



Market summary and commentary provided by **Nick Bennenbroek**, Head of Currency Strategy, Wells Fargo Bank.

Market Summary

Tuesday, October 20th, 2009

The greenback is steady overall after starting the week on a softer note. European currencies are trying to advance, but so far have made limited gains. The pound is higher despite worrisome fiscal trends, and the euro is a touch higher despite hints of concern about a strong currency from European officials. Asian currencies are stronger, helped by equity inflows and at times by comments from central bankers indicating comfort with local currency gains. In some instances however, international developments are contributing to weakness in foreign currencies against the greenback. The Canadian dollar is down after the central bank said that over time a strong currency would more than offset favorable economic developments, leading the bank to lower its medium-term growth and inflation forecasts. The Brazilian real is down after the government announced a tax on foreign purchases of local stocks and bonds. While the dollar is more stable today, one suspects that near-term sentiment remains biased towards dollar downside.

Regional Highlights

Asia/Pacific

The Australian dollar is holding steady after the central bank monetary policy meeting minutes provided another hawkish message. The minutes repeated the need for further interest rate increases and said that a stronger currency could help to contain inflation. The NZ dollar is down but most regional currencies are firmer with regional equity markets stronger and foreigner net buyers of Asian equities for a fifth straight day. The Korean won and Indian rupee are the best performing regional currencies today, while the Malaysian ringgit is also stronger as the central bank governor said that exports remain “resilient” even with a stronger currency.

Europe

There is a smattering of news from Europe today. In the U.K., the September month public sector borrowing requirement was 14.8B pounds, slightly narrower than expected. Still, the deficit for the first half of the fiscal year was 77.3B pounds, the largest half-year deficit since records began in 1946. In other data, Italian industrial orders slumped by 8.6% m/m. And on the policy front, European officials signaled moderate concern about the strength of the euro. European finance ministers said that foreign exchange movement were a “problem which worries us”, while ECB President Trichet said that excessive volatility is bad for economic development. Be that as it may, European currencies are generally ignoring this currency negative news. The euro is basically unchanged, while the pound and Swiss franc are slightly higher.

Americas

Today’s U.S. figures surprised slightly to the downside. September producer prices fell by 0.6% m/m overall and by 0.1% excluding food and energy, indicating that price pressures remain muted for the time being. Meanwhile September housing starts rose 0.5% m/m to a 590,000 unit annual pace and building permits fell 1.2% m/m to a 573,000 unit annual pace, both slightly below expectations. Meanwhile, Fed Chairman Bernanke called yesterday for the U.S. and Asia to reduce economic imbalances, perhaps contributing to heightened expectations of renminbi appreciation (3.7% over the next year) priced into the non-deliverable forward market. In Canada, the central bank held its benchmark interest rate at 0.25% and repeated that rates would remain low until mid-2010. The strong Canadian dollar is also seen as restraining growth and inflation over time, reinforcing the downside risks to the inflation outlook. The Brazilian real is down after the government announced a 2% tax on foreign purchases of local stocks and bond, a measure aimed at avoiding excess speculation.

Commodity & Equity Watch

	Last	Move
Gold	\$1,063.90	-0.30
Crude Oil (WTI)	\$79.59	-0.02
CRB Index	279.49	-0.16
10 Yr Treasury	3.34%	-0.05%
S & P 500	1,097.91*	0.9%
NASDAQ	2,176.32*	0.9%
Nikkei 225	10,336.84	1.0%
FTSE 100	5,272.61	-0.2%
DAX	5,846.41	-0.1%

* Prior close

Currency Watch

Currency	Low	High
EUR/USD	1.4954	1.4994
USD/JPY	90.08	90.80
GBP/USD	1.6353	1.6489
USD/CHF	1.0083	1.0124
EUR/JPY	134.88	135.85
EUR/GBP	0.9084	0.9152
USD/CAD	1.0267	1.0394
AUD/USD	0.9246	0.9311
NZD/USD	0.7523	0.7577
USD/NOK	5.5448	5.5771
USD/SEK	6.9061	6.9540
USD/DKK	4.9638	4.9785
USD/CNY	6.8258	6.8273
USD/INR	45.94	46.29
USD/MXN	12.7974	12.9770

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