



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

Market Summary

Wednesday, October 28th, 2009

Risk aversion remains the dominant theme in the FX markets this morning, giving a boost to the US dollar and the Japanese yen. It is notable that the slightly firmer than expected CPI report in Australia and a rate hike in Norway failed to lift the recovery optimism, with equities and commodities in the red this morning. Perhaps this is a sign that the disconnect between the buoyant financial markets and the fragility of the underlying global economy has already reached an extreme point. If that is the case, equity markets should continue sobering up in the face of the first signs that global central banks are starting to 'normalize' policy, thus weighing on the commodity and emerging market currencies which have been among the biggest FX gainers recently. The rest of the week and the market's reaction to tomorrow's US Q3 GDP report will be key in determining whether a deeper risk appetite correction is likely going forward or whether the 'buy the dip' mentality is likely to return.

Regional Highlights

Asia/Pacific

Higher risk aversion is a key driver of currencies this morning as illustrated by further gains in the US dollar and a strong recovery in the Japanese yen. Meanwhile, the commodity based currencies are among the biggest decliners, with emerging Asian currencies also trading lower today. The Australian Q3 CPI release came out on the firm side of expectations slowing to 1.3% y/y at the headline and to 3.8% y/y in the underlying weighted median measure. The bounce in the Australian dollar in reaction to the data was brief and quickly reversed on negative equity market sentiment. Other regional data was mixed and had limited market impact. October business confidence fell to 48.2 in New Zealand, while in Japan retail sales rose by 0.9% m/m in September. On the policy front, Malaysia's central bank left rates steady at 2.00%. The Reserve Bank of New Zealand is expected to leave policy steady at 2.50% this afternoon but is also seen communicating a shift away from an easing bias.

Europe

The much anticipated policy meeting by Norway's central bank produced the expected outcome, with rates being raised by 25bp to 1.50% - the first policy tightening in the European region. The hike came despite today's reported rise in Norway's unemployment rate to 3.2% in August, giving an immediate boost to the krone. Meanwhile, the euro remains vulnerable, with weakness in regional equity markets in general and banking sector stocks in particular weighing on the single currency. The Swedish krona is underperforming the euro against the background of a mixed set of domestic economic data. Swedish retail sales undershot expectations with a 0.2% m/m rise in September, but October consumer and manufacturing confidence were firmer. In the emerging market space, the South African rand slipped further after the CPI slowed to 6.1% y/y in September.

Americas

The US September durable goods orders were spot on market expectations with a 1% m/m rise at the headline, while registering an encouraging 2% rise in the core measure. Later today, September new home sales are seen climbing by a strong 2.6% m/m. Meanwhile, the Canadian dollar extended its recent losses under pressure from lower oil prices, while the Mexican peso and the Brazilian real are little changed so far this morning. The pace of the decline in Mexico's global economic indicator slowed to 6.9% y/y in July.

Commodity & Equity Watch

	Last	Move
Gold	\$1034.50	-5.55
Crude Oil (WTI)	\$78.66	-0.02
CRB Index	275.01	-0.87
10 Yr Treasury	3.44%	0.00%
S & P 500	1063.41*	-0.3%
NASDAQ	2,116.09*	-1.2%
Nikkei 225	10,075.05	-1.3%
FTSE 100	5,123.65	-1.5%
DAX	5,557.14	-1.4%

* Prior close

Currency Watch

Currency	Low	High
EUR/USD	1.4757	1.4841
USD/JPY	90.93	91.82
GBP/USD	1.6286	1.6404
USD/CHF	1.0192	1.0243
EUR/JPY	134.37	135.99
EUR/GBP	0.9033	0.9068
USD/CAD	1.0638	1.0764
AUD/USD	0.9025	0.9207
NZD/USD	0.7320	0.7464
USD/NOK	5.6369	5.7238
USD/SEK	6.9469	7.0609
USD/DKK	5.0155	5.0438
USD/CNY	6.8275	6.8306
USD/INR	47.03	47.38
USD/MXN	13.2126	13.3235

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