



September 17, 2010

DAILY ECONOMIC COMMENTARY

HIGHLIGHTS

- Initial weekly jobless claims fall 3,000 to 450,000
- Improvements are also seen in the 4-week MA and continuing claims
- US Q2 current account deficit widened to \$123.3-billion
- Sep Philly Fed factory survey rose to -0.7 but conditions continue to contract
- Many of the sub-indexes were lower which doesn't bode well for the economic recovery
- Range: 1.0220 – 1.0370

Good morning.

Initial weekly jobless claims fell by 3,000 to 450,000, as reported yesterday by the Labor Department. It's the fourth week in a row that claims have fallen since the spike to 504,000 in August. It's an indication that applications for unemployment benefits are stabilizing around the number that is roughly the average for 2010. For the sake of context, weekly initial jobless claims have been below 430,000 once in 2010 and zero times in 2009; the last time new claims fell below this level was over two years ago. Still, this was a good sign especially when considering that the 4-week MA for jobless claims fell by 13,500, the number of continuing claims fell by 84,000, and those receiving extended or emergency jobless benefits declined by a whopping 508,000. It was only one week's worth of data but it encouraged investors to move further out the risk platform and to be more confident that an economic contraction or double-dip recession has become less probable.

The US current account deficit widened in Q2 to \$123.3-billion, the largest since Q4-2008. Imports of cars and computers were mostly responsible for the trade gap, which also saw exports decline in the second quarter. Growth in retail spending by consumers has been consistently stronger month-over-month since January 2009 and the widening trade deficit, imports in excess of exports, is evidence of that. July trade data, the first report for the third quarter, showed that imports fell 2.1% after a 3% rise in June resulting in a significant narrowing of the deficit from \$49.8-billion to \$42.8-billion; exports surged 1.8% in July exacerbating the narrowing of the gap. It will need to be seen whether July's drop in imports was a one-time event or the beginning of decreased consumer spending. It goes without saying that if the trend moves towards less consumer spending that would be negative for the US economy.

In keeping with the September NY Fed manufacturing report, the Philadelphia Fed released its monthly survey of manufacturing conditions in the Mid-Atlantic region and it came in at -0.7, an improvement from the August reading of -7.0 but below analysts' consensus expectations for a move back into positive territory. A reading above zero indicates expansion in the manufacturing sector, so the latest data is still indicative of contraction, only less so than the previous month. A breakdown of the survey shows a picture that is less rosy than the headline: new orders were lower, as were shipments, unfilled orders, inventories and prices received. The number of employees index rose slightly to +1.8, but the average employee weekly hours worked fell sharply to -21.6; one possible explanation is that full-time employment fell, but was partially offset with part-time employees who worked fewer total hours. The best thing about this report was the improvement in business conditions index from last month, but it was just about the only good thing about it.

Nevertheless, investors are determined that things are getting better. Buoyed by better-than-expected earnings from Oracle and Research in Motion, as well as general, but non-specific good feelings about improved euro zone sovereign debt and financial system problems, and the renewed resolve of the US and other G7 countries (see Mark Carney's comments in today's Globe and Mail) to address China's unfair trade practices including pressure to let its currency float more freely and illegal subsidies, North American stock indexes continued to drift higher and bond prices dropped. The yield on the US 10-year T-bond traded as high as 2.80% before backing down to 2.72%. Gold prices touched another new all-time high today at \$1282.75/oz copper prices have moved back above \$3.50/lb. Crude oil prices found strong resistance at the 200-day MA and have since moved below the 55-day MA to trade currently around \$75/bbl.

USD/CAD broke below 1.0250 intraday but has pulled back towards that level as the US dollar has strengthened in European midday trading. This level remains moderately important on a daily close basis. Indications from both daily and weekly charts are that consolidation remains in force. Daily Stochastics momentum is showing bullish momentum building with the inability of the exchange rate to make significant headway to the downside.

Have a great day.

BANK OF CANADA Closing Exchange Rates

USD/CAD	1.0266
CAD/USD	0.9741
EUR/CAD	1.3426
GBP/CAD	1.6044
AUD/CAD	0.9617
NZD/CAD	0.7441
JPY/CAD	0.01196
CHF/CAD	1.0112

London Noon Exchange Rates

USD/CAD	1.0236
EUR/USD	1.3092
GBP/USD	1.5658
AUD/USD	0.9438
NZD/USD	0.7298
USD/JPY	85.79

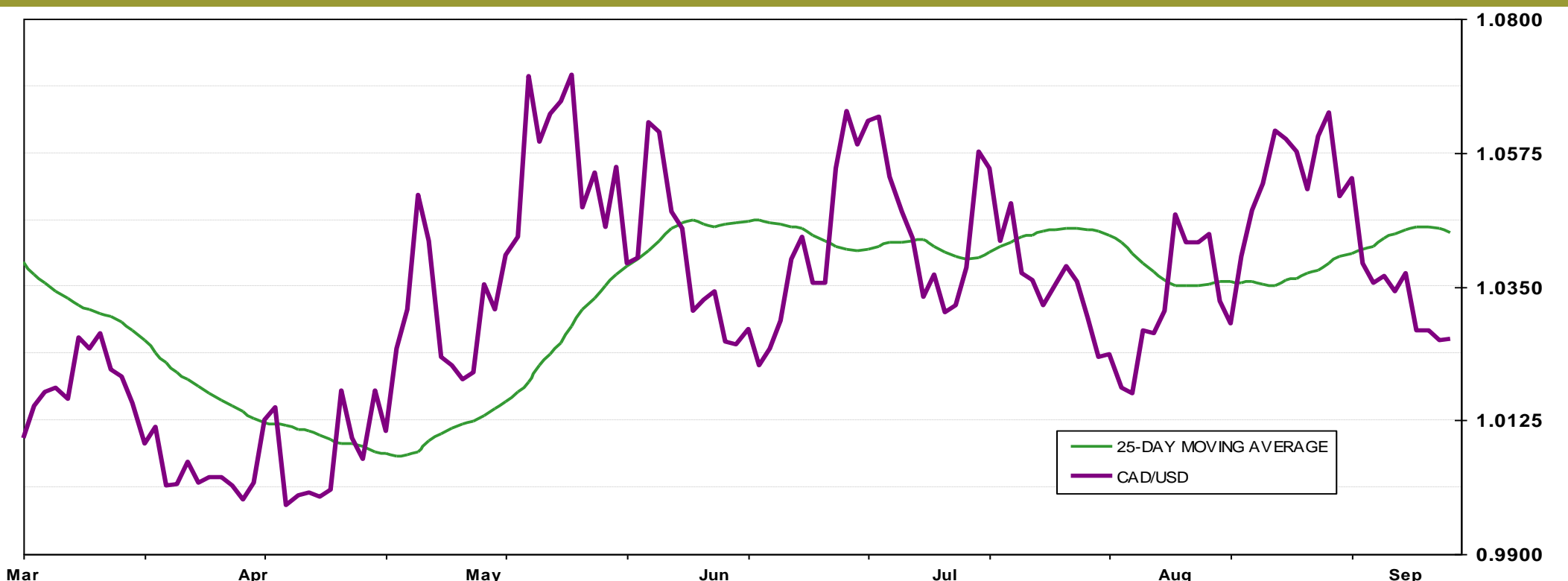
EQUITIES

TSX	12,173
DOW INDUSTRIALS	10,595
S&P500	1,125
NASDAQ	2,303
HANG SENG	21,971
NIKKEI	9,626
DAX	6,303

COMMODITIES

CRUDE OIL	\$	74.87
GOLD	\$	1,276.25
SILVER	\$	20.80
UNLEADED GAS	\$	1.94
COPPER	\$	3.52
CRB INDEX		278.69

CANADIAN DOLLAR PERFORMANCE



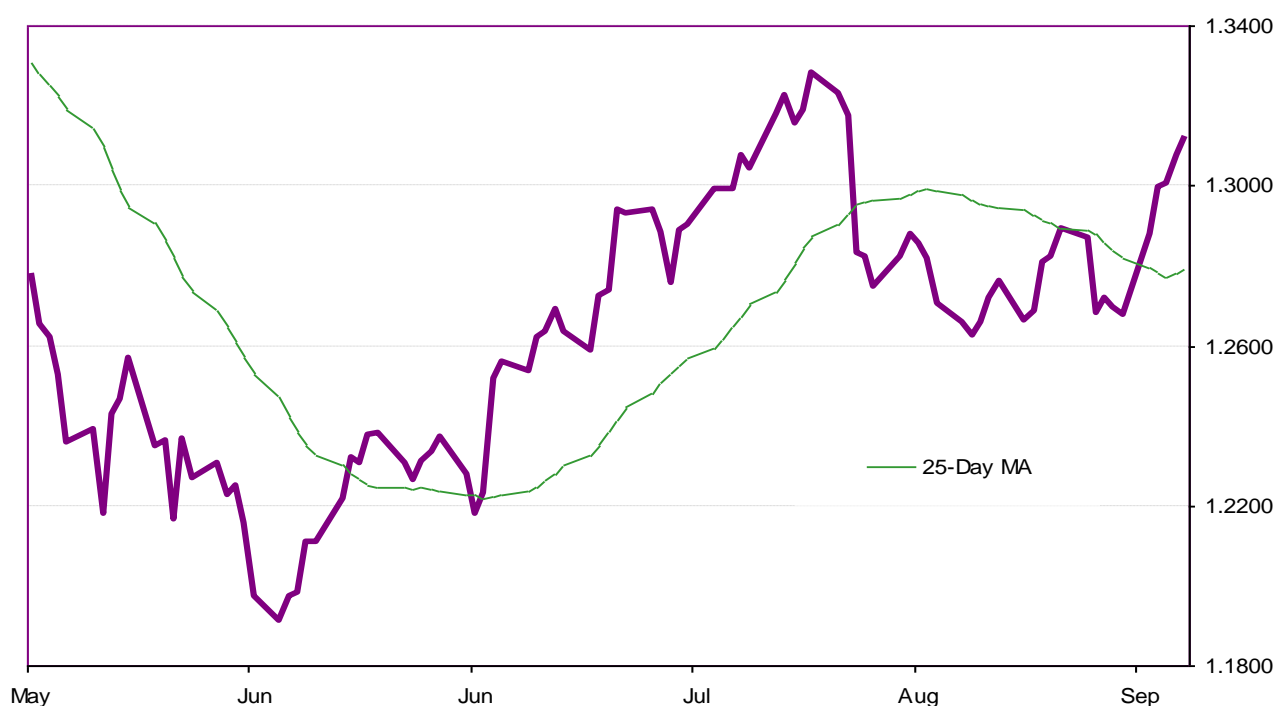


ECONOMIC INDICATORS

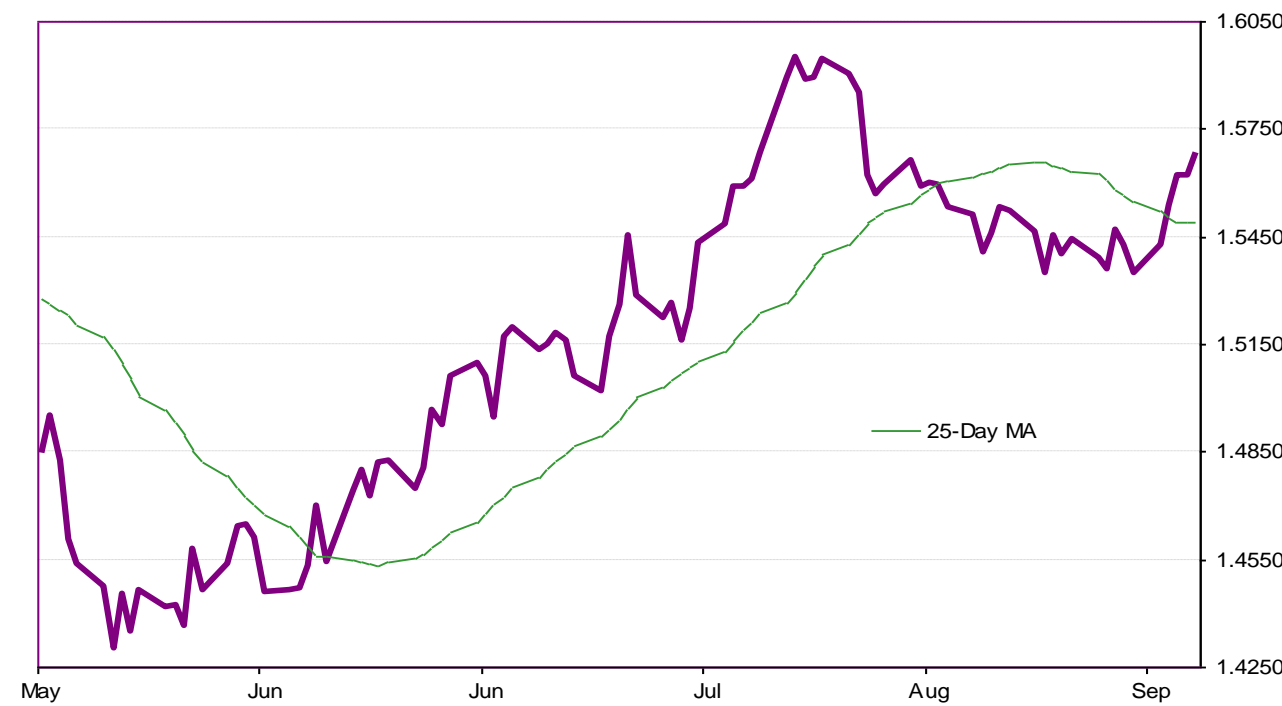
USA		RELEASE	SURVEY	ACTUAL	CANADA		RELEASE	SURVEY	ACTUAL
Aug	US Ind Prod mm	15-Sep	0.2	0.2	Jul	CA New housing	9-Sep	0.1	-0.1
Q2	US C/a Q2	16-Sep	-125	-123.3	Jul	CA Trade bal	9-Sep	-0.81	-2.74
Jul	US Overall flows	16-Sep	0	63.7	Q2	CA Ca%y use Q2	14-Sep	75.8	76
Jul	US Net LT xswaps	16-Sep	0	61.2	Q2	CA Lab prod rate	14-Sep	-0.5	-0.8
Jul	US Net long term	16-Sep	0	44	Jul	CA Mfg sales	15-Sep	0.2	-0.9
Aug	US PPI yr/yr	16-Sep	3	3.1	Jul	CA Securities	20-Sep	0	0
Aug	US PPI mm	16-Sep	0.3	0.4	Jul	CA Securities	20-Sep	0	0
Aug	US PPI X mm	16-Sep	0.1	0.1	Jul	CA W'sale trd mm	20-Sep	0	0
Aug	US PPI X yy	16-Sep	1.3	1.3	Aug	CA CPI mm	21-Sep	0	0
Sep	US Phil Fed bus	16-Sep	2	-0.7	Aug	CA CPI yy	21-Sep	0	0
W/E	US Jobless clms	16-Sep	460	450	Aug	CA CPI BoC Core	21-Sep	0	0
W/E	US Cont jobless	16-Sep	4.46	4.485	Aug	CA CPI BoC Core	21-Sep	0	0

EUR/USD

GBP/USD



EUR/USD : continues to push higher on less risk aversion as well as M&A activity: J&J offer €1.75-bln cash to buy vaccine manufacturer Crucell. Near-term outlook is bullish targeting the zone between 1.3250 -1.3350. Primary support is around 1.2850.



GBP/USD : breaks resistance at 1.5650 intraday. Currency pair trades above the 25-day, 55-day and 200-day MA lines, and needs to hold above 1.5650 on daily closing basis to maintain bullish sentiment. Weekly chart turns bullish on a close above 1.5625 today.

INTEREST RATES

Central Bank Rates		Bonds					Prime Rates		
		2Y	5Y	10Y	20Y	30Y			
BOC	1.00%	Canada	1.49%	2.24%	2.95%	3.49%	3.53%	Canada	3.00%
FED	0.25%	US	0.47%	1.43%	2.72%	=	3.89%	US	3.25%
ECB	1.00%	Germany	0.77%	1.43%	2.41%	3.07%	3.06%	LIBOR	
BOE	0.50%	UK	0.70%	1.77%	3.11%	3.99%	4.11%	O/N	0.23%
BOJ	0.10%	Japan	0.14%	0.31%	1.10%	1.87%	1.99%	3 MONTH	0.29%
RBA	4.50%	Australia	4.77%	4.90%	5.12%	=	=	6 MONTH	0.47%

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