



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

Market Summary

Thursday, October 22nd, 2009

The U.S. dollar is enjoying a better day, gaining some support from widespread weakness across global equity markets. The trigger for today's move is perhaps a little unusual, with strong Chinese data prompting concerns that economic stimulus measures may be reduced, hurting financial market performance. Still regardless of the source of the equity decline, it is certainly impacting the growth sensitive Australian, New Zealand and Canadian dollar, which are lagging among the G10 currencies. Asian currencies are also suffering widespread losses, which is understandable given the relevance of China to the financial market moves. Latin American currencies are also down but losses across that region are more limited. In our opinion, today's events indicate that financial market optimism would be susceptible to a change in the current accommodative policy stance. While it may be too early for a policy adjustment just yet, the removal of policy accommodation will become an increasingly important theme through 2010 as global central banks start raising rates, a theme that would most likely be positive for the U.S. dollar.

Regional Highlights

Asia/Pacific

Today's Chinese economic figures were broadly firm, as expected. China's Q3 GDP rose 8.9% y/y, the fastest pace in a year, while September month activity data also showed a 15.5% y/y gain in retail sales, and a 13.9% y/y gain in industrial output. The decline in the September CPI meanwhile slowed to just 0.8% y/y. Perhaps counter intuitively, the firm Chinese figures raised concerns that economic stimulus measures may be removed is contributing to widespread weakness in global equities. Most Asian currencies are lower, but particularly the Indonesian rupiah and Korean won, which have been among the best performers of the past six months. The growth sensitive Australian and New Zealand dollars are lower, and the Japanese yen is slightly weaker as well. Japan's September trade surplus fell more than expected to just Y59B, but August all-industry activity index did rise 0.9% m/m, a fifth straight gain.

Europe

French October business confidence rose more than expected to 89, but that positive news for the euro was offset by equity market weakness and dovish comments from the ECB's Weber. The typically hawkish Mr. Weber said that inflation risks were non-existent for now, and there was no need to rush to an exit policy. Sweden's Riksbank held its repo rate at 0.25% and repeated that it was unlikely to tighten policy until the fall of 2010. The Riksbank also extended its liquidity program to Swedish banks, offering a further 100B in loans at a fixed rate for 11 months. U.K. news was also dovish – September retail sales were flat month/month and rose 2.4% y/y, while central bank policymaker Tucker said expanding the Bank's asset purchase program would be possible, if necessary. South Africa's central bank announced its monetary policy decision today, leaving its benchmark interest rate at 7.00%.

Americas

U.S. initial jobless claims rose by 11,000 to 531,000, although continuing claims did fall a further 98,000 to 5,923,000. Also released later today in the U.S. are September leading indicators and August house prices. Canada's retail sales rose 0.8% m/m, twice as much as expected. The Bank of Canada releases its Monetary Policy Report today: the report will include the full details of its latest economic projection, although we already know from this week's monetary policy decision that the central bank has downgraded its GDP growth forecasts slightly. In Mexico August retail sales are due for release, with economists expecting the decline to slow to 3.8% y/y, while Brazil's central bank yesterday held its benchmark interest rate at 8.75%.

Commodity & Equity Watch

	Last	Move
Gold	\$1,055.80	-3.20
Crude Oil (WTI)	\$80.04	-1.00
CRB Index	282.46	-1.63
10 Yr Treasury	3.44%	0.05%
S & P 500	1,081.40*	-0.9%
NASDAQ	2,150.73*	-0.6%
Nikkei 225	10,267.17	-0.6%
FTSE 100	5,199.06	-1.1%
DAX	5,748.40	-1.5%

* Prior close

Currency Watch

Currency	Low	High
EUR/USD	1.4944	1.5036
USD/JPY	90.78	91.58
GBP/USD	1.6488	1.6638
USD/CHF	1.0046	1.0123
EUR/JPY	136.28	137.18
EUR/GBP	0.9013	0.9071
USD/CAD	1.0418	1.0534
AUD/USD	0.9186	0.9299
NZD/USD	0.7500	0.7607
USD/NOK	5.5429	5.6020
USD/SEK	6.8369	6.9393
USD/DKK	4.9498	4.9816
USD/CNY	6.8265	6.8295
USD/INR	46.49	46.84
USD/MXN	12.9287	13.0256

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