



Market summary and commentary provided by **Vassili Serebriakov**, Currency Strategist, Wells Fargo Bank.

## Market Summary

Thursday, October 15th, 2009

US bank earnings undershot expectations this morning, giving a safe-haven lift to the US dollar which had fallen to new multi-month lows overnight. US economic data releases were also generally firmer than expected so far today, although of course the link between the dollar and economic data remains far from straightforward. The post-data reaction is most notable in the dollar/yen pair, with the Japanese currency weaker as US Treasury yields rise. We also suspect that unabated dollar weakness over the recent days has led to a substantial build up of speculative short dollar positions, which are being partially trimmed this morning. Unwind of speculative shorts is probably also boosting the British pound after a Bank of England official suggested economic recovery may prompt policymakers to pause their bond purchase program. Despite the greenback's bounce today, we suspect the dollar negative sentiment remains well entrenched and selling the dollar remains the path of least resistance for the FX markets in the near term.

## Regional Highlights

### Asia/Pacific

The Australian dollar reached a 14-month high against the greenback overnight after comments from the Reserve Bank of Australia Governor Stevens reaffirmed market expectations that further policy tightening will be forthcoming this year. Mr. Stevens said policymakers should not be "too timid" in removing monetary stimulus. The New Zealand dollar rose as well, in part helped by a smaller than expected slowing in the Q3 CPI to 1.7% y/y. Early trends were reversed sharply however after the release of somewhat disappointing US bank earnings this morning, with both the Aussie and the kiwi now little changed against the buck. The yen has been sliding slowly but surely this morning, while emerging Asian currencies are mixed, with the won stronger but the rupee slightly weaker after wholesale prices rose by a smaller than expected 0.92% y/y.

### Europe

The British pound went from underperformer to the strongest major currency this morning after a Bank of England official suggested policymakers may pause their bond purchase program. We also suspect that some unwinding of the heavy short speculative positioning on the pound has contributed to the extent of the pound's move this morning. Meanwhile, the euro slipped after touching new highs overnight in reaction to this morning's US bank earnings reports that undershot expectations. The final estimate of the Eurozone September CPI showed a fall of 0.3% y/y, while the ECB President Trichet also made some comments today. Mr. Trichet repeated that policy rates are "appropriate", while adding that he does not see severe credit constraints in the Eurozone economy. He also stuck with the familiar message on currencies saying US authorities must support a strong dollar.

### Americas

Today's US data is generally firmer than expected. The US September CPI fell by 1.3% y/y at the headline, while the core measure firmed to 1.5% y/y. Meanwhile, initial and continuing jobless claims fell to 514,000 and 5.992 million respectively. The biggest surprise was probably the sharp rise in the New York manufacturing survey to 34.57 in October, the highest reading since 2004. While the Philadelphia Fed October manufacturing survey will also be released later today, a major FX market driver this morning are US bank earnings. Elsewhere, Canadian manufacturing shipments fell by a larger than expected 2.1% m/m in August, although only partially reversing the 5.2% m/m jump in July. Finally, Brazil's retail sales rose by 0.7% m/m in August.

## Commodity & Equity Watch

	Last	Move
Gold	\$1052.38	-10.03
Crude Oil (WTI)	\$75.38	1.23
CRB Index	270.20	2.15
10 Yr Treasury	3.45%	0.03%
S & P 500	1092.02*	1.8%
NASDAQ	2,172.23*	1.5%
Nikkei 225	10,238.65	1.8%
FTSE 100	5,227.43	-0.5%
DAX	5,822.74	-0.5%

\* Prior close

## Currency Watch

Currency	Low	High
EUR/USD	1.4843	1.4968
USD/JPY	89.28	90.78
GBP/USD	1.5973	1.6299
USD/CHF	1.0118	1.0197
EUR/JPY	133.33	134.96
EUR/GBP	0.9143	0.9346
USD/CAD	1.0207	1.0359
AUD/USD	0.9146	0.9228
NZD/USD	0.7395	0.7487
USD/NOK	5.5164	5.6168
USD/SEK	6.8741	6.9679
USD/DKK	4.9736	5.0151
USD/CNY	6.8257	6.8286
USD/INR	45.81	46.26
USD/MXN	13.0425	13.1264

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