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Global FX Strategy
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Market Summary

Currencies	Level	Ch 24hr
EUR/USD	1.5874	0.003
USD/JPY	106.810	-0.155
GBP/USD	1.9945	-0.0044
USD/CAD	1.0058	0.0000
AUD/USD	0.9757	0.0053
NZD/USD	0.7616	0.0004
USD/ZAR	7.6324	0.0278
EUR/CZK	23.034	0.043
EUR/HUF	228.928	0.233
EUR/PLN	3.217	0.001
Debt Markets	Yield	Ch 24hr
US-10Yr	4.083	0.000
Bund-10Yr	4.571	0.128
Gilts-10Yr	5.040	0.140
JGBs-10Yr	1.575	-0.020
AU-10Yr	6.420	0.063
SA-10Yr	9.866	0.033
CZK-10Yr	5.004	0.075
HGB-10Yr	7.930	6.000
PLN-10Yr	6.419	1.700
Equities & Commodities	Level	Ch 24hr
Nasdaq	2,283	-29.52
Dow	11,497	49.91
FTSE	5,376	90.10
Euro 500	201	2.66
Nikkei	12,804	-84.25
ASX 200	4,995	158.60
TSE 300	13,516	55.71
JSE	25,766	-448.31
CRB (US\$)	427	-5.43
Gold (US\$)	960	4.94
Oil (WTI)	128.88	-0.41

Source: Bloomberg

Implied Volatility

	EUR	GBP	EUR*
1m	9.18	7.79	7.50
3m	9.65	8.41	8.20
6m	10.15	8.86	8.50
12m	10.63	9.10	8.80
1m R.R.	0.3c	-0.5c	0.6c
	CAD	JPY	AUD
1m	8.90	11.60	9.73
3m	9.25	11.20	10.17
6m	9.50	11.00	10.55
12m	9.65	10.90	11.00
1m R.R.	0.0c	-3.5c	-0.3c

Source: Bloomberg; EUR/GBP

FX Focus: AUD/NZD blasts to new highs- again

USD limped into the start of the week, with liquidity partly thinned by the Tokyo Marine Day holiday. EUR pushed up nearly 50 pips to 1.5870/75 and USD/JPY down 25 pips to 106.70/75. AUD outperformed, largely on account of AUD/NZD demand (see below). For USD, the focus this week is on housing data, Fed speakers (Plosser, Kohn, Mishkin), the Beige Book and more financial sector earnings report. JPMorgan and Citi might have done ok (relative), but Corporate earnings results step up a gear with almost 160 S&P500 companies due to report including BofA and American Express. WaMu and Wachovia, two institutions that have been singled by the sub-prime debacle, also report. Data risk will be muted today, as only June U.S. leading indicators data is scheduled for release. The market is expecting a decline from 0.1% m/m in May to -0.1% m/m in June.

EUR: The focus will be on the business surveys due out on Thursday (IFO, INSEE and Flash PMIs). There is rising support at 1.5780 today. Initial resistance is at 1.5920.

GBP: Came under pressure from dovish comments from BOE's resident dove Blanchflower, who noted that the UK economy would probably shrink for as much as a year and policy-makers had to act now to bring down borrowing costs. Rightmove house prices fell 1.8% m/m, 2.0% y/y in July, the largest on-month decline since December 2007, and lowest annual rate on record. The minutes of the BoE's latest meeting (Wed), CBI (Wed), Jun retail sales (Thurs) and Q2 GDP (Fri) are potential stumbling blocks for GBP this week.

AUD: Shrugged off the weaker than expected Q2 PPI of 1.0% q/q, 4.7% y/y (cons: 1.6% q/q, 5.3% y/y). Reflecting the higher exchange rate, lower import prices had its part to play with import prices falling 1.0% q/q, -3.2% y/y. Domestically generated PPI was up a firm 1.4% q/q, 6.0% y/y. In a lot of ways, today's report highlights why the RBA has not shown much discomfort about the strength of the AUD.

NZD: RBC is in the small minority camp looking for an RBNZ rate cut from 8.25% to 8.0% on Thurs. This is discounted by the OIS with 50% probability and if our forecast materializes, NZD will be on track to retest the 0.7385 Jan lows. NZD is most vulnerable versus AUD. AUD/NZD hit another new high in Asia at 1.2815, last seen in January 2001. AUD/NZD faces initial resistance at 1.2850, but we expect that will prove fleeting.

CAD: The main event risk is June CPI on Wed. The BoC recently stated that if current energy price trends hold, headline CPI inflation will temporarily rise above 4% (current 2.2%), before peaking in Q1 of 2009. Policymakers also upwardly revised their forecast for core inflation, and now expect it to be 2.0% (from 1.5% in May) by the second half of 2009. The June inflation report should lend weight to this less benign base-case scenario. We are assuming another above-trend increase in headline consumer prices in June of 0.4%. Given the building price pressures and further increases in Canada's terms of trade, we expect the next move from the BoC to be a hike (Q1 2009). Before then, the market will need to navigate May retail sales on Tues. USD/CAD is pinned with the near term range of 1.0025-80.

USD/JPY: The 200dma has held multiple occasions since mid June. This level comes in at 107.15 today. Following today's holiday in Japan, CPI on Friday is the main data focus. However, with the BOJ seen on hold for the foreseeable future, domestic data has not been a significant driver of JPY for some time.

FX Market Movers

Mkt	BST	Data/Event	Consensus	Prior
US	15.00	Leading Indicators (Jun)	-0.1%	0.1%

Source: RBC Capital Markets, Bloomberg

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