



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

Market Summary

Friday, October 9th, 2009

FX markets took notice of the hawkish hints in the Fed Chairman Bernanke's comments last night. Mr. Bernanke's mention of future policy tightening, even without any reference to timing has prompted the market to scale down its short dollar positions in advance of the approaching weekend. The Fed Chairman also said that "accommodative policies" (rather than "exceptionally low levels of the federal funds rate") are likely warranted for an extended period. Only a slight change perhaps, although it does rhyme with the Kansas Fed President Hoenig's recent remarks that at 1% to 2%, the fed funds rate would still be "very accommodative". We do think however that given the recent buildup in the dollar's downward momentum, these remarks are more likely to stall rather than reverse the greenback's slide in the near term. One exception to the firmer dollar trend today is the Canadian dollar which touched a 1-year high after an unexpectedly strong September employment report. We see consolidating FX markets for the rest of today's session.

Regional Highlights

Asia/Pacific

The dollar recovered modestly against the regional currencies after last night's comments from the Fed Chairman Bernanke. The Japanese yen is weaker, with today's August machinery orders data (a key indicator of future business investment) undershooting market expectations with a 0.5% m/m rise. Meanwhile, Japan's finance minister Fujii weighed in on the issue of the weak dollar today, saying that it is mainly caused by the US monetary policy. Elsewhere, the New Zealand dollar is slightly weaker against the greenback and the Australian dollar, while emerging Asian currencies are softer with the exception of the South Korean won. South Korea's central bank left rates steady at 2.00% as expected today and said it "will maintain an accommodative policy stance for the time being".

Europe

The euro is off its recent highs against the dollar this morning. The greenback's somewhat improved tone overall and the end-of-week profit taking are probably the explanation for the euro's moves today. On the data front, Germany's September CPI registered a 0.5% y/y fall, while the August trade surplus narrowed to 8.1B euros. Other regional data included a slowdown to 1.2% y/y in Norway's September CPI, and a firming to 0.4% y/y in the UK output PPI. The British pound is underperforming the dollar and the euro this morning, while the Norwegian krone is steady. The Swedish krona recovered somewhat on reports that Latvia is close to reaching an agreement with its international creditors.

Americas

Yesterday's comments by Fed Chairman Bernanke have so far been the main driver of the FX markets today. Mr. Bernanke said that the Fed will be ready to tighten policy when the economy improves, although he gave few hints on the possible timing of such tightening. He also noted however that economic conditions will "warrant policy accommodation for an extended period". The dollar recovered somewhat on these remarks, while the unexpected narrowing in US trade deficit to \$30.7B in August is also supportive for the greenback. Meanwhile, the Canadian dollar is the biggest gainer today among the major currencies after a surprisingly strong September employment report which showed a net gain of 30,600 jobs with the unemployment rate falling to 8.4%. On a less positive note, Canada's August trade deficit widened to C\$2B but the currency is still trading near its 1-year high against the greenback.

Commodity & Equity Watch

	Last	Move
Gold	\$1049.25	-5.85
Crude Oil (WTI)	\$70.98	1.41
CRB Index	263.75	5.38
10 Yr Treasury	3.29%	0.04%
S & P 500	1065.48*	0.7%
NASDAQ	2,123.93*	0.6%
Nikkei 225	10,016.39	1.9%
FTSE 100	5,142.74	-0.2%
DAX	5,699.38	-0.3%

* Prior close

Currency Watch

Currency	Low	High
EUR/USD	1.4704	1.4797
USD/JPY	88.36	89.43
GBP/USD	1.5929	1.6078
USD/CHF	1.0257	1.0328
EUR/JPY	130.69	131.68
EUR/GBP	0.9182	0.9245
USD/CAD	1.0424	1.0553
AUD/USD	0.9020	0.9084
NZD/USD	0.7339	0.7430
USD/NOK	5.6174	5.6795
USD/SEK	6.9466	7.0157
USD/DKK	5.0310	5.0622
USD/CNY	6.8250	6.8286
USD/INR	46.29	46.65
USD/MXN	13.2292	13.3180

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