Firmer Dollar Against Most Currencies Except the Sterling

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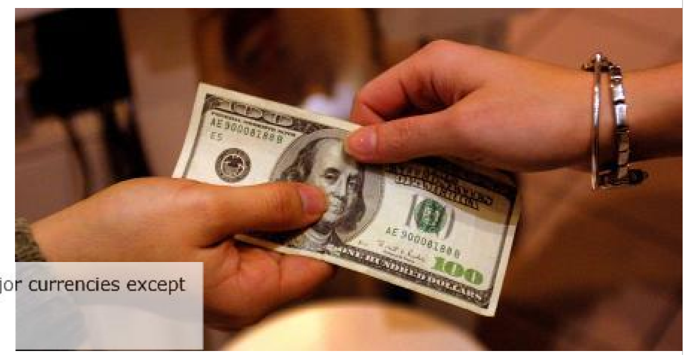
Amid light new, the US dollar is slightly firmer against most of the major currencies, except sterling. Carney's comments over the weekend, suggesting that the BOE will not necessarily wait for wages to rise before hiking rates, helped lift sterling after a six-week decline.



US dollar is slightly firmer against most other major currencies except the sterling.

Asian equities were mixed, leaving the MSCI Asia Pacific Index unchanged, while the MSCI Emerging Market equity index is fractionally higher, extending its advance to the sixth consecutive session, the longest streak since March. European shares are moving higher, as well. The Dow Jones Stoxx 600 is up 0.9%, near midday in London. It is being led by information technology and consumer discretionary, though all major industry groups are higher.

Bond markets are under pressure. Even Irish bonds are moving lower today, after Ireland credit rating was upgraded by Fitch before the weekend (to A- from BBB+). UK 10-year gilts are hit the hardest, with the 10-year yield up 7 bp to 2.40%. Core euro zone and peripheral yields are up 4-5 bp. US 10-year Treasury yields are up 1-2 bp.

Of note, Russia's 10-year bond yield is about 4 bp lower at 9.16%. MICEX is posting minor gains to extend its advancing streak into the seventh session. While the Ukrainian situation remains on a knife edge, the key development today is the widening of the ruble's band. Against the basket of euros and dollars, the band has been widened to 9 rubles from 7. The purpose of this appears to be to reduce the amount of intervention needed. Indeed, the accompanying announcement indicated that provided the ruble remains in the band, there will not be intervention. Investors will have to wait to see what this means in practice.

Economic news has been light, and limited to three main reports, two of which are house prices. UK's Rightmove reported a 2.9% decline in August, following a 0.8% decline in July and a 0.1% rise in June. The year-over-year rate has fallen to 5.3% after peaking in May just below 9%. This seems to be a result of a combination of seasonal pressures, and macro-prudential efforts.

China also report house prices. New house prices continue to cool in the major cities. In fact, new house prices fell in 64 of the 70 major cities. The 0.9% decline in July follows a 0.5% decline in June. This resulted in a 2.5% year-over-year increase, which is the slowest in 17 months. The year-over-year increase was 4.2% in June and 5.6% in May. The construction and real estate sectors had accounted for roughly a third of China's growth, and given the levered aspects, many investors and observers are concerned about the implications of the slowdown and falling prices.

The euro area reported a 13.8 bln euro June trade surplus. This was somewhat lower than expected, but had little market impact as Q2 data seems too dated to matter. The June surplus was in line with the longer-term averages (12-month), but is lower the more recent averages. However, Q2 surplus of 43.6 bln euros appears to be the largest on record.

Previously, the German surplus largely offset the deficit in most of the rest of the euro area. However, now a compression in domestic demand and the decline in domestic price structures have helped boost exports and minimize imports in much the periphery. This results in a larger overall trade surplus for the euro area.

With no data of consequence and no Fed officials scheduled to speak, a quiet North American session is likely. Watch the $1.3406 area in the euro. This is its 20-day moving average. It has not closed above it since July 9. Also, note that the August high comes in near $1.3445.

In response to Carney's seeming about face, sterling gapped higher in early Asian trading and that gap remains open. It is between last Friday's high of $1.6702 (according to Bloomberg) and $1.16714, today's low. Gaps are particularly uncommon for the major currencies. We would anticipate that the gap is closed in the near-term. Yet, the intra-day technical readings warn that immediate risk may still be on the upside. Resistance is seen in the $1.6750-75 area.

The dollar is confined to its pre-weekend trading range against the yen. Rising US yields and equity prices could underpin the greenback. Resistance is pegged in the JPY102.50-70 area.

Both the Canadian and Australian dollars are trading inside last Friday's trading ranges too. RBA minutes will be released tomorrow and Governor Stevens speaks before parliament on Wednesday. Canada reports CPI and retail sales at the end of the week. The restated jobs data at the end of last week were better than the initial flawed report, but it still reported an 18k loss of full time jobs.

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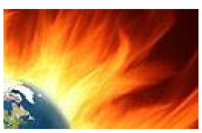

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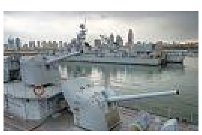

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