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CURRENCY CHATTER

August 30th, 2010

From KBC: The risk picture is likely to continue to win out in the EUR/USD trade, says a research note from KBC on Monday. “In medium term perspective, we changed our bias on the USD from positive to neutral as the case for sustained dollar gains supported by a relative outperformance of the US economy has been postponed ‘until further notice’,” says the report. “The dollar is even at risk to suffer the consequences of additional loosening of monetary policy by the Fed. Short-term, the momentum was EUR/USD negative due to global uncertainty/risk aversion. Until now EUR/USD failed to really profit from poor US eco data. Nevertheless, last week’s price action suggests that the downside in EUR/USD is becoming less easy. This might partially be due to growing doubts on the dollar overall.”

From RBC Capital Markets: EUR/USD trading is likely to track the risk picture on Monday, says a research note from RBC Capital Markets. “EUR/USD drifted lower ahead of the NA session, falling from 1.2773 to 1.2699, reversing the gains recorded late Friday,” explains the report. “With only tier two data releases in the US today, sentiment will continue to guide price action, although there is little indication of any meaningful follow-through after Friday’s strong equity rally. NA equity futures are currently flirting with zero after having traded slightly higher during the European session.”

From TD Securities: The euro is likely to face some technical pressures, according to a note from TD Securities on Monday. “EUR/USD is

Market Snapshot

(As of 9:15 AM EDT/1:15 PM GMT)

FX	Last Price	Net Change
EUR/USD	1.2707	-0.0055
USD/CAD	1.0527	0.0019
USD/JPY	84.66	-0.56
GBP/USD	1.5519	-0.001
AUD/USD	0.896	-0.0029

Bonds	Last Price	Net Change
US 10-Year Future	125.71875	17
US 10-Year Yield	2.5891	-0.0556
Canadian 10-Year Bond Yield	2.817	0.5
German 10-Year Bund Yield	2.135	-0.065
UK 10-Year Gilt Yield	2.9	0
Aussie 10-Year Bond Yield	4.835	-0.001
Japanese 10-Year Bond Yield	1.029	0.05

Stocks	Last Price	Net Change
Eurostoxx	2448.96	1.35
FTSE 100	5201.56	45.72
DAX	5928.05	-23.12
Nikkei	9149.26	158.2
S&P ASX 200	4452.7	82.6
Hang Seng	20737.22	139.87
Shanghai Composite	2652.664	41.922
Dow Futures	10116	-25
S&P Futures	1061.25	-2.5

Commodities	Last Price	Net Change
WTI Crude Oil	74.58	-1.37
Spot Gold	1235.95	-2.15

trading a little more defensively in light volume. Technically, the set-up here still points lower (1.21 area in the next few weeks)," explains the report. "We look for shortterm losses to accelerate below 1.2675 support."

From Helaba: The technical outlook behind EUR/USD is downbeat, says a research note from Helaba on Monday. "Economic concerns are unlikely to be dampened this week," explains the report. "The euro is also hovering around 1.27 and has not yet broken above the steep downtrend. Accordingly, the EUR-USD exchange rate is subject to risks. Only a rise above the previous week's high of 1.2779 and the trend line would improve the technical outlook."

From BMO Capital Markets: The Canadian dollar is looking fairly neutral from a long term perspective, says a research note from BMO Capital Markets on Monday. "The loonie largely followed global equity markets first lower, and then almost back to level last week," explains the report. "The currency ended the week at 95.1 cents ($1.051/US$), down 0.5%, the third consecutive weekly decline (mirroring the three declines in the S&P 500). While weaker oil prices remained a big drag on the currency early in the week, crude recovered to above $75/bbl by Friday. And, the CRB managed to finish slightly higher on the week (+0.1%). Almost eight full months into 2010, and the Canadian dollar is now essentially unchanged so far this year—lots of currency smoke, but no real fire here. The loonie starts the week a tad stronger again, at 95.3 cents (just below $1.05)."

From RBC Capital Markers: Canadian dollar traders are looking ahead to the Canadian GDP report tomorrow, says a research note from RBC Capital Markets on Monday. "USD/CAD enters the week around 1.05, with no clear directional bias evident overnight," says the report. "Only one major data release this week: Q2 GDP, to be released tomorrow. Q2 GDP is the last major data release before the BoC meeting on September 8 (monthly Canadian employment data will only be published two days after the meeting)."

From TD Securities: Gains in the Canadian dollar are likely to be limited, according to a research note from TD Securities on Monday. "USD/CAD fell sharply Friday and the failure in the upper 1.06 area last week suggests that more range trading is likely in the short-run," explains the report. "We continue to view the potential for CAD strength as rather limited at the moment and look for support in the low/mid 1.04 zone from here."

From Scotia Capital: The pound sterling is stronger on Monday despite low volume trading from a bank holiday in the region, says a research note from Scotia Capital on Monday. "GBP is stronger leading into the North American open as the UK is celebrating a bank holiday today," begins the report. "Helping to support the currency are ongoing positive undercurrents on the UK macro-economic backdrop. Today, the British Chamber of Commerce raised its 2010 growth forecast to 1.7% (from 1.3%) and its 2011 forecast to 2.2% (from 2.0%) and expects the BoE to begin hiking interest rates by mid-2011. Technically, the short-term outlook for GBP has improved and we would expect a test of recent congestion of 1.5700 in the near-term."

From KBC: Sterling has made some headway on the back of some unexpected hawkishness form the central bank and some upbeat economic data, argues a research note from KBC. "Since mid July, sterling had a good run against the euro. At the early August policy meeting, the BoE maintained a balanced approach," explains the report. "Inflation is expected to stay well above target in 2011 due to a new VAT hike. Nevertheless, the BoE still sees inflation returning slightly below target once this temporary factors are worked out. Dissenter Sentance got no support for his call for a rate increase. However, this rather soft message didn't prevent a gradual rise of sterling against the euro during the month of August. Recently, the move was supported by some encouraging UK eco data."

From TD Securities: This morning's rebound n the Japanese yen is attributable to the Bank of Japan's decisions to stimulate the economy, says a research note from TD Securities. "The JPY has rebounded in response to renewed BoJ easing steps announced earlier today," explains the report. "Investors are disappointed that the policy moves were not more aggressive. The emergency BoJ action, following the central bank delegation's early departure from the Fed's symposium in Jackson Hole, will expand the fixed funding programme for financial institutions by JPY10tn to JPY30tn in total. The programme will also be "termed out" to 6 months from 3 months previously. The results are in line with expectations – it had been thought that the central bank could be prepared to lend money for up to a year – but do not really address the problems facing the Japanese economy."

From RBC Capital Markets: The yen is all over this morning's weaker than expected measures from the Bank of Japan, says a research note from RBC Capital Markets on Monday. "The BoJ left the overnight call rate unchanged at 0.1%, but additional easing measures were at the most conservative end of expectations," says the report. "The BoJ kept the 3mth loan supply at JPY20trn, but announced new loans of JPY10trn 6mth funds. Suda was the only dissenter, opting for no change in monetary policy. The BoJ kept its assessment of the economy unchanged and made no reference to the JPY."

From KBC: The yen bulls were disappointed by the actions taken by the Bank of Japan this morning, says a research note from KBC on Monday. "This morning, the BOJ at an emergence meeting eased monetary policy. The policy rate was left unchanged at 0.1%, but they expanded a special funding operation supplying cheap fixed loans to banks," explains the report. "This move was widely expected. In a first reaction, markets were not really convinced that these measures would be able to break the deflationary context and stop the ascent of the yen. On the contrary, the Japanese currency had lost some ground early in Asian trade due to improved global sentiment. However, disappointment on the BOJ decision even helped the yen to recoup part of the early losses."

From BMO Capital Markets: Yen traders are still digesting today's decision taken by the Bank of Japan, says a research note from BMO Capital Markets on Friday. "The Bank of Japan held an emergency meeting today (leaked to the Japanese press late Friday afternoon), a week ahead of the regularly scheduled monetary policy meeting," explains the report. "The JPY was speculated to be the reason behind this move but alas, that didn't appear to be the case. The central bank announced that it would leave the current benchmark rate at 0.1%, raise its lending facility that currently loans out short-term funds at a low, low rate of 0.1%, to ¥30 trln (from ¥20 trln), of which ¥20 trln would be for fixed-rate loans with a 6-month maturity date. But no direct intervention moves on the JPY were announced and as such, the JPY strengthened even further overnight to ¥84.62. Interesting that since their various emergency lending facilities were introduced back in December 2009 (also at what the WSJ referred to back then as a 'hastily convened meeting'), the JPY has strengthened from about ¥87 to ¥84. The Bank left its economic assessment unchanged, citing that the economy showed further signs of recovery but stressed the importance of ending deflation."