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FX Focus: Disappointing earnings knock USD

Global FX Strategy

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The USD closed the NY session on a notably weak note especially after weaker earnings reports from several firms. AMEX shares fell in the after –market, missing its earnings with more than a 30% slide in profits. Its CEO said the environment weakened especially in July and it wont meet longer term targets until the economy improves; Apple profit forecasts also missed (Apple now expecting $1 EPS in Q4, market was looking for $1.24); and Moody's has placed another monoline, Assured Guaranty Corp, under review for a possible downgrade. as S&P 500 futures were down 1%. Crude oil pared back some of its overnight gains in on reports that Tropical Storm Dolly was now likely to miss oil and gas fields in the Gulf of Mexico.

For the day ahead, Fed President Plosser speaks on the economy, the OFHEO house price index (cons: -0.8%m/m) and the latest reading on manufacturing in the Richmond Fed region (-9). There are also a large number of US corporate earnings reports due, including Wachovia. Canadian May retail sales rounds out the data docket.

EUR: extended its gains to 1.5935/40 on the poor US earnings news, and is also being supported by EUR/JPY. That cross continues to flirt with the 170.00 level.

USD/CHF: Has traded with a downside bias after failing at the 38.2% of the Mar-May move at 1.0245/50. June trade data (cons: CHF1.6bn) today, and weaker global growth should see the surplus narrow from May's CHF1.87bn,

CAD: CAD-positive developments are stacking up. M&A inflows also seem to be ramping up. Two deals last week were overshadowed by a US$7.8bn bid for TransAlta by two US-based fund managers, which helped pressure USD/CAD to a low of 1.0010. Today, May retail sales (cons: 0.6%, ex-autos 0.7%) comes on the heels of much better than expected readings on manufacturing shipments and wholesale trade, and after the BoC discussed how increases in commodity prices will "lead to higher wages and salaries, higher government revenues, higher corporate profits, and stronger investment growth." They might have added "and a stronger Canadian dollar." Already we have seen NZD/CAD trigger a sell signal on a break of 0.7625. RBC FX is now short a half unit, which will be reflected in our FX Portfolio Tracker on July 24. With a notable and critical caveat that oil prices slid US$16/b last week, one might not want to get caught short CAD.

USD/JPY: The 200dma comes in today at 107.07. Arguable, as long as USD/JPY remains below 106.57, the pair is biased for a retest of 104.11.

GBP/USD: Has held above the 2.00 level through Asia, the 61.8% of the Mar-May move. This is initial support now, ahead of 1.9953. There is no UK data today, leaving GBP's fortunes up to the general USD direction.

NZD/USD: Remains the laggard within G10, down 1.41% versus the USD in the past five trading days as the RBNZ's OCR review looms.

Market Summary

Currencies	Level	Ch 24hr
EUR/USD	1.5927	0.000
USD/JPY	106.415	-0.025
GBP/USD	2.0021	-0.0012
USD/CAD	1.0011	0.0012
AUD/USD	0.9764	-0.0008
NZD/USD	0.7611	-0.0006
USD/ZAR	7.5601	-0.0074
EUR/CZK	22.942	-0.008
EUR/HUF	228.631	0.161
EUR/PLN	3.222	0.000
Debt Markets		
	Yield	Ch 24hr
US-10Yr	4.044	0.002
Bund-10Yr	4.635	0.064
Gilts-10Yr	5.051	0.011
JGBs-10Yr	1.605	0.030
AU-10Yr	6.449	0.029
SA-10Yr	9.909	0.043
CZK-10Yr	5.050	0.046
HGB-10Yr	7.860	-7.000
PLN-10Yr	6.455	3.600
Equities & Commodities		
	Level	Ch 24hr
Nasdaq	2,280	-3.25
Dow	11,467	-29.23
FTSE	5,404	27.90
Euro 500	202	1.13
Nikkei	12,972	168.26
ASX 200	4,985	-27.10
TSE 300	13,689	173.23
JSE	25,875	109.08
CRB (US$)	428	1.30
Gold (US$)	969	3.13
Oil (WTI)	131.04	2.16

Source: Bloomberg

Implied Volatility

	EUR	GBP	EUR*
1m	9.15	7.75	7.49
3m	9.65	8.40	8.02
6m	10.15	8.80	8.46
12m	10.50	9.15	8.79
1m R.R	0.3c	-0.2c	0.8c
	CAD	JPY	AUD
1m	8.90	11.85	9.60
3m	9.05	11.43	10.17
6m	9.38	11.10	10.55
12m	9.50	11.05	10.92
1m R.R	0.0c	-3.4c	-0.4c

Source:Bloomberg; EUR/GBP

FX Market Movers

Mkt	BST	Data/Event	Consensus	Prior
US	13.10	Treasury's Paulson to speak in New York on U.S. Economy and Markets		
CA	13.30	Retail Sales, less autos m/m (May)	0.5%, na	0.6%
US	13.30	Fed's Plosser speaks on the US economy	-0.1%	0.1%
US	15.00	Richmond Fed Manufacturing Index (Jul)	-9	-12
US	15.00	House Price Index m/m (May)	-0.8%	-0.8%

Source: RBC Capital Markets, Bloomberg

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