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# MARKET WATCH

## FX NEWS

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The Canadian Dollar ended substantially higher Thursday, boosted by another sharp move higher in stocks and commodities. The release of the Bank of Canada's quarterly monetary policy report Thursday and a news conference by Governor Mark Carney reinforced expectations of continued, albeit cautious, monetary tightening from Canada's central bank.

The U.S Dollar was at C\$1.0376 at 3:29 p.m. EDT (1929 GMT), from C\$1.0408 at 8:00 a.m. EDT (1200 GMT), and from C\$1.0482 late Wednesday. The U.S. unit hit a session low of C\$1.0357, according to EBS via CQG, before rebounding in thin afternoon trading.

Strength in commodities, notably crude oil futures, also supported the Canadian unit. You've also got oil, which is flirting with the \$80 a barrel level, market watchers said.

The Canadian Dollar initially weakened off slightly after the release of the Bank of Canada's monetary policy report, which cut quarterly growth forecasts through to the first quarter of 2011 to reflect a weaker and more uncertain outlook for the global economy and tweaked inflation forecasts.

But many participants interpreted the report as reinforcing the bank's bias to tightening policy, pointing in particular to a sentence that said the bank's projection "includes a gradual reduction in monetary stimulus consistent with achieving the inflation target."

"I think certainly this takes some of the ambiguity of out of which way rates are going over time," said Jon Gencher, director of foreign-exchange sales at BMO Capital Markets in Toronto. Trading flows have been notably thin recently, Gencher said. "We're seeing some decent stuff in the morning," Gencher said. "In the afternoon, pricing activity is pretty much driven by order flow". The \$US appears caught in a broad trading range between C\$1.0300 and C\$1.0700. "It still looks like we're going to grind sideways," Gencher said. In the short-term, there's \$US support at \$1.0350 and resistance at \$1.0525, he said.

The U.S./Canadian dollar's tendency to fluctuate sharply in a well-defined range has been frustrating for long-term investors, but profitable for more short-term traders, said Laurentian's Denolf. "It's been giving long-term investors a headache this summer, but traders are doing fairly well, they're playing the range," he said. There's a wide array of opinions about the future direction of the Canadian currency, and that's contributed to its recent volatility, Denolf said. "But the range is getting narrower, and it's a matter of time before we break down or break up out of this range," he said.

In Canadian data Thursday, Canadian retail sales dropped unexpectedly in May, driven down by fewer sales at building material and garden equipment and supplies dealers, and lower gas prices. Retail sales fell 0.2% to C\$36.02 billion (US\$34.38 billion), following a 2.2% decline in April, revised down from a previously estimated 2%, Statistics Canada said. The market had expected May sales to increase 0.4%.

On Friday, consumer price index data for June will be released. Economists expect that the core CPI rose 0.1% in June after a 0.3% increase in May, and that the yearly core inflation rate was at 1.9% from 1.8%.

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