



FX Strategy Briefing

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Dollar Falls as Fed Keeps Loose Monetary Stance

- The dollar fell on Wednesday as the Federal Open Market Committee reiterated that US economic conditions “are likely to warrant exceptionally low levels of the federal funds rate for an extended period.” The FOMC also said inflationary expectations are well anchored and consumer spending is improving. Bond yields and commodity prices rose following the Fed statement, but US stocks pared strong gains at the close and the S&P 500 closed just 1.09 points higher at 1,046.50. The yen fell for a third consecutive day. The euro, supported by improved risk sentiment, rallied after finding support at the 1.47 handle. Sterling rose on strong UK consumer confidence and services PMI data. The Australian and Canadian dollars gained as commodity prices advanced and gold made a new record high.
- The dollar index fell as risk appetite increased. Negatively correlated with the equity market, the dollar index fell as stocks rose. The dollar index’ long-term downtrend was broken last week. The 76-area support was broken today as the Fed promised to keep its highly accommodative monetary stance. The Fed’s stance makes it difficult to see any upside on the dollar; still, shorting dollar is a crowded trade, so there could be sharp short covering rallies. There are support at the 75-handle and resistance in the 77-78 area.



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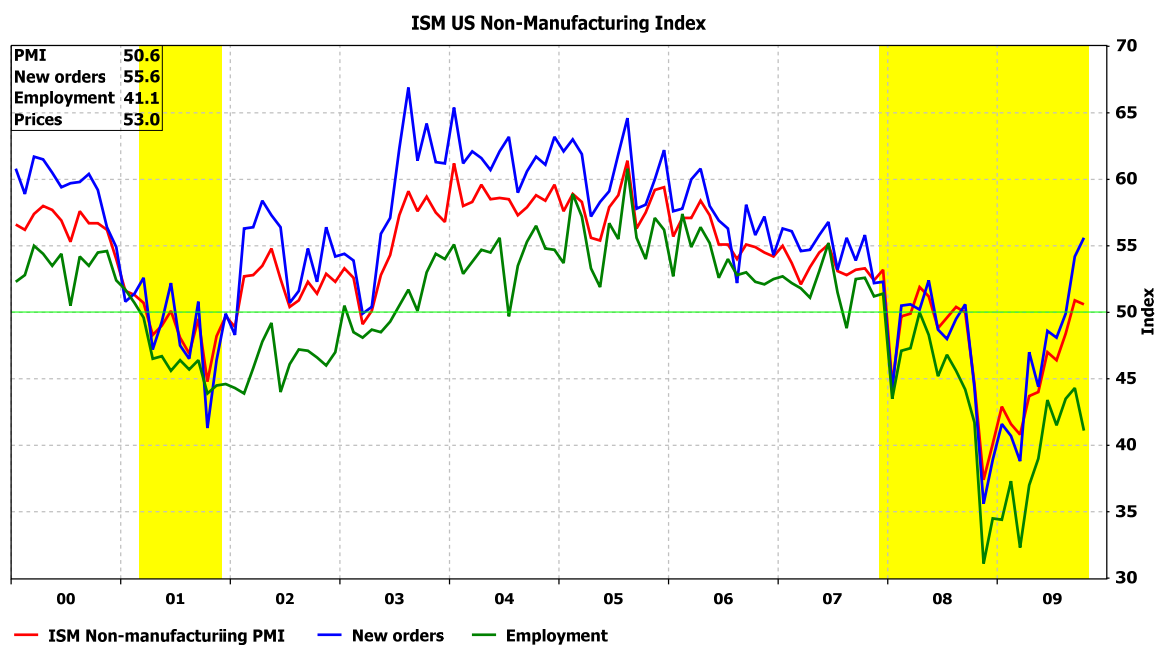
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Financial and Economic News and Comments

US & Canada

- The ISM US non-manufacturing index unexpectedly declined to 50.6 in October from 50.9 in September, indicating US service industries expanded for a second month but at a slightly slower pace, data from the Institute for Supply Management showed. Despite the slight decline in the index, most of the major sub-indexes advanced in October. The business activity index increased to 55.2 from 55.1, indicating a third consecutive expansion since September 2008. The new orders index advanced to 55.6, the highest level in two years, from 54.2. The supplier deliveries index rose to 50.5 from 50.0. However, the employment index declined to 41.1 in October, the lowest level since May, from 44.3 in September, reinforcing concerns about the labor market. The prices paid index increased to 53.0 from September's 48.8.



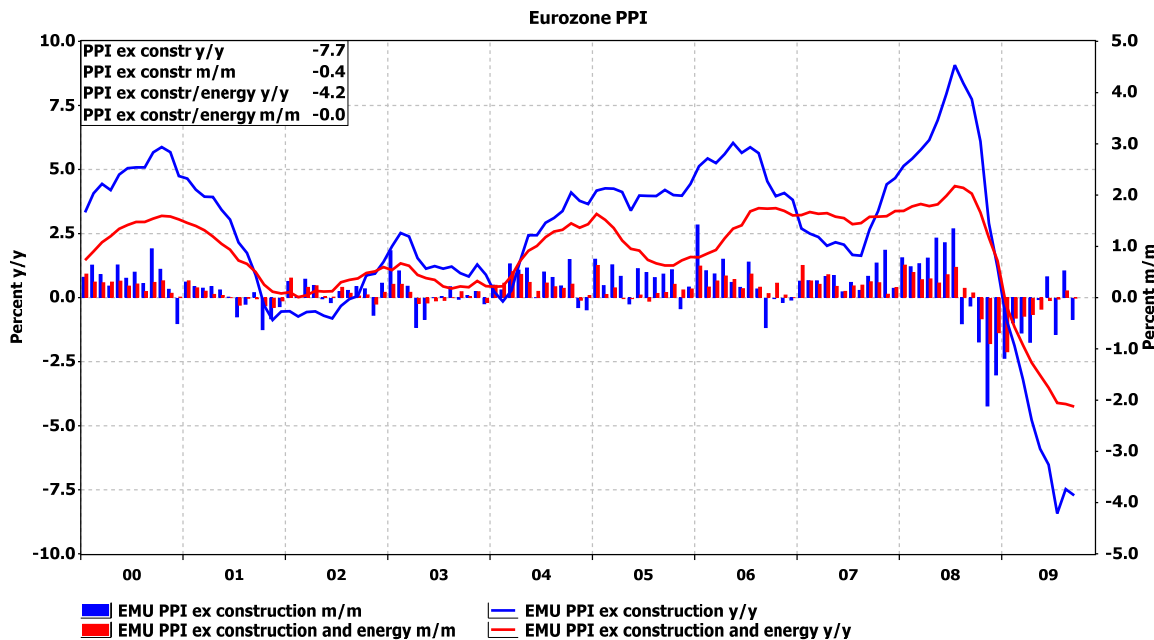
Source: Globicus

- US private-sector payrolls declined 203,000 in October, according to estimates by Automatic Data Processing Inc. (ADP) and Macroeconomic Advisers. September data was revised to show a decline of 227,000, down from a previous estimate of 254,000. Friday's official employment report released by the Labor Department may show overall job losses approximately 175,000 with the unemployment rate rising to a 26-year high of 9.9%.
- The Federal Open Market Committee kept the target range for the federal funds rate at 0 to 0.25%, as forecast, and signaled there is no need to raise interest rates soon. The Fed said the economy remains weak even though the recession appears to be over, expecting that "economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period." Today's Fed statement read: "Activity in the housing sector has increased over recent months. Household spending appears to be expanding but remains constrained by ongoing job losses, sluggish income growth, lower housing wealth, and tight credit. Businesses are still cutting back on fixed investment and staffing, though at a slower pace; they continue to make progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee anticipates that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will support a strengthening of economic growth and a gradual return to higher levels of resource utilization in a context of price stability."

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Europe

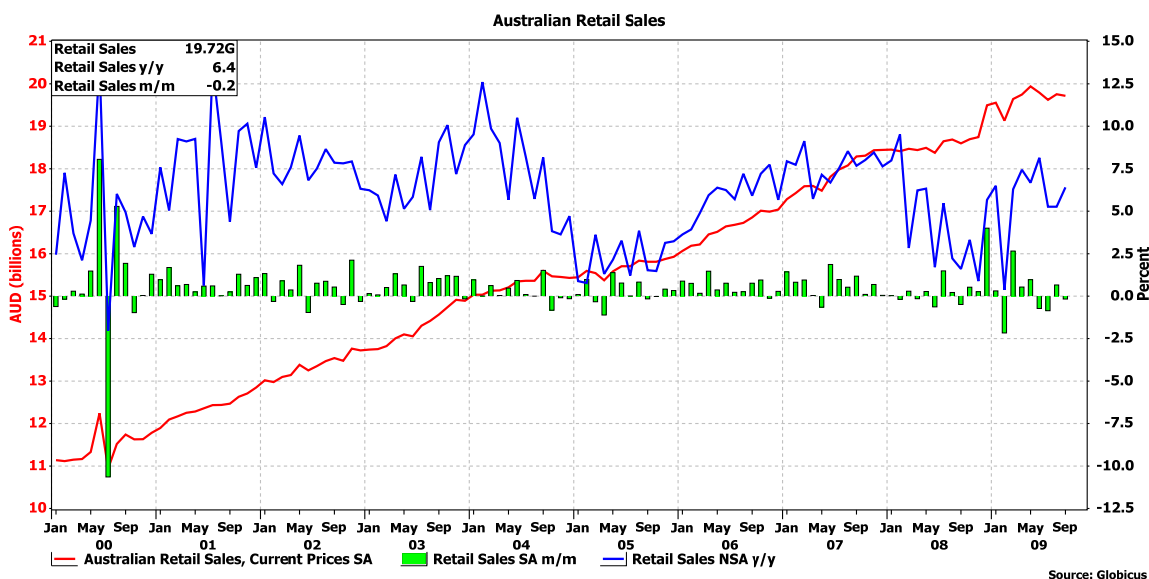
- Eurozone producer prices declined 0.4% m/m in September, as forecast, after an upwardly revised 0.5% m/m increase in August, according to PPI data released by Eurostat. September PPI fell 7.7% y/y, as estimated, following a 7.5% y/y August decrease. Excluding construction and energy, PPI was unchanged m/m in September but down 4.2% y/y.



- The eurozone composite PMI rose to 53.0 in October, matching an October 23 estimate, from 51.1 in September, indicating service and manufacturing industries in the euro area expanded for a third month and reached the highest level since December 2007, according to final October composite PMI data from Markit Economics. The services PMI climbed to 52.6 (revised up from a previously reported 52.3) from September's 50.9, showing eurozone services activity expanded at a faster pace in October than the prior month, final October services PMI data showed.
- The German services PMI slid to 50.7 in October (revised down from a previously reported 50.9) from 52.1 in September, final October services PMI data from Markit Economics showed, indicating Germany's services sector continued to expand albeit at the slowest rate in three months.
- The CIPS/Markit UK services PMI rose more than expected to 56.9 in October from 55.3 in September, indicating the UK services sector expanded for a sixth consecutive month and reached the highest level since August 2007, suggesting the UK economic recovery is strengthening, according to data from the Chartered Institute of Purchasing and Supply and Markit Economics.
- The Nationwide UK sentiment index was at 72 in October, the same as in September, indicating UK consumer confidence remained at the highest level in 1 1/2 years, according to data from Nationwide Building Society. While the expectations index slid to 106 in October from 108 in September, confidence in the present situation improved in October with the present situation index increasing to 22, a third consecutive monthly gain, from September's 19.
- UK shop prices were unchanged y/y in October after declining 0.1% y/y in September, the BRC-Nielsen shop price index released by the British Retail Consortium showed. Food prices rose 2.5% y/y for a second month in October while non-food prices declined 1.3% y/y. Shop prices were broadly flat m/m in October.

Asia-Pacific

- Japan's monetary base continued to increase in October, growing 4.4% y/y, after a 4.5% y/y September increase, the Bank of Japan said.
- The Australian Industry Group/Commonwealth Bank performance of services index grew to 54.8 in October from 49.3 in September, indicating Australia's services sector expanded to its highest level in 19 months, a report by the AiG and Commonwealth Bank of Australia showed. The expansion was driven by gains in new orders and sales; however, dampened by a 17th straight monthly decline in employment.
- Australia's retail sales unexpectedly declined a seasonally adjusted 0.2% m/m to A\$19.72 billion (\$17.78 billion) in September after a downwardly revised 0.7% m/m increase in August, according to data from the Australian Bureau of Statistics (ABS). September retail sales rose 6.4% y/y nsa.



- Australia's seasonally adjusted building approvals increased a more-than-expected 2.7% m/m to 12,476 in September, boosted by government handouts to first-time buyers, after a revised 0.9% m/m decline in August, figures from the ABS showed. September building approvals rose 11.7% y/y. Approvals to build private houses increased a seasonally adjusted 0.3% m/m in September, a ninth consecutive monthly gain.

FX Strategy Update

	EUR/USD	USD/JPY	GBP/USD	USD/CHF	USD/CAD	AUD/USD	EUR/JPY
Primary Trend	Positive	Negative	Positive	Negative	Negative	Positive	Neutral
Secondary Trend	Neutral	Neutral	Neutral	Positive	Neutral	Positive	Neutral
Outlook	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Action	None	Buy	Sell	Buy	None	Buy	None
Current	1.4874	90.78	1.6558	1.0149	1.0625	0.9102	135.05
Original Position	N/A	88.58	1.6602	1.0385	1.0891	0.6601	N/A
Objective	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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	EUR/USD	USD/JPY	GBP/USD	USD/CHF	USD/CAD	AUD/USD	EUR/JPY
Stop	N/A	86.50	1.6750	0.9980	1.0600	0.8570	N/A
Support	1.4680	90.00	1.6300	1.0100	1.0500	0.8800	132.00
	1.4480	87.00	1.6000	0.9800	1.0000	0.8500	130.00
Resistance	1.5050	92.50	1.6700	1.0450	1.1000	0.9200	136.00
	1.5400	94.50	1.7000	1.0600	1.1300	0.9350	139.00

Thursday's Economic Calendar

Time (EDT)	Region	Data	Period	Change	Forecast	Previous
3:15	Switzerland	CPI	Oct	m/m	0.7%	0.0%
3:15	Switzerland	CPI	Oct	y/y	-0.7%	-0.9%
3:55	Australia	Reserve Bank of Australia Governor Glenn Stevens speaks in Melbourne				
4:30	UK	Industrial production	Sep	m/m	1.1%	-2.5%
4:30	UK	Industrial production	Sep	y/y	-10.2%	-11.2%
4:30	UK	Manufacturing production	Sep	m/m	0.9%	-1.9%
4:30	UK	Manufacturing production	Sep	y/y	-9.8%	-11.3%
5:00	EMU	Retail sales	Sep	m/m	0.3%	-0.2%
5:00	EMU	Retail sales	Sep	y/y	-2.3%	-2.6%
7:00	UK	Bank of England interest rate decision			0.50%	0.50%
7:45	EMU	European Central Bank interest rate decision			1.00%	1.00%
8:30	Canada	Building permits	Sep	m/m	1.6%	7.2%
8:30	US	Nonfarm productivity sa ar	Q3 P	q/q	6.3%	6.6%
8:30	US	Unit labor costs sa ar	Q3 P	q/q	-3.9%	-5.9%
8:30	US	Initial jobless claims	Oct 31		521K	530K
8:30	US	Continuing claims	Oct 24		5.740M	5.797M
10:00	Canada	Ivey PMI	Oct		60.5	61.7
17:00	Australia	AiG performance of construction index	Oct			50.8
19:01	UK	NIESR GDP estimate	Oct			0.0%
19:30	Australia	RBA quarterly monetary policy statement				

Notes: N/A=not applicable/not available, ar=annual rate, sa=seasonally adjusted, nsa=non-seasonally adjusted, wda=working days adjusted, 3 mths=3 months, m/m=month-on-month, q/q=quarter-on-quarter, y/y=year-on-year, ytd=year-to-date, m=million, b=billion, t=trillion, unch=unchanged, a=advance, p=preliminary, r=revised, f=final, GDP=gross domestic product, CPI=consumer price index, PPI=producer price index, PMI=purchasing managers index

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