



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

Market Summary

Monday, October 19th, 2009

The dollar has once again started the new week on soft footing. Some of today's strength in foreign currencies reflects local data and events. For example, the Australian dollar was helped by central bank comments, while the NZ dollar got some support from a stronger service sector survey. Positive equity markets are also helping most international currencies. Latin American currencies are generally higher, although Asian currencies are mixed given overall favorable sentiment. And for some currencies like the euro, today's gains simply reflect a path of least resistance. There is no European data of note and the main event that market participants will be watching for are currency comments from today's European finance ministers meeting. Another indication that there is little standing in the way of a weaker dollar for the time being is reaction to the Barron's article for the Fed to starting raising rates: it attracted some attention from market players, but little to no support for the dollar. On balance, we expect another down week for the greenback.

Regional Highlights

Asia/Pacific

The Australian dollar is higher, as comments from a central bank assistant governor Lowe reinforced the hawkish comments from the central bank governor last week. Mr. Lowe said it was appropriate to go back to a more normal monetary policy setting, and that this process was underway. The NZ dollar is higher, lifted more by the Aussie, and a rise in New Zealand's September services PMI to 53.2. In Japan, the August tertiary activity index (a measure of service sector output) rose 0.3% m/m, but September nationwide department store sales fell 7.8% y/y. The minutes from the Bank of Japan's mid-September monetary policy meeting repeated the need for the Bank's supplementary credit easing measures was waning. Across Asia currencies are little moved despite broad strength in equities. The main exception is the Korean won, which is down around a ½% against the buck.

Europe

European currencies are higher today, extending recent trends on a day that is light on news. The euro is up slightly but below Friday's highs. One event that will be watched today is the Eurogroup finance ministers' meeting, after Luxembourg Finance Minister (and Prime Minister) Juncker said the euro would be discussed. The Swiss franc is stronger, as is the Norwegian krone. One currency that is lagging behind is the British pound. While house prices were again firm – October Rightmove house prices rose 0.2% y/y, the first increase since June 2008 – markets paid more attention to central bank comments. The Sunday Times newspaper reported that Bank of England policymaker Posen may support an increase in the central bank's asset purchase program beyond current levels. The pound is down slightly, as is the Swedish krona. The Hungarian forint is stronger against the greenback after the National Bank of Hungary cut its benchmark interest rate by 50bp to 7.00%, as expected.

Americas

It is quiet across the Americas today. Canada's August international securities transactions data showed a net overall inflow into Canada, with foreigner net buyers of Canadian securities to the tune of C\$5.08B, and Canadian net sellers of foreign securities to the tune of C\$0.11B. Fed Chairman Bernanke speaks on Asia and the financial crisis at a San Francisco Fed conference later today. On Friday, Mexico's central bank held its overnight rate at 4.50%, and said that future policy would be dictated by the path of the economy and the inflationary effect of the government's fiscal package.

Commodity & Equity Watch

| | Last | Move |
|-----------------|------------|-------|
| Gold | \$1,053.50 | -0.10 |
| Crude Oil (WTI) | \$78.62 | 0.09 |
| CRB Index | 277.29 | 1.19 |
| 10 Yr Treasury | 3.42% | 0.01% |
| S & P 500 | 1,087.68* | -0.8% |
| NASDAQ | 2,156.80* | -0.8% |
| Nikkei 225 | 10,236.51 | -0.2% |
| FTSE 100 | 5,259.28 | 1.3% |
| DAX | 5,818.29 | 1.3% |

* Prior close

Currency Watch

| Currency | Low | High |
|----------|---------|---------|
| EUR/USD | 1.4828 | 1.4954 |
| USD/JPY | 90.37 | 91.15 |
| GBP/USD | 1.6241 | 1.6372 |
| USD/CHF | 1.0127 | 1.0230 |
| EUR/JPY | 134.77 | 135.91 |
| EUR/GBP | 0.9099 | 0.9190 |
| USD/CAD | 1.0325 | 1.0422 |
| AUD/USD | 0.9113 | 0.9228 |
| NZD/USD | 0.7368 | 0.7488 |
| USD/NOK | 5.5877 | 5.6678 |
| USD/SEK | 6.9309 | 6.9919 |
| USD/DKK | 4.9780 | 5.0202 |
| USD/CNY | 6.8260 | 6.8278 |
| USD/INR | 46.06 | 46.49 |
| USD/MXN | 13.0437 | 13.1415 |

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