RBC Capital Markets

FOREIGN EXCHANGE | RESEARCH

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FX Focus: NZD selling off ahead of RBNZ

Global FX Strategy

Sue Trinh
Senior Currency Strategist
Royal Bank of Canada, Sydney Branch
+61 2 9033 3333

Majors were relatively subdued in Asia, with most of the action confined to AUD and NZD, where both sold off, the former due to the digestion of slightly firmer to as expected Q2 CPI (see below), the latter selling off due to the suspension of payments to investors by one of NZ's largest finance companies (see below). Today, Fed's Mishkin and Kohn will both speak at a BoC conference and the Beige Book will be released as well. In the UK, the latest BoE minutes, together with the CBI's latest business survey and BBA home loans are released. June CPI takes centre stage in Canada.

EUR: Remained camped under 1.58, while EUR/JPY is chopping around just under the 170.00 level. May industrial new orders are forecast to fall from 11.7%y/y to 2.1%y/y. Initial resistance is at 1.5820, support at 1.5670.

GBP: BOE Minutes will be the key event risk today, with the market expecting an 8-1 vote for steady rates at the July meeting, with arch-dove Blanchflower opting for the rate cut. If the vote swings more in favour of the rate cut, it would be bearish GBP. Initial support is at 1.9900, though which, there is not much support until 1.9830.

NZD: The NZ market was dealt a blow ahead of the RBNZ OCR Review, with news Hanover Finance, one of New Zealand's largest finance companies (top 5 according to our records, with more than NZ$1bio of investors money) says it is suspending repayments of deposits and will not take any new money. The tightening of credit has clearly taken its toll, and reinforces RBC's non consensus call for a 25bps rate cut at the announcement window later tonight given the context of an economy in recession and cash rates almost 200bps above neutral. NZD sold off 30 pips and NZ bill futures rallied 4bps on the Hanover news. AUD/NZD rallied 50 pips from its lows.

AUD: Headline Q2 CPI was higher than expected and core RBA measures were broadly in line with expectations. Headline CPI rose by 1.5%q/q (4.5%y/y), the largest annual increase since late 1995 ex GST. The key core measures printed slightly higher – the average of the trimmed mean and weighted median was 1.1%q/q, 4.4%y/y (cons: 1.1%, 4.3%y/y). We note that non tradeable CPI rose by 1.4%q/q, taking the y/y rate to 5.6% (its highest level, ex GST introduction, since the series began in 1998). AUD rallied initially before giving up all its gains as the market considered the fact that Governor Stevens has signalled the RBA is prepared to look through the uncomfortable hump in near term inflation provided activity remains weak ie the RBA is unlikely to be drawn in from the sidelines and hike any time soon.

CAD: The June Canadian CPI data will present the most important event risk today. RBC and consensus are forecasting a print of 0.1%m/m for the core component, which would be a decline from 0.3%m/m in May.

Market Summary

Currencies	Level	Ch 24hr
EUR/USD	1.5784	0.000
USD/JPY	107.275	-0.050
GBP/USD	1.9927	0.0010
USD/CAD	1.0081	-0.0002
AUD/USD	0.9690	-0.0024
NZD/USD	0.7547	-0.0048
USD/ZAR	7.4813	0.0001
EUR/CZK	23.528	0.039
EUR/HUF	229.672	-0.243
EUR/PLN	3.239	-0.003
Debt Markets		
	Yield	Ch 24hr
US-10Yr	4.113	0.014
Bund-10Yr	4.641	0.006
Gilts-10Yr	4.998	-0.053
JGBs-10Yr	1.648	0.028
AU-10Yr	6.415	-0.047
SA-10Yr	9.896	-0.013
CZK-10Yr	4.894	-0.156
HGB-10Yr	7.870	1.000
PLN-10Yr	6.456	0.100
Equities & Commodities		
	Level	Ch 24hr
Nasdaq	2,304	24.43
Dow	11,603	135.16
FTSE	5,364	-40.20
Euro 500	201	-1.11
Nikkei	13,324	139.45
ASX 200	5,118	113.50
TSE 300	13,643	-46.00
JSE	25,416	-458.39
CRB (US$)	421	-7.31
Gold (US$)	945	-1.65
Oil (WTI)	127.95	-3.09

Source: Bloomberg

Implied Volatility

	EUR	GBP	EUR*
1m	9.31	8.04	7.45
3m	9.69	8.50	7.95
6m	10.30	8.83	8.40
12m	10.60	9.11	8.70
1m R.R	0.3c	-0.5c	0.6c
	CAD	JPY	AUD
1m	9.10	10.92	9.47
3m	9.23	10.88	10.13
6m	9.45	10.85	10.50
12m	9.51	10.75	10.95
1m R.R	0.0c	-3.3c	-0.4c

Source:Bloomberg; EUR/GBP

FX Market Movers

Mkt	BST	Data/Event	Consensus	Prior
UK	9.30	BoE Minutes (Jul 9-10th meeting)		
UK	9.30	BBA Home Loans (Jun)	-	27968
EC	10.00	Industrial New Orders m/m , y/y (May)	-1.3%, 2.1%	2.5%, 11.7%
UK	11.00	CBI Distributive Trades Report (Jul)	-	-
CA	12.00	CPI m/m, y/y, Core CPI m/m, y/y (Jun)	0.5%, 2.9%, 0.1%, 1.6%	1.0%, 2.2%, 0.3%, 1.5%
US	14.00	Fed's Mishkin speaks at BoC conference		
US	16.15	Fed's Kohn speaks on transparency		
US	19.00	Fed's Beige Book		

Source: RBC Capital Markets, Bloomberg

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Russell Jones
Global Head of Fixed Income and Currency Research
Royal Bank of Canada Europe Limited
+44 207 029 7076

Adam Cole
Global Head, FX Strategy
Royal Bank of Canada Europe Limited
+44 207 029 7078

Sue Trinh
Senior Currency Strategist
Royal Bank of Canada, Sydney Branch
+61 2 9033 3333

Matthew Strauss CFA
Senior Currency Strategist
RBC Dominion Securities Inc.
+1 416 842 6631

David Watt
Senior Currency Strategist
RBC Dominion Securities Inc.
+1 416 842 4328

George Davis CMT
Chief Technical Analyst
RBC Dominion Securities Inc.
+1 416 842 6633

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