

## USD rises as stocks trade lower on bank troubles

### FX Highlights

- The USD is trading higher as equity markets decline and the RBA raised interest rates 25bps, AUD pressured by doubt about whether the RBA will hike rates again in December and in reaction to declining risk appetite, UBS posted a bigger than expected Q3 loss, RBS and Lloyds will receive additional government bailout funds, the European Bank news triggered stock declines in Europe and set the stage for weaker US equity market trade, GBP pressured by a WSJ report that the BOE will expand asset purchases and in reaction to the details of the breakup plan for UK banks, EU commission warns of more bank losses in the EU, JPY supported by rising risk aversion
- Focus turns to today's release of US factory orders and new car sales and the start of a two day FOMC policy meeting
- RBA raised its overnight rate to 3.5% from 3.25%, in the policy statement accompanying the rate hike the RBA said that the global economy has resumed growth and the risk of serious economic contraction has passed, the RBA also noted that growth in China's strong, the RBA gave no sign whether rates would again be hiked in December, AUD lower
- Wall Street Journal reports that economists expect the BOE to hold policy steady Thursday and expand its asset purchase plan by £25 bln, UK CIPS October construction PMI falls to 46.2 from 46.7 last month, FTSE falls 2%, GBP lower
- EU commission forecasts recovery in 2010 and 2011 and will prepare for an exit from fiscal stimulus, the commission also noted that the EU banking sector remains fragile and could see €200 to €400 bln more in bank losses, EUR lower
- Newsweek reports that a new market bubble may be brewing as investors pile into gold, stocks and oil while unemployment is rising, consumer credit has dried up and many state governments are near bankruptcy
- Feds Moskow says it will be a slow and sluggish recovery and inflation could become a serious issue in 2011
- US equity markets set to open lower, European equities 1.5% lower, Nikkei closed for holiday

### Upcoming Events

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- **US** - Tuesday, October factory orders will be released expected at 0.8% compared to -0.8% last month along with October domestic auto sales, FOMC begins a two day policy meeting
  - **CAN** – Tuesday, no major Canadian economic data is due for release today

**Michael J. Malpede**

Chief Market Analyst, Easy Forex

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