










City National Foreign Exchange Quarterly Forecast – Q3 2010

EURO (USD per EUR)		Key Drivers and Currency View	
 EUR Neutral	FORECAST	The Greek sovereign debt crisis and the resulting economic and fiscal fallout have severely tarnished the image of the euro. Lower economic growth, higher unemployment rates and fiscal austerity measures will present strong headwinds for the euro during H2 2010. However, recent economic data from the U.S. and abroad have been quite weak and stock markets and U.S. interest rates suffered as a result. The narrowing of U.S. interest rates relative to Europe has removed part of the U.S. dollar's advantage. Strong Q4 seasonal flows favor the euro but we anticipate a slightly weaker euro in the near term.	
	Q3 '10		Q4 '10
	1.2500		1.3200
JAPANESE YEN (JPY per USD)		Key Drivers and Currency View	
 JPY Bearish	FORECAST	The Japanese economy remains soft in general and the anticipated weak global growth in H2 will further hurt the export-driven Japanese market. Recent risk aversion and lower U.S. interest rates have allowed the yen to appreciate in the short term. Japanese fiscal and budgetary deficits remain strongly negative for the currency over the medium term but the revolving door of prime ministers and lack of definite political leadership has not been an impediment for the yen so far. We anticipate strong competition from China, Korea and other Asian tigers to hinder Japanese exports and cause the yen to weaken in the next quarter.	
	Q3 '10		Q4 '10
	89.00		93.00
BRITISH POUND (USD per GBP)		Key Drivers and Currency View	
 GBP Neutral	FORECAST	The pound has benefited over the past few months from the new Tory government and its presentation of an initial budget overview, which seems to have satisfied investors and ratings agencies for the time being. The new government's first steps have been positive and allowed the pound to appreciate against both the euro and the U.S. dollar. Balancing fiscal consolidation with growth will be tricky but the U.K. is the first major G7 country to display the fiscal courage necessary to rein in their deficits and take their debt seriously. Thus far, they have been rewarded for their actions with a stronger and more robust currency.	
	Q3 '10		Q4 '10
	1.5000		1.5700
SWISS FRANC (CHF per USD)		Key Drivers and Currency View	
 CHF Neutral	FORECAST	The Swiss economy has outperformed the broader European economies and the Swiss franc continues to be a safe haven during these risk-averse and uncertain times. The Swiss National Bank (SNB) has aggressively sold Swiss francs to curb franc strength and help exports but has been overwhelmed by the inflows. Swiss trade surpluses and a strong fiscal balance sheet relative to other G7 countries will continue to allow for strong inflows, forcing the SNB to keep interest rates at very low levels for now. With all the positives in favor of the Swiss franc, we still anticipate the Swiss franc to mirror movements in the euro.	
	Q3 '10		Q4 '10
	1.0700		1.0200
AUSTRALIAN DOLLAR (USD per AUD)		Key Drivers and Currency View	
 AUD Neutral	FORECAST	Australia's economic performance and abundant natural resources have been long-term positives for this currency. Close geographic proximity to strong Asian growth has helped keep the Australian economy on a firm footing. The Reserve Bank of Australia (RBA) was the first major bank to raise interest rates. It has raised them steadily since the fall of 2009 but appears to be holding rates steady for now. Recent downgrades to global growth and political turmoil over a mining tax have hurt sentiment in the short run. We continue to expect the Australian dollar to mirror developments in global stock market sentiment.	
	Q3 '10		Q4 '10
	.8500		.9000
NEW ZEALAND DOLLAR (USD per NZD)		Key Drivers and Currency View	
 NZD Neutral	FORECAST	The New Zealand dollar continues to outperform other G7 currencies but tends to lag behind the stronger Australian dollar. Similar correlations that affect other commodity-linked currencies apply to the NZ dollar and you can anticipate the NZ dollar to mirror sentiment and expectations in global stock markets. Domestic indicators have been demonstrating signs of an economic recovery over the past few months and the Reserve Bank of New Zealand (RBNZ) raised interest rates at its June meeting. However, the RBNZ remains more dovish than the RBA in its actions and language.	
	Q3 '10		Q4 '10
	.6900		.7300
CANADIAN DOLLAR (CAD per USD)		Key Drivers and Currency View	
 CAD Bullish	FORECAST	The Canadian dollar has been consolidating over the past three months after steadily appreciating since the beginning of the year. Macroeconomic fundamentals and a sound fiscal landscape tend to keep the Canadian dollar as an attractive alternative to other G7 currencies for global reserve managers. Canada's abundant raw materials and exporting capacity are medium to longer-term positives for the currency. However, the Canadian dollar will reflect sentiment from the overall direction of global stock markets and could weaken in the short run. Finally, due to stronger economic performance in Canada, the Bank of Canada is expected to take a more hawkish stance toward interest rates than the U.S. Federal Reserve.	
	Q3 '10		Q4 '10
	1.0500		1.0000
MEXICAN PESO (MXN per USD)		Key Drivers and Currency View	
 MXN Neutral	FORECAST	The Mexican peso has been weakening over the past three months, reflecting slightly softer commodity prices and more uncertainty regarding the direction of global stock markets. Despite continuing drug-related violence, the market has looked past these issues to a more positive investment climate. El Banco de Mexico continues to keep interest rates at higher levels, affording investors a high real rate of interest and helping to keep the peso firm. The peso will continue to reflect general trends in the emerging market sector but will also mirror expectations surrounding the U.S. economy.	
	Q3 '10		Q4 '10
	12.95		12.70
CHINESE YUAN (CNY per USD)		Key Drivers and Currency View	
 CNY Bullish	FORECAST	In June 2010, the Chinese authorities bowed to global political pressure and announced plans to depeg the yuan from the U.S. dollar and will now reference a basket of currencies. While the market's expectation is for a faster appreciating yuan, the underlying meaning of the announcement implies a more flexible exchange rate system with gradual, small and measured two-way movements within a fixed trading band. Domestic growth remains strong but headwinds are developing from a slowing Europe and weaker U.S. growth prospects. We look for the yuan to remain firm but reflect the general direction of the U.S. dollar.	
	Q3 '10		Q4 '10
	6.7800		6.7000

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