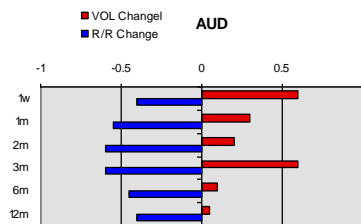
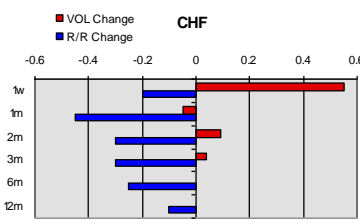
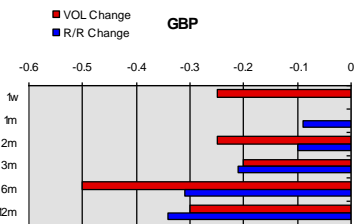
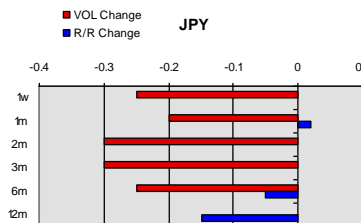
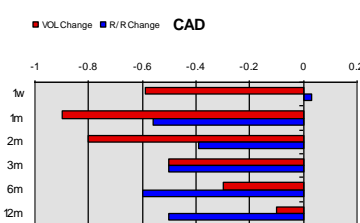
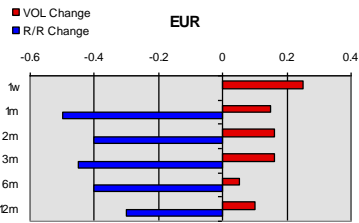
USD-CHF: The bias on the stochastic is down but trade so far today has generated a bullish engulfing candle formation. A break above .9531 can be used to confirm the early gains - then target .9594. A break below .9501 will confirm the bias - target .9461

CAD-USD: Some heavy losses have been seen of late but it is possible that this pullback is a bull flag given the gains in early trade this morning. Use a break below 1.0149 as confirmation of the losses to target 1.0072. A break above 1.0196 will confirm that the flag is evolving - then target 1.0240

AUD-USD: The stochastic is showing an upside bias but the losses in early trade this morning suggest that the recent rebound could be a bear flag. Use a break above 1.0294 as confirmation of the bias to target 1.0353. A break below 1.0263 will confirm the early losses - then target 1.0201

EUR	Vol	Change	R/R	Change	CAD	Vol	Change	R/R	Change	JPY	Vol	Change	R/R	Change
1w	10.63	0.25	0	0	1w	8.23	-0.59	0.63	0.03	1w	7	-0.25	0.63	0
1m	11.63	0.15	0.7	-0.5	1m	9.05	-0.9	0.77	-0.56	1m	7.8	-0.2	0.3	0.02
2m	12.23	0.16	1.35	-0.4	2m	9.6	-0.8	1.28	-0.39	2m	8.3	-0.3	0.25	0
3m	12.68	0.16	1.85	-0.45	3m	10	-0.5	1.53	-0.5	3m	8.93	-0.3	0.3	0
6m	13.4	0.05	2.2	-0.4	6m	10.63	-0.3	1.8	-0.6	6m	10.07	-0.25	0.3	-0.05
12m	13.9	0.1	2.7	-0.3	12m	11.2	-0.1	2.3	-0.5	12m	11.6	0	0.65	-0.15

GBP	Vol	Change	R/R	Change	CHF	Vol	Change	R/R	Change	AUD	Vol	Change	R/R	Change
1w	7.38	-0.25	0.8	0	1w	9.93	0.55	0.3	-0.2	1w	11	0.6	0.5	0
1m	8.65	0	0.83	-0.09	1m	11.43	-0.05	0.5	-0.45	1m	12.4	0.3	1.6	-0.55
2m	9.1	-0.25	1.13	-0.1	2m	12.07	0.09	0.6	-0.3	2m	13.1	0.2	2.5	-0.6
3m	9.6	-0.2	1.42	-0.21	3m	12.52	0.04	0.6	-0.3	3m	14	0.6	3.3	-0.6
6m	10.5	-0.5	1.72	-0.31	6m	13.3	0	0.4	-0.25	6m	14.4	0.1	4.25	-0.45
12m	11.43	-0.3	1.88	-0.34	12m	13.9	0	0.4	-0.1	12m	15.25	0.05	4.9	-0.4



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