



July 30, 2010

DAILY ECONOMIC COMMENTARY

HIGHLIGHTS

- St Louis Fed president James Bullard warns of Japanese style deflation if interest rates remain near zero
- Japanese June industrial output declines
- Japanese June consumer prices fall 1.0%
- Germany June retail sales fall 0.9%, worse than expected
- EZ unemployment rate unchanged at 10%
- Range: 1.0270 – 1.0420

BANK OF CANADA Closing Exchange Rates

USD/CAD	1.0362
CAD/USD	0.9651
EUR/CAD	1.3551
GBP/CAD	1.6177
AUD/CAD	0.9333
NZD/CAD	0.7502
JPY/CAD	0.01193
CHF/CAD	0.9953

London Noon Exchange Rates

USD/CAD	1.0310
EUR/USD	1.3003
GBP/USD	1.5575
AUD/USD	0.8997
NZD/USD	0.7239
USD/JPY	86.46

Good morning.

The US dollar is mixed in light trade leading up to Q2 GDP. GBP/USD and EUR/USD are weaker on expectations of lower-than-expected growth in the US economy. The Loonie and Japanese yen are stronger, and the yen was the best performing currency overnight. The stronger Canadian dollar is typical of the seemingly random and irrational trading pattern that has exasperated traders and investors for the past couple of months. The high-degree of volatility and counter-intuitive price action is indicative of a consolidative/corrective phase during which charts are less useful except to show that trading will be volatile and to expect the unexpected – not a particularly appealing recipe for trading profitably.

In the big picture, the weekly chart for USD/CAD may be interpreted as being bearish for the US dollar. Since May, the currency pair has traded between the 25-week and 55-week MA lines. The 25-week MA has provided both support and resistance; however even more important is the fact that the 55-week MA has provided staunch resistance and if trading for the week were to end at this moment, the weekly close would be below the 25-week MA. The apex of the symmetrical triangle is fast approaching so our expectation is that the consolidation should be resolved before the end of August. It is generally difficult and certainly unwise to try and guess the direction of the break before it actually occurs. The adage that *things are not always how they appear* can be perfectly applied in these cases. Over the past two months there have not been three consecutive weekly closes either higher or lower than the prior week. This would be a primary condition in determining whether the consolidation has ended.

The difficulty in determining the next move lies in fact that the technical picture argues in favour of a stronger Canadian dollar, but the fundamental outlook, weaker US and global growth, euro zone sovereign debt concerns and tight credit conditions in the US, Europe, UK et al, all scream in favour of a stronger US dollar. Even if the Canadian economy expands at 2.8% -3.2% rate for the rest of 2010, according to the BoC's downwardly-revised projections in the July MPR, a decelerating US economy will likely provoke further downgrades to the 2011 and 2012 growth outlook. Today's release of US Q2 GDP will be especially closely-watched in view of the largely disappointing economic data over the past several weeks. At the moment, markets are extremely pessimistic about the number and it would appear that much of this negativity is already priced-in. Therefore, if the Commerce Department reports that the US economy expanded at a better-than-expected pace and that final demand is a large contributor to the number, this could provide the impetus for another rally in asset prices and investor confidence; although the dyed-in-wool bears would still argue that this only prolongs the inevitable.

James Bullard, president of the St Louis Federal Reserve and a voting member of the FOMC injected an interesting mix into the monetary policy discussion. It seems his suggestion to avoid a "Japanese-style" deflationary period would be to raise interest rates and for the Fed to extend and expand its quantitative easing programme of buying Treasuries and mortgage-backed securities. Bullard is known as being among the more hawkish members of the FOMC. His sentiment is contrary to those that feel that the Fed's pledge to keep interest rates extremely low for an extended period will accelerate inflation. The July Fed Beige Book which was released earlier this week, showed a distinct downturn in the US economy from June, with two districts reporting conditions as unchanged and two districts indicating that economic activity had slowed; the remaining eight districts reported only modest improvements.

In Canada, GDP for the month of May will also be released and the expectation is for the economy to have expanded by 0.1%. In other economic news, Japan industrial output for June fell and manufacturers expect further declines in the months ahead. June consumer prices fell 1.0% which was largely in line with expectations. In Germany, June retail sales fell 0.9% on the month compared with a 3.0% increase in May. The number was worse than expected, breaking a string of generally better-than-expected economic data. In the euro zone, the unemployment rate for June held steady at 10% and flash estimate for July inflation edged up to 1.7% from 1.4%, much as expected.

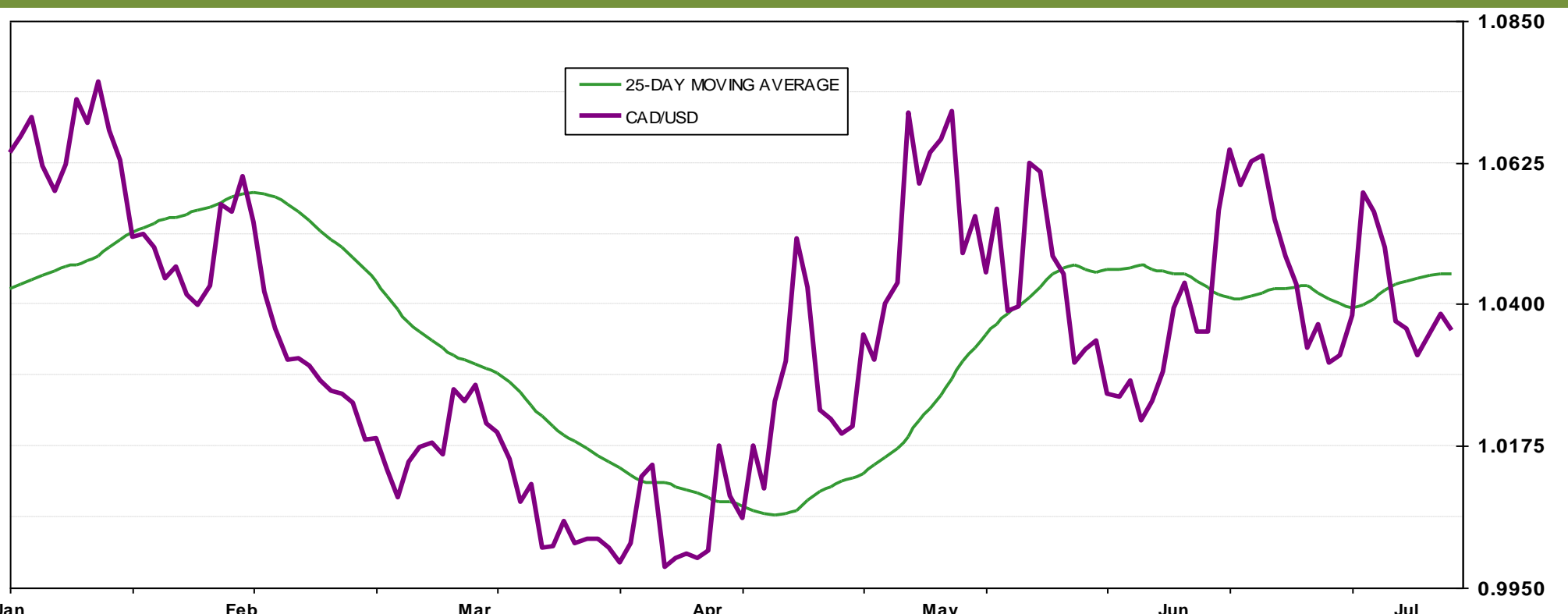
Monday is a market holiday in Canada. Citizens Bank will be closed. Please leave your orders with the FX desk to ensure your risks are covered. See you on Tuesday.

Have a great day.

EQUITIES

TSX	11,729
DOW INDUSTRIALS	10,467
S&P500	1,102
NASDAQ	2,252
HANG SENG	21,030
NIKKEI	9,537
DAX	6,096

CANADIAN DOLLAR PERFORMANCE



COMMODITIES

CRUDE OIL	\$	77.83
GOLD	\$	1,170.95
SILVER	\$	17.64
UNLEADED GAS	\$	2.09
COPPER	\$	3.27
CRB INDEX		270.2



ECONOMIC INDICATORS

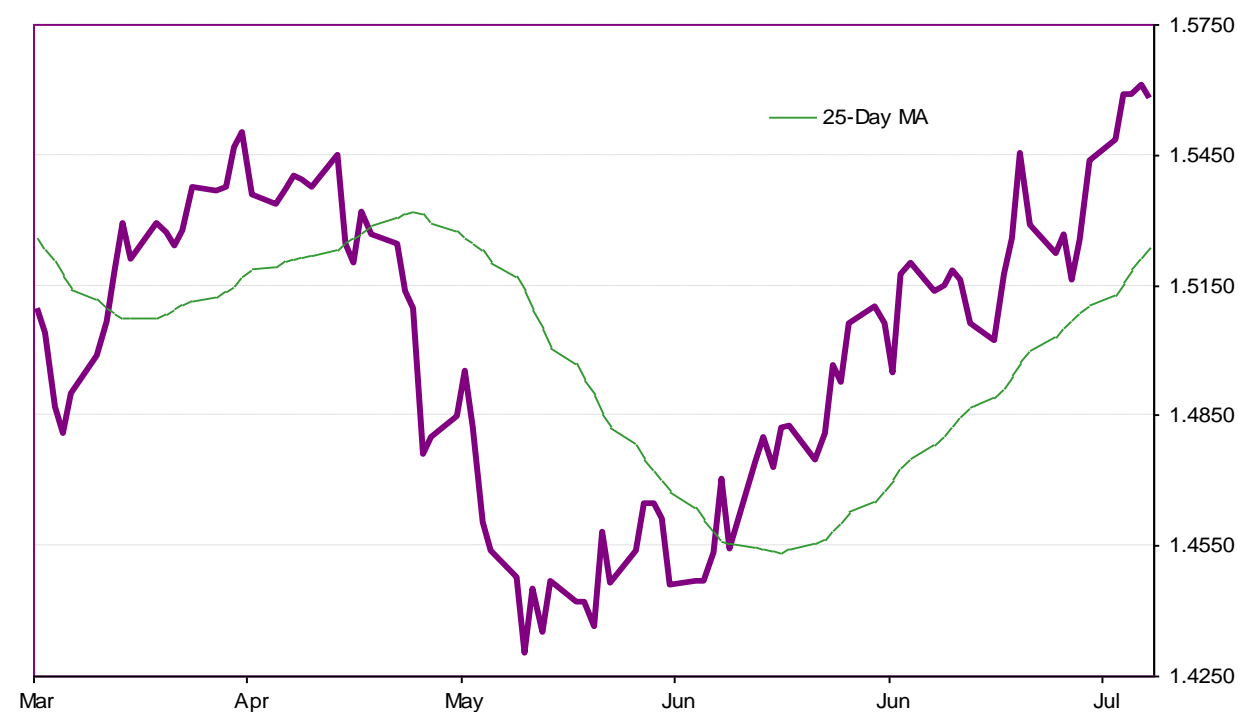
USA				CANADA					
		RELEASE	SURVEY	ACTUAL		RELEASE	SURVEY	ACTUAL	
w/e	US ABC CCI	27-Jul	0	0	May	CA Budget	23-Jul	0	-1.99
Jun	US Durable goods	28-Jul	1	-1	May	CA Budget ytd	23-Jul	0	-4.43
Jun	US New orders XT	28-Jul	0.3	-0.6	Jun	CA PPI mm	29-Jul	-0	-0.9
Jun	US ND cap gds XA	28-Jul	-0	0.6	Jun	CA PPI yy	29-Jul	0	0.2
W/E	US Jobless clms	29-Jul	459	457	Jun	CA Raw mat'ls mm	29-Jul	1	-0.3
W/E	US Cont jobless	29-Jul	4.55	4.565	Jun	CA Raw mat'ls yy	29-Jul	0	-0.1
Q2	US GDP adv Q2	30-Jul	2.5	0	May	CA GDP mm	30-Jul	0.1	0
Q2	US GDP A defl Q2	30-Jul	1	0	Jun	CA Build permits	5-Aug	0	0
Q2	US Core PCE Q2	30-Jul	1	0	Jul	CA Ivey PMI	6-Aug	0	0
Q2	US PCE Q2	30-Jul	0.3	0	Jul	CA Unemployment	6-Aug	0	0
Jul	US Chicago PMI	30-Jul	56.5	0	Jul	CA Jobs-change	6-Aug	0	0
Jul	US Michigan fina	30-Jul	67	0	Jun	CA New housing	10-Aug	0	0

EUR/USD

GBP/USD



EUR/USD : Rally stalls just above 1.3090 resistance. Pullback to 1.3000 is viewed as technical, momentum beginning to moderate but overall S/T direction is higher.



GBP/USD : The 200-day MA continues to act as support, it is important that this level holds if test of next resistance at 1.5740, 55-week MA, is to take place. GBP/USD chart still looks like the currency pair is in consolidation phase.

INTEREST RATES

Central Bank Rates		Bonds	2Y	5Y	10Y	20Y	30Y	Prime Rates	
BOC	0.50%	Canada	1.49%	2.31%	3.14%	3.70%	3.73%	Canada	2.25%
FED	0.25%	US	0.57%	1.63%	2.95%	==	4.05%	US	3.25%
ECB	1.00%	Germany	0.83%	1.69%	2.69%	3.38%	3.39%	LIBOR	
BOE	0.50%	UK	0.78%	2.07%	3.34%	4.23%	4.30%	O/N	0.18%
BOJ	0.10%	Japan	0.16%	0.36%	1.06%	1.74%	1.79%	3 MONTH	0.25%
RBA	3.75%	Australia	4.57%	4.78%	5.21%	==	==	6 MONTH	0.39%

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Expert Advice and Help for Your Business

Regional Office	Local	Toll-Free	Address
Vancouver, BC	604-708-7877	1-800-663-1435	815 West Hastings Street V6C 1B4
Calgary, AB	403-232-8601	1-800-269-9773	150, 505 Third Street SW T2P 3E6
Toronto, ON	416-868-6822	1-888-887-9855	184 Front Street East, Suite 700 M5A 4N3

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