



July 23, 2010

DAILY ECONOMIC COMMENTARY

HIGHLIGHTS

- June Canada total CPI fell 0.1% for annual rate of 1%; it was the first monthly decline since Dec 2009
- Annual core-CPI slipped to 1.7% from 1.8% in May
- BoC MPR maintains Canada inflation outlook
- BoC MPR revises down US and global growth outlook
- July Ifo index rises to 106.2, the highest in three years
- UK Q2 GDP rose 1.1%, almost twice as fast as expected
- Range: 1.0340 – 1.0490

Good morning.

Canada May retail sales fell 0.2% and retail sales ex-autos were down 0.1%. Both numbers were well-below market expectations and in addition April's results were revised downwards. On the bright side, real retail sales, adjusted for inflation, rose 0.4% in May. The best thing that could be said about yesterday's release is that the volatile swing seen in March (+2.0%) and April (-2.2%) did not carry through to May. The data implies that the economy continues to grow at a moderate pace and as long as inflation expectations remain in-check it likely means that the BoC will continue to hike interest rates prudently and with the usual caveats. The disappointing retail sales did not have long-lasting negative effect on the Loonie, which strengthened on the overall upbeat mood of investors which took the Dow Industrials, S&P500 and TSX indexes higher on the day.

The optimism of investors couldn't be attributed to economic news, which was generally disappointing. Weekly initial jobless claims rose to 464,000, more than reversing the previous week's improvement. Analysts were willing to write-off the increase to seasonal fluctuations however with more and more temporary census jobs coming to an end over the coming months, there are growing fears that the unemployment rate will creep higher. In housing there was good news/bad news; the good news was that June existing sales fell less sharply than expected and prices were higher; the bad news was that existing sales were down 5.1% and inventory of homes for sale rose to an 8.9-months supply, the highest since August 2009. It was the second consecutive month of sharp sales declines and illustrates quite clearly the stimulative effect of the home-buyer tax credit that ended on April 30th. Lastly, US index of leading indicators for June fell 0.2% erasing the previous month's 0.5% rise. An economist at the Conference Board, the research group that released the report said that the indicators point to a slowing economy in the second half of 2010; as well, improvement in the services sector is lagging with little to indicate that it will improve anytime soon.

The Bank of Canada released its quarterly Monetary Policy Report yesterday. The theme was established in Tuesday's policy statement however more details were provided. Growth outlook for 2010 was revised down to 3.5%; broken down by quarters, Q2 GDP forecast was cut to 3.0% from 3.8%; Q3 to 2.8% from 3.5%; and Q4 to 3.2% from 3.5%. Downward revisions were also made to forecasts for US and global GDP. BoC Governor Mark Carney was very equivocal in his comments at the press conference following, but analysts reading between the lines determined that nothing he said disputed that the process of raising interest rates was anywhere near complete. It was a pretty upbeat report in the context of economic and financial turmoil in Europe as well as flagging economic indicators in the US.

There was more good economic news from Germany and the UK today which continues to keep EUR/USD and GBP/USD propped-up. German business sentiment was surprisingly strong in July, posting a record jump month-over-month to post its highest reading in three years. The market was taken completely by surprise at the strength of the report with many analysts simply unable to explain how or why. In the UK, Q2 GDP rose 1.1%, almost twice as fast as expected driven by large gains in services output and the fastest rise in the construction sector since 1963. Obviously this also was a major surprise and raises the question as to how much longer the Bank of England can keep rates at current levels especially in view of stubbornly high inflation.

EUR/USD traded to the highs of the day but has since subsided to around 1.2900. Charts show that the technical correction may have ended at 1.2750 and that the next leg up is underway. The primary objective would be 1.3090; however there should be resistance around 1.3025. GBP/USD also strengthened after the GDP release; it will take a breach of 1.5470 in order for the rally to continue into the 1.5525 -1.5825 region.

Canadian CPI in June eased 0.1% for an annual rate of 1.0%; it was the first decline for total CPI in six months. Annual core-CPI dipped to 1.7% from 1.8% in May. The data was within expectations and will mean that the BoC can proceed with the normalization of interest rates. There was little reaction to the data in USD/CAD trading. The key level today remains 1.0430 congestion of moving average lines and below which the spot rate currently trades.

Have a great day.

BANK OF CANADA Closing Exchange Rates

USD/CAD	1.0393
CAD/USD	0.9622
EUR/CAD	1.3391
GBP/CAD	1.5863
AUD/CAD	0.9281
NZD/CAD	0.7530
JPY/CAD	0.01196
CHF/CAD	0.9967

London Noon Exchange Rates

USD/CAD	1.0419
EUR/USD	1.2937
GBP/USD	1.5438
AUD/USD	0.8924
NZD/USD	0.7248
USD/JPY	87.17

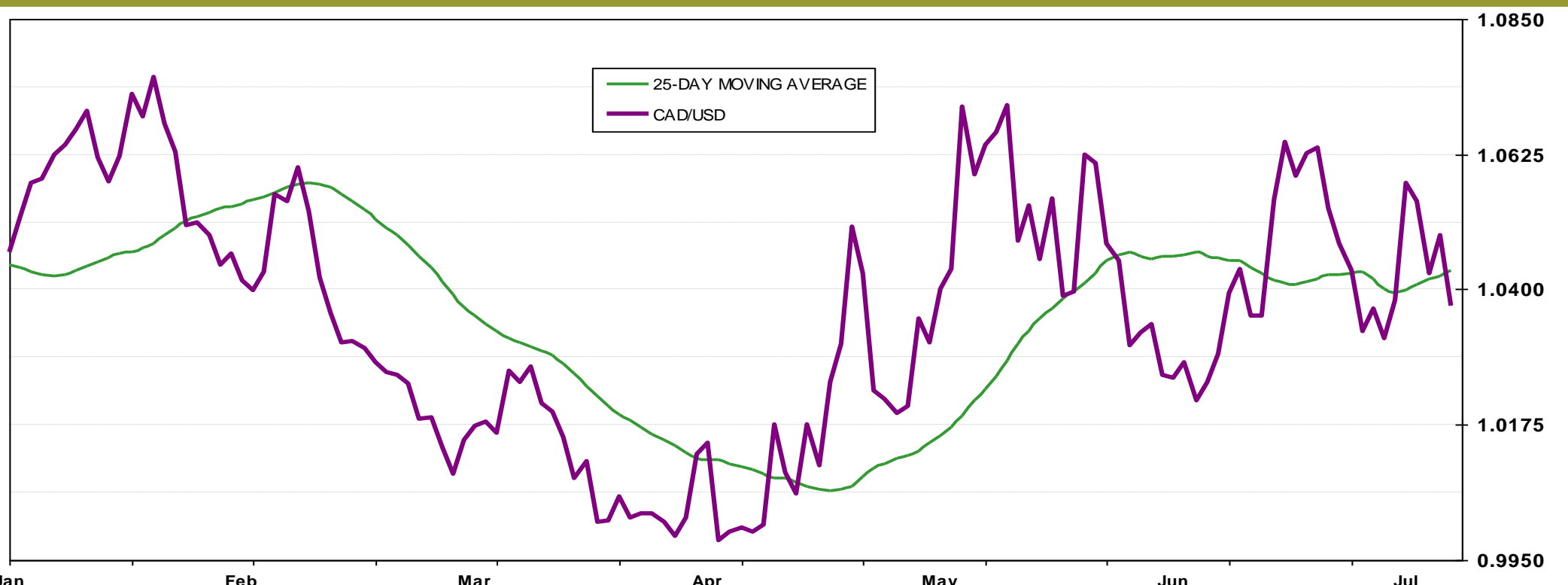
EQUITIES

TSX	11,668
DOW INDUSTRIALS	10,322
S&P500	1,094
NASDAQ	2,246
HANG SENG	20,815
NIKKEI	9,431
DAX	6,167

COMMODITIES

CRUDE OIL	\$	78.83
GOLD	\$	1,202.40
SILVER	\$	18.19
UNLEADED GAS	\$	2.13
COPPER	\$	3.17
CRB INDEX		266.86

CANADIAN DOLLAR PERFORMANCE





ECONOMIC INDICATORS

USA		RELEASE	SURVEY	ACTUAL	CANADA		RELEASE	SURVEY	ACTUAL
Jun	US Home sales	22-Jul	5.18	5.37	May	CA Retail sls mm	22-Jul	0.4	-0.2
Jun	US Home sle chng	22-Jul	-8.1	-5.1	May	CA Retail exAuto	22-Jul	0.4	-0.1
W/E	US Jobless clms	22-Jul	445	464	May	CA Budget	23-Jul	0	0
W/E	US Cont jobless	22-Jul	4.62	4.487	May	CA Budget ytd	23-Jul	0	0
Jun	US New homes	26-Jul	0.31	0	Jun	CA CPI mm	23-Jul	-0	-0.1
Jun	US New home chng	26-Jul	0	0	Jun	CA CPI yy	23-Jul	1	1
Jun	US Chi Fed NA	26-Jul	0	0	Jun	CA CPI BoC Core	23-Jul	0.1	-0.1
Jun	US Midwest mfg	27-Jul	0	0	Jun	CA CPI BoC Core	23-Jul	1.8	1.7
May	US C/Shl mm NSA	27-Jul	0	0	Jun	CA PPI mm	29-Jul	0	0
May	US C/Shiller yy	27-Jul	3.8	0	Jun	CA PPI yy	29-Jul	0	0
Jul	US Cons conf'ce	27-Jul	51	0	Jun	CA Raw mat'ls mm	29-Jul	0	0
w/e	US ABC CCI	27-Jul	0	0	Jun	CA Raw mat'ls yy	29-Jul	0	0

EUR/USD

GBP/USD



EUR/USD : Markets await results of bank stress tests, no surprises expected. Correction likely ended at 1.2750. Next leg higher should see test of 1.3090.

GBP/USD : Technical pullback got within 50bps of 25-day MA line. Strong bounce continues however GBP/USD needs to breach 1.5470 in the near-term to confirm that the next leg up is underway.

INTEREST RATES

Central Bank Rates		Bonds					Prime Rates		
		2Y	5Y	10Y	20Y	30Y			
BOC	0.75%	Canada	1.57%	2.43%	3.23%	3.75%	3.78%	Canada	2.75%
FED	0.25%	US	0.58%	1.71%	2.98%	=	3.98%	US	3.25%
ECB	1.00%	Germany	0.74%	1.67%	2.70%	3.35%	3.36%	LIBOR	
BOE	0.50%	UK	0.87%	2.17%	3.43%	4.24%	4.29%	O/N	0.25%
BOJ	0.10%	Japan	0.15%	0.36%	1.08%	1.80%	1.84%	3 MONTH	0.50%
RBA	4.50%	Australia	4.69%	4.87%	5.21%	=	=	6 MONTH	0.70%

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