

## The European Open: AUD/USD Rallies as Q2 Australian GDP Exceeds the Consensus

The following is a summary of the main economic events from the North American and Asia-Pacific sessions:

- Australian Q2 GDP expands by 1.2% on the quarter, overarching calls for a 0.9% rise to follow the upwardly-revised 0.7% gain in Q1, which had originally been reported as a 0.5% increase; in annual terms, GDP expands by 3.3% in Q2 versus the consensus forecast for a 2.8% rise and exceeding the prior quarter's 0.5% increase; AUD/USD rallies to a new session high on the back of the data.
- U.S. FOMC minutes (Aug. 10 meeting) say that some voters were concerned that the introduction of 'quantitative easing lite' would send the wrong signal to markets by suggesting the Fed was preparing to return to large-scale asset purchases; a few officials said that the economic impact of the decision would "likely be quite small"; some saw "increased downside to the outlook for both growth and inflation".
- After the UBS Swiss consumption indicator climbs in August to 1.86, a post-June 2008 high, from its revised 1.795 level the month before, the Swiss franc continues to strengthen against the euro; EUR/CHF falls to a record low of 1.2852 less than an hour before the closing bell on Wall Street.
- Chinese manufacturing PMI increases to a 51.7 level versus calls for an increase to 51.5 from 51.2 in July; small AUD/USD rally follows the report's release.
- Australian AiG performance of manufacturing index falls to a 51.7 level in August from 54.4 the month before; AUD/USD ignores the decline.

Market Snapshot (As of 10:00 PM EDT/2:00 AM GMT)

| FX      | Last Price | Net Change |
|---------|------------|------------|
| EUR/USD | 1.2681     | 0.0001     |
| USD/CAD | 1.0643     | -0.0013    |
| USD/JPY | 84.39      | 0.19       |
| GBP/USD | 1.5354     | 0.0006     |
| AUD/USD | 0.8975     | 0.0069     |

| Bonds                       | Last Price | Net Change |
|-----------------------------|------------|------------|
| US 10-Year Future           | 125.40625  | -7         |
| US 10-Year Yield            | 2.4983     | 0.03       |
| Canadian 10-Year Bond Yield | 2.776      | 0.24       |
| German 10-Year Bund Yield   | 2.116      | -0.019     |
| UK 10-Year Gilt Yield       | 2.832      | 0.66       |
| Aussie 10-Year Bond Yield   | 4.788      | -0.068     |
| Japanese 10-Year Bond Yield | 1.015      | -0.02      |

| Stocks             | Last Price | Net Change |
|--------------------|------------|------------|
| Eurostoxx          | 2449.57    | 2.13       |
| FTSE 100           | 5225.22    | 23.66      |
| DAX                | 5925.22    | 12.81      |
| Nikkei             | 8869.17    | 45.11      |
| S&P ASX 200        | 4477.4     | 73.2       |
| Hang Seng          | 20536.49   | -200.73    |
| Shanghai Composite | 2643.873   | 5.075      |
| Dow Futures        | 10069      | 63         |
| S&P Futures        | 1056       | 7.75       |

| Commodities   | Last Price | Net Change |
|---------------|------------|------------|
| WTI Crude Oil | 72.15      | 0.23       |
| Spot Gold     | 1246.25    | -1.2       |

- China's People's Daily newspaper reports that in a meeting with Spanish Prime Minister Jose Luis Rodriguez Zapatero on Tuesday, Chinese Premier Wen Jiabao said that China and western nations should focus on enhancing global confidence in the euro and the EU economy; Wen argues for joint measures to uphold the EU's economic stability as well as that of global financial markets; no reaction from EUR.
- China Business News reports that Spanish Prime Minister Jose Luis Rodriguez Zapatero told Wen he wants China to buy more Spanish government bonds.
- The regional day begins at the 8:15 a.m. EDT with the U.S. ADP private sector employment report for August. Economists expect that private sector employment rose by 15k, a slower pace of job creation than the 42k gain in July.
- At 10:00 a.m. EDT, the U.S. ISM manufacturing index for August will be released. The headline number is slated to slip to 52.8 from 55.5 in July.
- Ahead of the nonfarm jobs report, economists will also be interested in the ISM survey's employment component for August. The month before, it stood at 58.6 and above the 50-threshold indicating that sector employment is growing.

## Wednesday's Outlook:

- Wednesday's European session looks set to be relatively light: the only notable releases are German retail sales and the UK manufacturing PMI.
- At 2:00 a.m. EDT, German retail sales for July will be issued. Retail sales are slated to increase 0.5% on the month, more than erasing their 0.3% drop in June.
- In annual terms, sales are projected to rise 1.2% in July versus their revised 4.7% gain the month before.
- Released at 4:30 a.m. EDT, the UK manufacturing PMI is expected to decline to 57.0 in August from 57.3 the month before.
- Amidst the countdown to the all-important U.S. nonfarm payrolls employment report on Friday, the ADP private sector jobs data will likely be the highlight of Wednesday's North American session. In addition, the day will feature the U.S. ISM manufacturing report and speeches by Fed Governor Elizabeth Duke and Dallas Fed President Richard Fisher.
- Forty-five minutes later, at 10:45 a.m. EDT, Fed Governor Elizabeth Duke (an FOMC voter) will address a summit in Washington, D.C.
- Finally, at 1:40 p.m. EDT, Dallas Fed President Richard Fisher, who doesn't vote on the FOMC this year, will hold forth on the U.S. economy before an audience in Houston.

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| Economic Data   |    |  |
|---|----|--|
| Aug. 31   |    |  |
| 14:00   | US | Minutes of FOMC Meeting 31-Aug                                       |
| 14:00   | US | Fed Releases Minutes from Aug. 10 FOMC Meeting 31-Aug                |
| 17:00   | US | ABC Consumer Confidence 29-Aug Exp: -45 vs. Prior: -44               |
| 19:30   | AU | AiG Performance of Mfg Index AUG +51.7 vs. Prior: +54.4              |
| 21:00   | CH | PMI Manufacturing AUG +51.7 vs. Exp: +51.5 Prior: +51.2              |
| 21:30   | AU | Gross Domestic Product (QoQ) 2Q +1.2% vs. Exp: +0.9% Prior: +0.5%    |
| 21:30   | AU | Gross Domestic Product (YoY) 2Q +3.3% vs. Exp: +2.8% Prior: +2.7%    |
| Upcoming Events for August 31st & September 1st, 2010 |    |  |
| Aug. 31   |    |  |
| 22:30   | CH | HSBC Manufacturing PMI AUG Prior: +49.4                              |
| 23:00   | NZ | ANZ Commodity Price AUG Prior: -0.8%                                 |
| Sep. 01   |    |  |
| 1:00  | JN | Vehicle Sales (YoY) AUG Prior: +15.0%                                |
| 2:00  | GE | Retail Sales (MoM) JUL Exp: +0.5% Prior: -0.9% Revised: -0.3%        |
| 2:00  | GE | Retail Sales (YoY) JUL Exp: +1.2% Prior: +3.1% Revised: +4.7%        |
| 2:30  | AU | RBA Commodity Index SDR YoY% AUG Prior: +51.0%                       |
| 2:30  | AU | RBA Commodity Price Index Au AUG Revised: +97.4                      |
| 3:30  | SZ | SVME-Purchasing Managers Index AUG Exp: +65.8 Prior: +66.9           |
| 3:55  | GE | PMI Manufacturing AUG F Exp: +58.2 Prior: +58.2                      |
| 4:00  | EC | PMI Manufacturing AUG F Exp: +55.0                                   |
| 4:30  | UK | PMI Manufacturing AUG Exp: +57 Prior: +57.3                          |
| 7:00  | US | MBA Mortgage Applications 27-Aug Prior: +4.9%                        |
| 7:30  | US | Challenger Job Cuts YoY AUG Prior: -57.2%                            |
| 8:15  | US | ADP Employment Change AUG Exp: +15K Prior: +42K                      |
| 10:00   | US | ISM Manufacturing AUG Exp: +52.8 Prior: +55.5                        |
| 10:00   | US | ISM Prices Paid AUG Exp: +55.3 Prior: +57.5                          |
| 10:00   | US | Construction Spending MoM JUL Exp: -0.5% Prior: +0.1%                |
| 10:30   | US | DOE U.S. Crude Oil Inventories 27-Aug Exp: +1550K Prior: +4108K      |
| 10:30   | US | DOE U.S. Gasoline Inventories 27-Aug Exp: -375K Prior: +2273K        |
| 10:30   | US | DOE U.S. Distillate Inventory 27-Aug Exp: +1000K Prior: +1763K       |
| 10:30   | US | DOE U.S. Refinery Utilization 27-Aug Exp: 0.00% Prior: -2.3%         |
| 10:45   | US | Fed's Duke Speaks at Washington Summit 23-Apr                        |
| 11:00   | US | U.S. Fed to Purchases Notes/Bonds 23-Apr                             |
| 13:40   | US | Fed's Fisher Speaks in Houston on U.S. Economy 23-Apr                |
| 17:00   | US | Domestic Vehicle Sales AUG Exp: +8.85M Prior: +9.11M                 |
| 17:00   | US | Total Vehicle Sales AUG Exp: +11.60M Prior: +11.85M Revised: +11.56M |