



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

## Market Summary

Monday, October 26th, 2009

The euro just managed to carve out a new 14-month high against the dollar overnight, but struggled to extend the gains, while the greenback has been resilient elsewhere. The early pressure on the dollar today was probably a combination of more upbeat global sentiment after a stronger than expected GDP report in South Korea, and an article in a Chinese financial newspaper arguing that the China should increase the share of the euro and the yen in its FX reserves. However, the reserve diversification theme is not new and is failing to make a major impact, while we believe that the close link between market risk appetites and the dollar is also becoming much less of a sure bet. The key economic report this week is the US Q3 GDP, and as last week's UK GDP report suggested, the ability to register an 'official' end of the recession can have an important psychological impact on a currency. Our economists are on the firm side of market expectations with a 3.7% q/q (annualized) forecast, which should in our view lend support to the greenback.

## Regional Highlights

### Asia/Pacific

Regional currencies started the week with a firmer tone against the dollar, although the scope of currency moves is very modest today. The underlying story has likely been another bounce in risk appetites after South Korea's Q3 GDP beat market expectations, rising by 2.9% q/q (non-annualized), the fastest expansion in seven years. While the good economic news probably explains a stronger won and Australian dollar this morning, the yen's modest bounce is more likely attributable to an article in China's Financial News which argued that China should raise the amount of the yen and the euro in its FX reserves. It's also notable that the New Zealand dollar is falling behind its Australian counterpart this morning, while among the emerging Asian currencies the Indonesian rupiah is underperforming in line with a fall in the local equity markets. The Singapore dollar is also down after industrial production fell by a larger than expected 9.1% m/m in September.

### Europe

The euro stretched out to reach a new 14-month high against the dollar overnight but has struggled to add to those early gains. There was little regional economic news to note outside of the unexpected fall in Germany's November GfK consumer confidence to 4.0. Meanwhile, the British pound is seeing a technical bounce against the dollar after sharp decline in the latter part of last week, while the Scandinavian currencies are mixed with the Norwegian krone stronger and the Swedish krona weaker this morning. Israel's central bank is making a rate decision later today and the market consensus is leaning towards rates unchanged at 0.75% given recent strength in the shekel and the fact that September CPI undershot expectations.

### Americas

The US data calendar is thin today with only the Dallas Fed October manufacturing index scheduled. The key US data release this week will be the Q3 GDP report on Thursday currently expected to show a 3.2% q/q annualized rise, suggesting an end to the US recession. While the dollar is generally slightly weaker this morning, the Canadian dollar is slipping against the buck, perhaps a sign that the Bank of Canada currency 'jawboning' continues to impact the FX markets. In today's comments the BoC Governor Carney's repeated that Canadian dollar could be 'a significant further drag' on the economy. Elsewhere, the Brazilian real and the Mexican peso have opened firmer, supported by positive global market sentiment.

## Commodity & Equity Watch

	Last	Move
Gold	\$1056.20	0.80
Crude Oil (WTI)	\$80.90	0.06
CRB Index	280.99	-1.55
10 Yr Treasury	3.50%	0.01%
S & P 500	1079.60*	-1.2%
NASDAQ	2,154.47*	-0.5%
Nikkei 225	10,362.62	0.8%
FTSE 100	5,253.24	0.2%
DAX	5,764.72	0.4%

\* Prior close

## Currency Watch

Currency	Low	High
EUR/USD	1.4982	1.5063
USD/JPY	91.58	92.21
GBP/USD	1.6252	1.6349
USD/CHF	1.0053	1.0098
EUR/JPY	137.65	138.30
EUR/GBP	0.9188	0.9240
USD/CAD	1.0503	1.0590
AUD/USD	0.9192	0.9277
NZD/USD	0.7519	0.7568
USD/NOK	5.5320	5.5649
USD/SEK	6.7565	6.8032
USD/DKK	4.9416	4.9683
USD/CNY	6.8273	6.8290
USD/INR	46.47	46.67
USD/MXN	13.0258	13.1496

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