

Daily Foreign Exchange Update

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CURRENCY STRATEGISTS

Camilla Sutton, CFA, CMT
(416) 866-5470

Sacha Tihanyi
(416) 862-3154

Camilla_Sutton@scotiacapital.com

Sacha_Tihanyi@scotiacapital.com

TODAY APPEARS TO BE A DAY OF REST BEFORE NONFARM

- Our new forecast calls for EUR at 1.38, GBP at 1.69 & USDCAD at 0.98 by Q411.
- Mixed US data appears puzzling, but still supports a dovish Fed and a weak USD.
- ECB leaves rates unchanged, Riksbank raises rates; both as expected.
- Swiss GDP outperformance keeps CHF well bid.

FX Market Update - After yesterday's significant moves across asset classes, today is shaping up to be a day of rest. Equities and commodities are close to flat, risk aversion is neutral and the USD is mixed. AUD has given back some of yesterday's gains after a disappointing trade balance, GBP is also weak on weaker than expected housing prices and PMI construction, while CAD, MXN and EUR are flat. Outperforming are CHF, after a strong GDP print, SEK after the Riksbank increased rates, NOK, NZD and JPY. C.S.

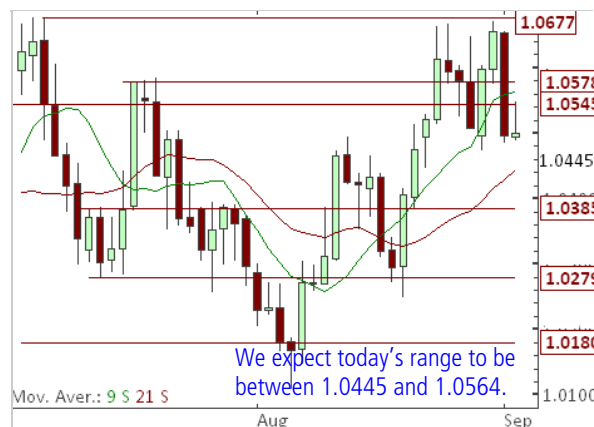
New Forecast - We have released our updated forecast in our FX Monthly - see Suggested Readings. Uncertainty over the near-term remains high but has come down from the extreme levels it reached at the height of the EU sovereign debt crisis in the spring. Accordingly, though spikes in risk aversion will continue to play a key role in currency valuation, we think their impact will fade into the fall, opening the door to a renewed bout of USD weakness in 2011. As such, we expect EUR to close this year at 1.29 and next year at 1.38; whereas GBP is expected to rise to 1.57 by December and 1.69 by Q411. The fundamentals for CAD and AUD remain bright, but both will struggle against the weight of a decelerating global recovery, which will see them temporarily underperform the other majors. We look for USDCAD to remain in its year-to-date closing range of 0.9980 to 1.0750, ending the year at 1.05 and next through parity at 0.98 -- see table. C.S.

Uneven US Data - Yesterday's data flow could not have been more confusing. ISM manufacturing came in well above expectations at 56.3, even the subcomponents pointed towards a growing manufacturing sector. However, ADP employment reported a loss of 10k jobs, well below consensus of 15k, then construction spending dropped - 1.0% in July putting some early downward pressure on Q3 GDP estimates and finally vehicle sales were weak at just 8.7m in August. Our view remains that the US is in the midst of a fragile and sub-trend recovery, where the pattern of growth will prove uneven. The housing sector is weak, unemployment is high and it will be some time before the consumer spends again. In this environment the Fed will remain dovish for many quarters to come and the USD is likely to weaken. C.S.

Americas

USDCAD (1.0503) • After yesterday's strength, CAD is a mid-performer today, leading into the North American open flat to yesterday's close. There are no data releases in Canada until next Tuesday, when the Bank of Canada will make its highly debated interest rate decision. Currently, **the market is pricing in a 52% chance that the BoC will increase interest rates.** With a slowing US economic growth trajectory and early evidence that the Canadian economic backdrop is not as strong as the BoC had expected, the risk that the BoC pauses has increased. However, one interest rate hike and a dovish statement or a pause with a statement that leaves the door open to an October hike, might (after the knee jerk reaction) elicit the same somewhat neutral currency response. From here, **CAD is highly susceptible to any shift in the outlook for US and global growth (as yesterday's reaction to China's PMI and the US' ISM highlight well).** With oil opening close to yesterday's close, equities flat and risk aversion neutral, today **could well be a day of rest after yesterday's violent moves.** In addition, considering the recent uneven US data releases, markets will be nervous leading into tomorrow's US payrolls release. **We expect today's USDCAD range to fall between 21 and 9-day moving averages of 1.0445 and 1.0564, respectively** - see chart. C.S.

USDCAD TAKES A DAY OF REST



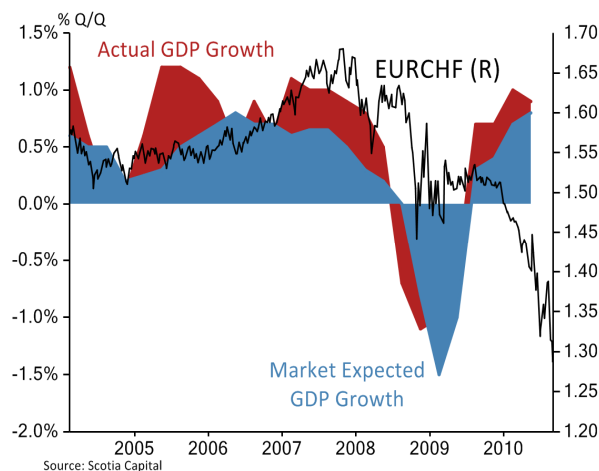
Source: TraderMade & Scotia Capital

SCOTIA CAPITAL FX FORECAST SUMMARY

FX - 2011 MARKED BY USD WEAKNESS

	2008	2009	2010f	2011f
USDCAD	1.20	1.05	1.05	0.98
CADUSD	0.83	0.95	0.95	1.02
USDMXN	13.00	13.10	12.90	13.30
EURUSD	1.42	1.43	1.29	1.38
GBPUSD	1.46	1.62	1.57	1.69
USDJPY	88	93	85	95
USDCNY	6.80	6.80	6.75	6.50

EURCHF BENEFITTING FROM SWISS GROWTH SURPRISES



Source: Scotia Capital

Europe

EURUSD (1.2828) • EUR maintained a fairly unenthusiastic profile in Asian and early European trading before the ECB announcement, though moving back into the black, up 0.2% against the USD ahead of the North American day. **The ECB left rates on hold at 1% as widely expected**, and as usual the market awaits Mr. Trichet's post policy decision press conference. There has been some notable data for the currency union to help underscore nascent strength today as GDP came in as expected at 1% q/q, confirming the initial estimate (released in August) which was better than the 0.7% initially expected. Positive news on the French employment front is also helping to boost EUR confidence as joblessness fell significantly in the country, dropping by 70K in 2Q, the first such drastic post recession decrease. This brought the unemployment rate to 9.7% from the previous 9.9%. • EURUSD has managed to develop an upside propensity over the past few sessions, with an encouraging close above its 50-day moving average yesterday, a level that the pair currently holds above today (at 1.2803). **EURUSD's MACD is on the verge of generating a buy signal for the first time since the pair's impressive rebound off of the June low.** Our new EURUSD forecast foresees a more buoyant EUR towards the end of 2011, with our outlook now adjusted for a much steeper appreciation to 1.38 by Q4'11 from the previous 1.30 as we expect that a reversion towards a broad weakening trend in the USD makes itself felt in EURUSD. Our target for the end of this year has been revised up to 1.29 from the previous 1.24. Failing a resumption in intense sovereign risk related pressure on EURUSD, we feel that the monetary, fiscal and economic dynamics increasingly favour less Eurozone bearishness and a return to a more constructive outlook for the pair. S.T.

Key Pricing & Levels

	30 Day Hist Vol	Spot	1 Day Change	1 Week Change	100 Day MA	200 Day MA	Pivot 1st Support	Pivot 1st Resistance
USDCAD	10.8	1.0503	0.0005	-0.0077	1.0378	1.0389	1.0439	1.0612
EURUSD	11.0	1.2828	0.0020	0.0113	1.2698	1.3345	1.2709	1.2902
GBPUSD	8.5	1.5406	-0.0049	-0.0121	1.5131	1.5430	1.5331	1.5486
USDCHF	11.7	1.0118	-0.0041	-0.0123	1.0845	1.0676	1.0060	1.0181
USDJPY	10.1	84.16	-0.28	-0.29	89.28	90.03	83.66	84.66
AUDUSD	13.3	0.9089	-0.0028	0.0228	0.8814	0.8939	0.8954	0.9170
USDMXN	9.4	13.04	-0.03	-0.02	12.72	12.73	12.97	13.17
DXY (USD index)	8.4	82.37	-0.08	-0.55	83.97	81.45	81.97	83.00
CRB Commodity		268.51	4.32	6.71	264.10	269.84	N/A	N/A
Gold		1,247.07	2.77	9.78	1,207.10	1,163.14	1,241.44	1,253.71
WT Crude (Nymex)		73.68	-0.23	0.29	76.73	77.53	72.07	74.88
Nat Gas (Nymex)		3.75	-0.01	-0.07	4.38	4.67	3.68	3.85
BoC Noon Rate		1.0497	CAD (close from Bloomberg not BoC):					1.0498

Pricing Source: Bloomberg

9/2/2010

Today's Releases & Speakers

Time (EST)	Country	Release	Period	Cons	Last	Significance
08:30	US	Nonfarm Productivity	2Q F	-1.9%	-0.9%	Medium
08:30	US	Unit Labor Costs	2Q F	1.2%	0.2%	Medium
08:30	US	Initial Jobless Claims		475K	473K	Medium
08:30	EC	Trichet Speaks at ECB Monthly News Conference				High
09:00	US	Fed Chairman Bernanke Testifies Before Commission				High
10:00	US	Factory Orders	JUL	0.2%	-1.2%	Medium
10:00	US	Pending Home Sales MoM	JUL	-1.0%	-2.6%	Medium
10:00	US	Pending Home Sales YoY	JUL	--	-20.1%	Medium
10:30	US	ICSC Chain Store Sales YoY	AUG	--	2.8%	Medium
19:50	JN	Capital Spending	2Q	-6.5%	-11.5%	Medium
21:00	CH	China Non-manufacturing PMI	AUG	--	60.1	Medium
22:30	CH	China HSBC Services PMI	AUG	--	56.3	Medium
04:00	EC	PMI Composite	AUG F	56.1	56.1	Medium
04:30	UK	PMI Services	AUG	52.9	53.1	Medium
05:00	EC	Euro-Zone Retail Sales (MoM)	JUL	0.2%	0.0%	Medium

Suggested Reading

- [FX Monthly, Scotia Capital](#) (September 2010)
- [Meat price surge fuels fears of food inflation](#), Jack Farchy, **FT** (September 1, 2010)
- [Greece debt default seen as 'unlikely'](#), Robin Harding, **FT** (September 1, 2010)
- [The perils of Japan's Andy Warhol politics](#), David Piling, **FT** (September 1, 2010)
- [IMF Warns Countries of Debt Risks, Dismisses Idea of Greek Default](#), Bob Davis, **WSJ** (September 2, 2010)

GBPUSD (1.5407) • Sterling is weaker today, underperforming most majors and off 0.3% against the USD. The near term price action for GBP has been unconstructive, as GBP is undermined by weaker than expected housing and construction data. Nationwide house prices fell 0.9% in August against the -0.3% m/m expected. In addition, the construction sector PMI declined to 52.1 from 54.1, around 1.1 points worse than expected, leaving GBPUSD fundamentally unsupported following selling in the Asian session. Our new GBPUSD forecasts have been upgraded significantly as we now see 1.57 by the end of this year versus the previous 1.53. **Our forecast now incorporates a much steeper appreciatory bent for GBPUSD, to 1.69 by the end of 2011 versus the 1.55 previously foreseen.** USD weakness will be a key driver of this pair, just as it will be for EURUSD, though GBPUSD will also benefit from a more proactive central bank in 2011, helped in great part by the absence of the threat of deflationary forces in the economy. In the near term however, cable remains challenged with the 1.55 now providing a topside challenge while buying interest comes into play toward Tuesday lows around 1.5325. S.T.

EURSEK (9.3203) • SEK is up 0.2% against EUR after the Riksbank raised rates by the expected 25bps to 0.75% in order to head off inflationary pressures as the economy rebounds. Two reservations were registered against the decision, with one suggesting no change in rates, though both looked for a less aggressive forecast path for the Riksbank's repo rate as current forecasts see it closer to 1% by the end of this year and over 2% and 3% by the end of 2012 and 2013 respectively. EURSEK continues to grind lower and is testing support at 9.30, **a level likely to give way in the near term should risk sentiment prove constructive given the high gearing of SEK to August equity weakness.** S.T.

EURCHF (1.2981) • CHF is up around 0.3% against EUR following better than expected Q2 GDP data. **While Q2 came in at 0.9% q/q against the 0.8% expected, Q1 was revised up to 1% q/q from 0.4%, an impressive gain.** EURCHF remains close to record lows at 1.2850, with buyers today helping keep the pair above 1.2940. Risk sentiment remains a key driver of this pair as it has over the past two months as **the rolling 1-month correlation between EURCHF and the MSCI World Index holds at 0.87, just off of recent 1-year highs at 0.96.** S.T.

Our August Monthly FX Strategy Call is now available, please dial in at your convenience.

Dial: 416-695-5800
Passcode: 8758544#

This month's 20-minute call is hosted by Camilla Sutton and discusses:

- 1) The outlook for USDCAD
- 2) The threat of a US and global growth economic slowdown
- 3) Is there a catalyst to break USDCAD out of its 0.9980 to 1.0750 range?

The presentation can be found at:

<http://www.scotiafx.com/conference/index.htm>

Conference call commands

Press 1 – Skip backward 5 seconds

Press 3 – Skip forward 5

Press 4 – Skip backward 5 minutes

Press 6 – Skip forward 5 minutes

Press 5 – Pause the playback

If you have any questions, please contact:

Camilla Sutton at (416)866-5470, camilla_sutton@scotiacapital.com or

Sacha Tihanyi at (416)862-3154, sacha_tihanyi@scotiacapital.com

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