

Daily Foreign Exchange Update

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CURRENCY STRATEGISTS

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AUD TRAILING ON WEAKER INFLATION DATA

- AUD humbled by a less aggressive rate of inflation in Australia.
- IMF meekly suggests that the Chinese renminbi is undervalued.
- A less enthusiastic sounding Beige Book may hurt the USD today; watch price trends.
- Market expects a 25bp rate increase from the RBNZ.

FX Market Update - Rather strong equity markets in Asia have not carried over to the West as Europe is mixed to weaker on the day. US equity futures had been showing greater levity heading into the North American morning, but have rapidly run out of steam and now point to a flat open. Copper ground higher as Europe came on line, but crude is still underwater. This has left a fairly subdued day in the FX market for most, though CAD is up 0.4% after yesterday's weakness in North American trading, followed by NOK and CHF. **AUD and NZD are not faring well following some much weaker than expected inflation and business confidence data.** The USD is broadly trading with a softer tone however, failing to recapture highs set in Asian trading hours. S.T.

IMF Pulls Some Punches With China - Yesterday's media rumblings were confirmed today as the IMF released a public information notice on the conclusion of its Article IV consultation with China. As was rumoured, **the IMF stated that several directors agreed that the broad exchange rate is undervalued**, though there was effort made to note that there was no across the board agreement on the issue. **Some directors disagreed**, stating that the exchange rate assessment is "based on uncertain forecasts of the current account surplus." This is very much a politically-driven softening of tone as the IMF seeks not to antagonize China on the exchange rate issue. The IMF's multi-method exchange rate valuation approach always includes "uncertain current account forecasts," regardless of the country involved. Still, this is probably the best way to proceed from the IMF's point of view. This will keep some degree of pressure on Chinese authorities, while refraining from aggressively (and counter-productively) haranguing the country on its policies. S.T.

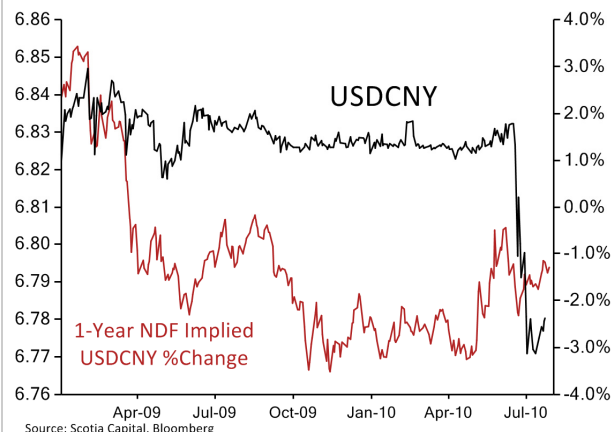
US Beige Book Survey Today - We will see the Federal Reserve's anecdotal take on the evolution of the economy with the Beige Book survey today. The June release noted that the US economy strengthened in all 12 Fed Districts in April and May, which was the first time this occurred in over two years. However, the evidence also pointed to a more modest pace of growth. With the downturn in the purchasing manager indices (which still indicate expansion), the tone is likely to remain restrained, which is more of a USD negative given the currency's current trend and the overt weakness in headline and core CPI. S.T.

Americas

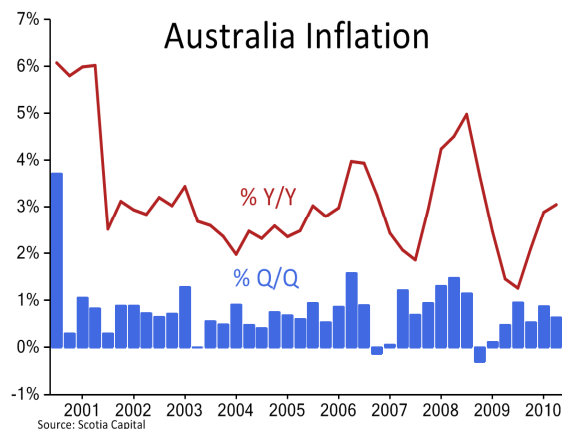
USDCAD (1.0308) • CAD is a top performing currency today, up 0.4% against the USD. However, CAD's breach of support at the 1.03 level (corresponding to USDCAD's 100-day moving average) was fleeting and rapidly reversed over the bulk of North American trading as oil prices collapsed to register the worst daily decline in crude (-1.9%) in nearly a month. There is no real data out again today, ahead of tomorrow's industrial and raw materials prices, and the May monthly GDP data on Friday, once again leaving CAD's fortunes to be decided by commodity and equity price movements.

Downside momentum appears to have stalled for USDCAD in the short term, though yesterday did bring a brief breach of USDCAD's two-month uptrend which holds at 1.0273 today. However, the rebound in the pair also violated a six session downtrend that was angling to force a close below 1.03. Though this downtrend has given way, there is still some downside bias in the pair given today's strong performance. Look for 1.04 to cap rallies in the short term. We expect USDCAD to trade in a 1.0244 to 1.0384 range today. S.T.

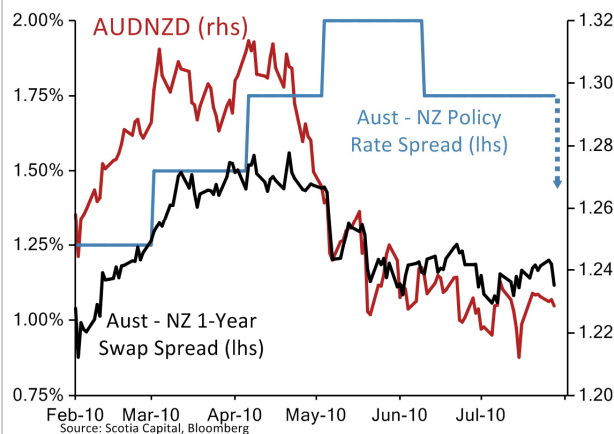
IMF TREADING LIGHTLY WITH CHINA ON THE RENMINBI



AUD HURT BY LOWER THAN EXPECTED INFLATION



NZD BEATING AUD ON POLICY MOMENTUM SHIFT



Europe

EURUSD (1.2997) • EUR is a mid performer today, near flat against the USD after buying in Asian trading brought EURUSD back above the 1.30 level. The pair continues to timidly test the waters north of 1.30 after once again closing the North American trading day just a hair short of that price point. **The pace of EUR gain has moderated and upside momentum appears to be quickly waning for EURUSD**, though a strong bearish signal remains absent. A break of 1-month uptrend support (at 1.2885 today) would have negative implications for EURUSD price action. • The ECB released its July bank lending survey, showing that general credit conditions remained basically unchanged (according to 88% of respondents) but with somewhat of a bias towards tightening (11% of respondents). One positive Eurozone development is that **mortgage lending rose at an annual rate of 3.4% in June**, representing the greatest rate of expansion since the fall of 2008. S.T.

GBPUSD (1.5593) • GBP is trading near flat on the day though price action has been rather whippy with cable reaching another new multi-month high, seeing yet another higher intraday low (the fifth consecutive) to keep the bullish cable trend intact. **Bank of England policymakers, led by Mervyn King, have been testi-**

fyng before the UK Parliament's Treasury Committee regarding the May Inflation Report. The hawkish Andrew Sentance is present, saying that spare capacity was less than expected and inflation was running higher than expected. He also noted that he believed the BoE's current policy stance is quite extreme. However, Governor King was there to temper this hawkish outlook with his greater weight, **saying that there may be a considerable way to go before interest rates in the UK return to normal, which helped GBPUSD dip to briefly to an intraday low.** S.T.

Asia / Oceania

AUDUSD (0.8955) • AUD is the worst performing currency today, down 0.8% against the USD following some much softer than expected Q2 inflation data. **Headline prices came in at 0.6% q/q against the 1% expected**, while trimmed mean and weighted median inflation measures also disappointed by the same margin. This more subdued than expected inflation data sent AUDUSD, and 1-year government bond yields for a nose-dive in Asian trading. This is not enough to burst AUDUSD's uptrend, though a close below support at 0.89 will be harmful in the near term. S.T.

NZDUSD (0.7293) • NZD is off 0.6% against the USD ahead of the RBNZ policy announcement at 5:00pm EST. **July business confidence is the culprit, falling to 27.9 from 40.2, and now at its lowest level in almost one year.** However, the RBNZ is widely expected to continue raising rates today, by 25bps to 3%. Though Australia maintains a relatively robust yield advantage over New Zealand, **the shift in monetary policy momentum has certainly benefitted NZD as AUDNZD has shifted lower with relative rate expectations (see graphic).** Australia's weak inflation data today should further help push AUDNZD lower in the short term. S.T.

Commodities

Gold (\$1164.05) • Gold's price action remains extremely heavy with yesterday's violent down move. Yesterday gold ended up breaching key support at \$1175 before running into one-year uptrend support near \$1158 (corresponding closely to the May low in the metal). Should this seemingly strong level give way, a move past \$1150 would be in the cards. S.T.

Key Pricing & Levels

	30 Day Hist Vol	Spot	1 Day Change	1 Week Change	100 Day MA	200 Day MA	Pivot 1st Support	Pivot 1st Resistance
USDCAD	12.5	1.0308	-0.0046	-0.0183	1.0303	1.0414	1.0244	1.0384
EURUSD	11.5	1.2997	0.0001	0.0243	1.2861	1.3605	1.2951	1.3045
GBPUSD	10.5	1.5593	-0.0001	0.0429	1.5013	1.5552	1.5482	1.5666
USDCHF	10.5	1.0588	-0.0018	0.0074	1.0908	1.0645	1.0500	1.0659
USDJPY	9.3	87.83	-0.07	0.78	91.07	90.62	87.07	88.36
AUDUSD	16.3	0.8955	-0.0069	0.0174	0.8864	0.8962	0.8896	0.9042
USDMXN	10.7	12.67	-0.01	-0.20	12.61	12.77	12.62	12.71
DXY (USD index)	8.0	82.10	-0.05	-1.28	83.63	80.59	81.83	82.38
CRB Commodity		264.46	-2.20	2.94	265.26	270.56	N/A	N/A
Gold		1,163.55	1.95	-21.50	1,182.92	1,148.58	1,151.98	1,181.28
WT Crude (Nymex)		77.32	-0.18	0.77	78.33	77.77	76.18	79.08
Nat Gas (Nymex)		4.70	0.03	0.19	4.36	4.73	4.63	4.73
BoC Noon Rate		1.0357	CAD (close from Bloomberg not BoC):					1.0354

Pricing Source: Bloomberg

7/28/2010

Today's Releases & Speakers

			Period	Cons	Last	Significance
8:30 AM	US	Durable Goods Orders	JUN	1.0%	-0.6%	Medium
8:30 AM	US	Durables Ex Transportation	JUN	0.4%	1.6%	Medium
9:00 AM	CA	Teranet/National Bank HPI	MAY	12.9%	12.9%	Low
	GE	CPI - EU Harmonised (YoY)	JUL P	1.1%	0.8%	High
2:00 PM	US	Fed Releases Beige Book Economic Report				Medium
2:30 PM	US	Senate Panel Votes on Fed Nominees				Medium
5:00 PM	NZ	Reserve Bank of New Zealand Reviews Official Cash Rate				High
6:45 PM	NZ	Trade Balance	JUN	368M	814M	Medium
6:45 PM	NZ	Exports	JUN	3.50B	4.20B	Medium
7:50 PM	JN	Retail Trade MoM SA	JUN	0.4%	-2.0%	High
7:50 PM	JN	Large Retailers' Sales	JUN	-4.0%	-4.0%	Medium
9:00 PM	AU	HIA New Home Sales (MoM)	JUN	-	-6.4%	Medium
11:00 PM	NZ	Money Supply M3 YoY	JUN	-	-3.1%	Low
2:00 AM	UK	Nat'wide House prices sa (MoM)	JUL	-0.3%	0.1%	Medium
2:45 AM	FR	Producer Prices (YoY)	JUN	3.9%	4.3%	Medium
3:55 AM	GE	Unemployment Change (000's)	JUL	-20K	-21K	High
3:55 AM	GE	Unemployment Rate (s.a)	JUL	7.6%	7.7%	High
4:30 AM	UK	Net Consumer Credit	JUN	0.2B	0.3B	Low
4:30 AM	UK	M4 Money Supply (YoY)	JUN F	-	3.0%	Low
5:00 AM	EC	Business Climate Indicator	JUL	39.0%	37.0%	Medium
5:00 AM	EC	Euro-Zone Consumer Confidence	JUL F	-14	-14	Medium

Suggested Reading

[IMF Public Information Notice On China](#), IMF (July 27, 2010)

[Rate Swings Sting Europe's Borrowers](#), Gordon Fairclough, WSJ (July 27, 2010)

Our July Monthly FX Strategy Call is now available, please dial in at your convenience.

Dial: 416-695-5800

Passcode: 77386016#

This month's 20-minute call is hosted by Sacha Tihanyi and discusses:

- 1) Economic and FX forecast update - less tightening for the Fed and BoC
- 2) USD decline - factors driving the downturn

The presentation can be found at:

<http://www.scotiafx.com/conference/index.htm>

Conference call commands

Press 1 – Skip backward 5 seconds

Press 3 – Skip forward 5

Press 4 – Skip backward 5 minutes

Press 6 – Skip forward 5 minutes

Press 5 – Pause the playback

If you have any questions, please contact:

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