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USD/JPY Falls on Obama's Bank Plan

- The dollar reversed overnight gains on Thursday. President Obama proposed new restrictions on banks that would force institutions to choose between commercial banking or proprietary trading, while limiting the size of megabanks. Earlier the dollar rose to important resistance in the cross rates on concerns over European debt problems and worries that stronger-than-expected 10.7% y/y Chinese Q4 GDP growth would lead to more Chinese tightening measures. The US leading economic index rose for a ninth consecutive month, but initial jobless claims unexpectedly increased. The S&P 500 plunged 21.56 to 1,116.48, led by large banks. The euro pared earlier losses incurred by continued worries about Greece and other weaker economies' fiscal outlook and weaker-than-expected European PMI data. Sterling fell to the 200-day MA support. The Canadian dollar declined modestly. The Bank of Canada said the Canadian economy is expected to return to full capacity and inflation to return to the 2% target in Q3 2011 and judged that the overall risks to the inflation projection are tilted slightly to the downside. The AUD/USD fell the 0.90 support on speculation China may curb growth.
- The USD/JPY fell as risk aversion increased and investors cut back on risky assets financed in yen. The pair is still consolidating following December and early January's rally and failed attempt to penetrate the long-term downtrend and the 200-day moving average. There is support in the 90 area. If this support holds, it will create a potential inverted head-and-shoulder and increase a chance of penetrating the long-term downtrend and reversing the two-and-a-half-year decline (see our January 5 report). A penetration of the long-term diagonal resistance in the 93-94 area will lead to a very bullish USD/JPY outlook.



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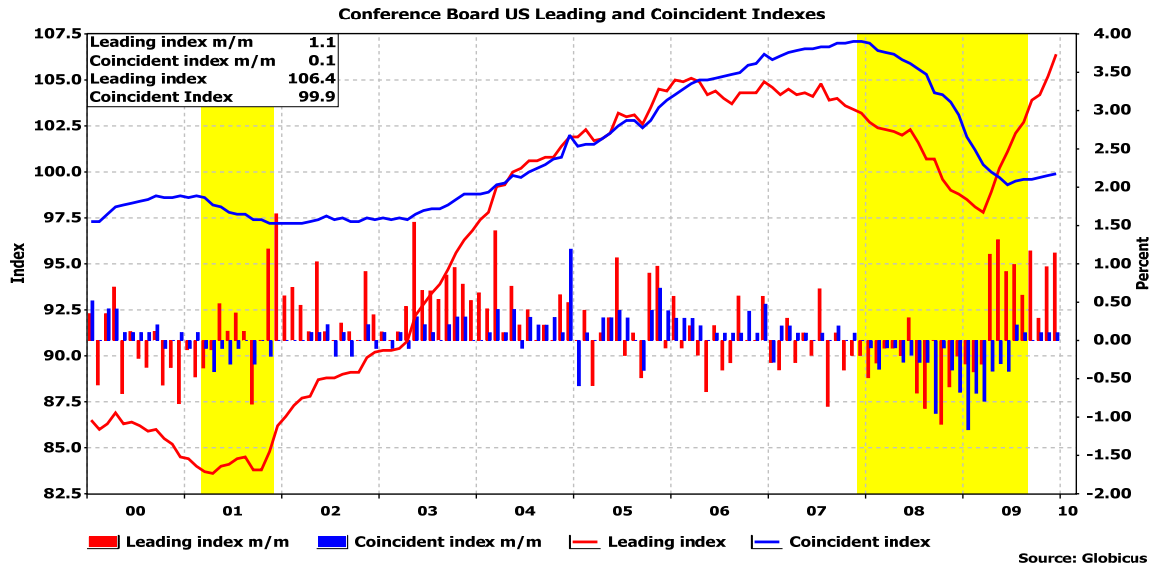
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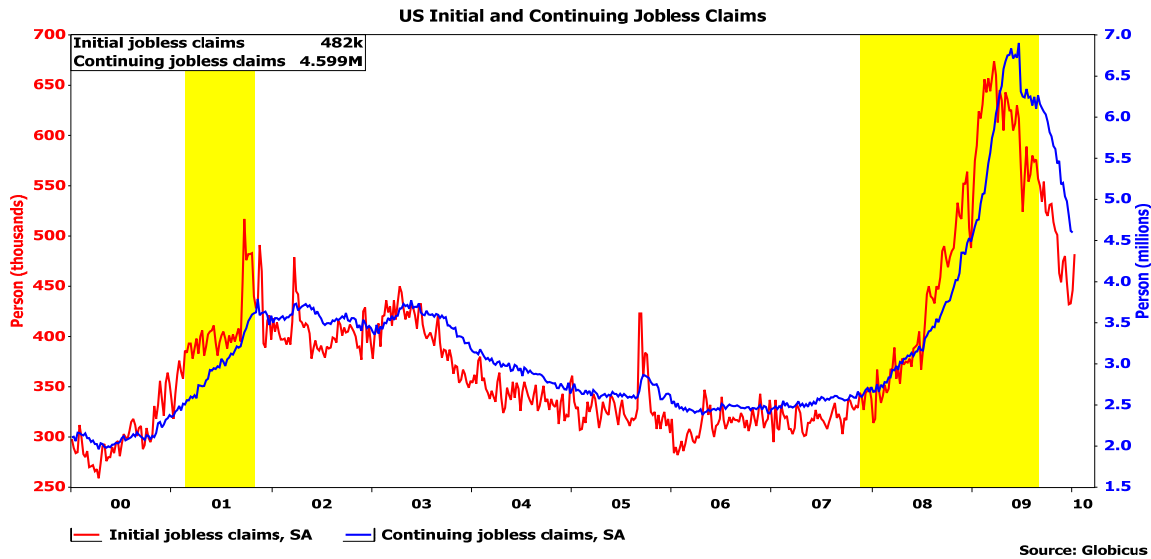
Financial and Economic News and Comments

US & Canada

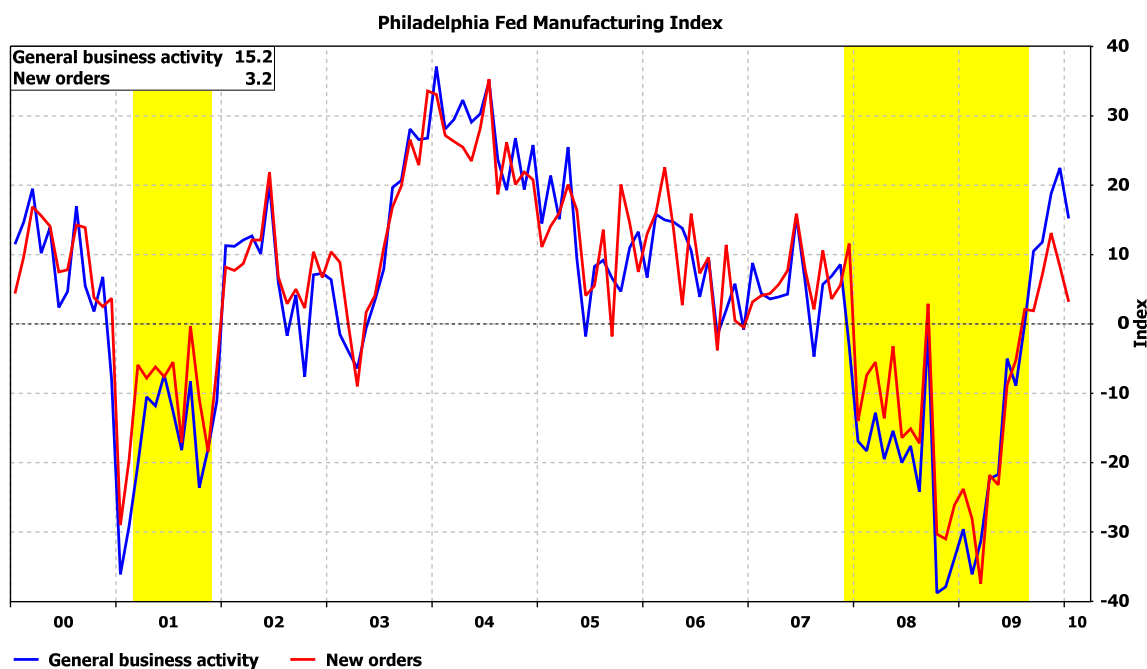
- The US leading economic indicators index, a measure of future economic activity, rose a more-than-expected 1.1% m/m to 106.4 in December, a ninth straight month-on-month gain, after an upwardly revised 1.0 m/m increase in November, according to LEI data from the Conference Board, suggesting the US economic recovery is steadily progressing in H1 2010. The coincident index, measuring current economic activity, increased 0.1% m/m in December for a third consecutive month.



- US initial jobless claims unexpectedly rose 36,000 to 482,000 in the week ending January 16 from the previous week's upwardly revised 446,000, figures from the Labor Department showed. The 4-week moving average increased 7,000 to 448,250. Continuing claims in the week ending January 9 declined 18,000 to 4,599,000 from the preceding week's upwardly revised 4,617,000. The 4-week moving average of those continuing claims dropped 109,750 to 4,750,500. The insured unemployment rate for the week ending January 9 was unchanged at 3.5%.



- The Philadelphia Fed manufacturing index declined to a lower-than-expected 15.2 in January from an upwardly revised 22.5 in December, indicating Philadelphia-area manufacturing expanded for a fifth month but at a slower pace, according to the Federal Reserve Bank of Philadelphia's January 2010 business outlook survey. Hiring conditions continued to improve in January, with the employment index rising to 6.1, the highest level in almost two years, from December's 4.5. The new orders index fell to 3.2 in January from 8.3 in December and shipments declined to 11.0 from December's 14.9 that was the highest since December 2007. The prices paid index declined to 33.2 from 36.6 while prices received increased to 2.7 from 1.4.



Source: Globicus

- Canadian wholesale sales increased 2.5% m/m to C\$42.4 billion (\$40.5 billion) in November, the fifth gain in six months, Statistics Canada reported. November wholesale sales declined 4.4% y/y.

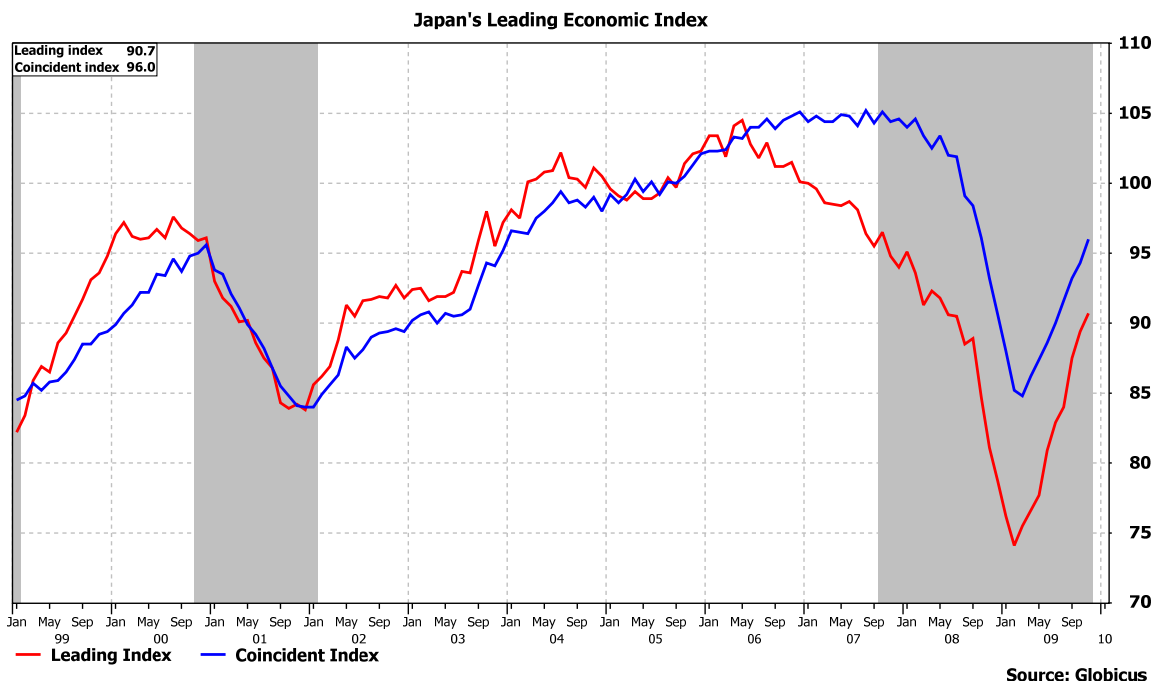
Europe

- The eurozone composite PMI unexpectedly declined to 53.6 in January from 54.2 in December, advance January PMI data from Markit Economics showed, indicating euro-area manufacturing and service industries expanded for a fifth consecutive month but at a slower rate. The services PMI unexpectedly fell to 52.3 in January from a 26-month high of 53.6 in December, while the manufacturing PMI increased as forecast to 52.0, the highest level in 22 months, from December's 51.6.
- The German composite PMI declined marginally to 54.2 in January from 54.3 in December, according to advance January PMI data from Markit Economics, suggesting Germany's services and manufacturing sectors continued their expansion this month but at a slightly slower pace. The services PMI unexpectedly decreased to 51.2 in January from 52.7 in December while the manufacturing PMI rose to a 20-month high of 53.4 from December's 52.7, indicating the manufacturing sector outperformed the services sector this month.
- The UK government had a £15.7 billion (\$25.6 billion) budget deficit in December, less than expected but the most for any December since records began in 1993, compared with a £13.8 billion deficit a year earlier, according to figures from the Office for National Statistics. The public sector net cash requirement widened to £23.6 billion in December from £21.6 billion a year earlier. Net debt rose to £870 billion, or 61.7% of GDP, the largest debt burden since records began in 1974.
- UK gross mortgage lending rose £13.7 billion (\$22.3 billion) in December, the highest since July 2009, up from an upwardly revised £12.1 billion increase in November and a £13.3 billion rise in December 2008, figures from the Council of Mortgage Lenders showed.

- UK manufacturing production grew for the first time in two years, as UK exports picked up and stock reductions eased, according to the Confederation of British Industry's latest quarterly industrial trends survey. Thirty-one percent of the 461 manufacturers surveyed said output increased in the three months to January while 20% said it declined; thus, giving the resulting balance of +11%, the strongest reading since January 2007. However, the CBI said the manufacturing-sector outlook is still "uncertain, with domestic demand still weak, and some firms still struggling to access finance."

Asia-Pacific

- Australia's median expected inflation rate declined to 3.5% in January from 3.6% in December, according to the latest Melbourne Institute survey of consumer inflationary expectations.
- The Japanese leading economic indicators index increased to 90.7 in November (vs. a preliminarily reported 91.2), a ninth straight monthly gain, from 89.4 in October, according to final November LEI data released by the Cabinet Office. The coincident index advanced to 96.0 (vs. a preliminarily reported 95.9), an eighth consecutive monthly rise, following October's 94.3.



FX Strategy Update

	EUR/USD	USD/JPY	GBP/USD	USD/CHF	USD/CAD	AUD/USD	EUR/JPY
Primary Trend	Positive	Negative	Neutral	Negative	Negative	Positive	Neutral
Secondary Trend	Negative	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Trend Outlook	Negative	Positive	Negative	Positive	Positive	Neutral	Neutral
Action	Sell	Buy	None	Buy	None	None	None
Current	1.4090	90.40	1.6193	1.0426	1.0518	0.9007	127.35
Original Position	1.4628	88.67	N/A	1.0340	N/A	N/A	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	1.4590	87.30	N/A	0.9900	N/A	N/A	N/A
Support	1.4000	90.00	1.6150	1.0200	1.0300	0.9000	126.00
	1.3800	88.50	1.5900	1.0000	1.0200	0.8700	123.00
Resistance	1.4300	93.00	1.6400	1.0500	1.0550	0.9300	133.00
	1.4550	94.50	1.6550	1.0700	1.0700	0.9400	135.00

Friday's Economic Calendar

Time (EDT)	Region	Data	Period	Change	Forecast	Previous
1:00	Japan	Tokyo department store sales	Dec	y/y		-11.9%
1:00	Japan	Nationwide department store sales	Dec	y/y		-11.8%
4:30	UK	Retail sales	Dec	m/m	1.2%	-0.3%
4:30	UK	Retail sales	Dec	y/y	3.0%	3.1%
5:00	EMU	Industrial new orders sa	Nov	m/m	0.6%	-2.2%
5:00	EMU	Industrial new orders	Nov	y/y	2.9%	-14.5%
8:30	Canada	Retail sales	Nov	m/m	-0.2%	0.8%
8:30	Canada	Retail sales less autos	Nov	m/m	0.2%	0.2%

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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