



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

Market Summary

Friday, October 16th, 2009

The US dollar is enjoying somewhat of a recovery this morning against most major currencies. One exception is the British pound, itself a notable underperformer in recent weeks. Technical factors and the extent of the speculative short dollar positioning are probably the best explanations for the easing in the dollar bearish sentiment today. The euro in particular has now come close to the \$1.50 “psychological” threshold that is likely to be both an attractor and a deterrent for the market. ‘Official’ currency comments out of the Eurozone have been fairly benign so far, but this may change should the euro reach new highs. We have also argued for a while that extreme dollar negative sentiment is not justified by relative economic trends, and this week’s generally positive US data mix reaffirms that view. However, insofar as dollar’s broad-based weakness in recent months has been driven by ‘cheap’ dollar liquidity, the Fed’s dovish stance should prevent a particularly strong or sustained recovery in the greenback in the near term.

Regional Highlights

Asia/Pacific

The US dollar is recovering moderately but broadly this morning, and the yen is down to its weakest level against the buck so far this month. A less extreme dollar bearish sentiment and rising US Treasury yields (implying a widening spread between the US and Japanese interest rates) are probably behind the yen’s slippage this morning. There was little to report on the data front today with foreign investors reportedly selling 300.8B yen in Japanese bonds and buying 391.9B in stocks during the week ended October 9. Elsewhere, Singapore’s non-oil domestic exports rose by a stronger than expected 3% m/m in September. Asian emerging market currencies are lower today along with the Australian and NZ dollars. In other news, the US Treasury criticized China for “lack of flexibility” in the yuan in its semi-annual currency report but refrained from labeling it as a ‘currency manipulator’.

Europe

European currencies are lower against the greenback this morning. Regional equities are generally in negative territory and economic data, while not being the main currency driver, has been disappointing today. The Eurozone August trade balance surprised by flipping to a deficit of 4B euro in August, while Swiss real retail sales for the same month unexpectedly dropped by 1% y/y. The British pound is holding up better than the, while the Swedish and Norwegian currencies are the regional underperformers today and over the course of this week.

Americas

US industrial production rose by a stronger than expected 0.7% m/m, a third straight increase and a clear sign of an ongoing economic recovery. Meanwhile, the US Treasury reported a modest net capital inflow of 10.2B and a long-term inflow of \$28.6B for the month of August, broadly in line with market expectations. October Michigan consumer sentiment data and the September budget statement are due later today. In Canada, the September headline CPI fell by 0.9% y/y, in line with the August reading, while the core rate slowed further below the central bank’s 2% target to 1.5% y/y. The numbers were close to expectations and Canadian dollar’s fairly sharp drop this morning is probably a reflection of the speed of its rise in recent days. Elsewhere, Mexico’s central bank is expected to leave rates steady at 4.50% at its policy meeting today and to signal it is to remain on hold. The Mexican peso and the Brazilian real have opened weaker this morning.

Commodity & Equity Watch

	Last	Move
Gold	\$1049.63	-0.58
Crude Oil (WTI)	\$77.65	2.47
CRB Index	273.23	3.30
10 Yr Treasury	3.47%	0.01%
S & P 500	1096.56*	0.4%
NASDAQ	2,173.29*	0.0%
Nikkei 225	10,257.56	0.2%
FTSE 100	5,197.35	-0.5%
DAX	5,774.52	-1.0%

* Prior close

Currency Watch

Currency	Low	High
EUR/USD	1.4849	1.4967
USD/JPY	90.51	91.32
GBP/USD	1.6253	1.6400
USD/CHF	1.0130	1.0224
EUR/JPY	135.22	136.07
EUR/GBP	0.9097	0.9189
USD/CAD	1.0289	1.0436
AUD/USD	0.9124	0.9270
NZD/USD	0.7353	0.7496
USD/NOK	5.5444	5.6338
USD/SEK	6.9169	7.0153
USD/DKK	4.9733	5.0133
USD/CNY	6.8256	6.8277
USD/INR	46.07	46.36
USD/MXN	13.0588	13.1767

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