

17 July 2008

Global FX Strategy
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Market Summary

Currencies	Level	Ch 24hr
EUR/USD	1.5861	0.003
USD/JPY	104.905	-0.235
GBP/USD	2.0017	0.0026
USD/CAD	1.0014	-0.0005
AUD/USD	0.9764	0.0015
NZD/USD	0.7722	0.0004
USD/ZAR	7.6012	-0.0023
EUR/CZK	23.118	-0.010
EUR/HUF	231.354	0.531
EUR/PLN	3.215	0.003
Debt Markets		
	Yield	Ch 24hr
US-10Yr	3.927	-0.008
Bund-10Yr	4.392	0.007
Gilts-10Yr	4.872	0.011
JGBs-10Yr	1.600	0.025
AU-10Yr	6.310	-0.017
SA-10Yr	10.010	0.000
CZK-10Yr	4.856	0.033
HGB-10Yr	8.150	-15.000
PLN-10Yr	6.400	-9.000
Equities & Commodities		
	Level	Ch 24hr
Nasdaq	2,285	69.14
Dow	11,239	276.74
FTSE	5,151	-21.30
Euro 500	194	1.21
Nikkei	12,878	117.12
ASX 200	4,908	37.50
TSE 300	13,504	146.24
JSE	25,151	-254.05
CRB (US\$)	445	-5.73
Gold (US\$)	964	4.40
Oil (WTI)	134.60	-4.14

Source: Bloomberg

Implied Volatility

	EUR	GBP	EUR*
1m	10.60	8.30	8.20
3m	10.30	8.90	8.50
6m	10.53	9.00	8.73
12m	10.70	9.38	8.93
1m R.R.	0.4c	-0.2c	0.9c
	CAD	JPY	AUD
1m	9.30	12.60	9.55
3m	9.50	12.08	10.30
6m	9.63	11.70	10.60
12m	9.73	11.45	10.75
1m R.R.	-0.1c	-3.9c	-0.3c

Source: Bloomberg; EUR/GBP

FX Focus: USD remains soft

For Sydney-siders, the Asian session was dominated by attempted sightings of Pope Benedict XVI as he made his way by boat-a-cade and then motor-cade through the CBD. In markets, USD turned lower. One of the catalysts was an FT article saying some of the world's largest sovereign wealth funds are seeking to scale back their exposure to the USD. It went on to report one large sovereign fund in the Gulf had cut its dollar-denominated holdings from more than 80% a year ago to less than 60%, but gave no source. EUR/USD rallied 50 points to 1.5863, even GBP pushed up 50 points to 2.0025.

US data today is not expected to give USD a meaningful boost - Housing starts are expected to fall from 975k to 960k, building permits to be down from 978k to 965k, while initial jobless claims is expected to step up from 345k to 380k. The Philly Fed is forecast to rise from -17.1 to -15.0. There is also much to digest on the Q2 earnings front, with JP Morgan Chase, BoNY, Merrills, IBM and Microsoft.

CAD: The major event risk for CAD today is the MPR. The MPR Update will provide an opportunity for the Bank to issue revised inflation forecast numbers.

AUD: found its feet in line with the weaker USD. RBA FX Transactions data for June showed the RBA sold a net A\$875mn in the month, which is the highest since Feb 2004. The statistic has drawn some suggestions that the RBA could be finally leaning against the AUD's ascent. This conclusion would be mistaken however since the higher selling simply reflects the RBA transacting on behalf of the government's unusually higher foreign currency needs for the month rather than discomfort about AUD strength. Indeed, we see little evidence of discomfort from the RBA - Governor Stevens' speech yesterday highlighted the soaring terms of trade, which effectively endorses AUD strength.

JPY According to the Reuters tankan survey, Japanese manufacturers' business sentiment hit a fresh five-year low in July on the back of surging energy and raw materials costs as well as sluggish demand. The survey reinforces the view that the BoJ will be on hold for some time.

CNY: Q2 real GDP was slower than expected at 10.1%/y/y (cons: 10.3%) due partially to disruption caused by May's massive earthquake in Sichuan province. However, the Chinese consumer remains healthy: June retail sales was a stronger than expected 23.0%yt y/y (cons: 21.3% and up from 21.6%), industrial production was stronger than expected at 16.0%/y/y (cons: 15.6%) and Fixed Asset Investment was a stronger 26.8%ytd y/y (cons: 25.4%)

FX Market Movers

Mkt	BST	Data/Event	Consensus	Prior
US	13.30	Housing Starts (Jun)	960k	975k
US	13.30	Building Permits (Jun)	965k	978k
US	13.30	Initial Jobless Claims	380k	346k
CA	13.30	International Transactions in Securities	C\$3.5	C\$9.75
US	15.00	Philadelphia Fed Business Outlook Survey	-15.0	-17.1
US	15.00	June Leading Indicators	-0.1%	0.1%
US	15.00	May House Price Index m/m		-0.8%
CA	15.30	BoC Monetary Policy Report, Press Conference		

Source: RBC Capital Markets, Bloomberg

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