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Dollar Index Reaches 81-Area Resistance

- The dollar pared overnight gains after tame US consumer-price inflation data on Friday. The lower-than-expected CPI calmed worries that the Federal Reserve is going to raise its federal funds rate after yesterday's discount rate announcement. Still, the Fed's normalization of lending means that quantitative easing is winding down and the rising dollar is a tightening of monetary policy even if the Fed keeps its rates low for an extended period. This may threaten the still fragile economic expansion. The S&P 500 rose 2.42 to 1,109.17. Although rising for a second week, the USD/JPY was unable to penetrate important resistance and declined modestly today. The euro reversed sharp overnight losses on Friday but declined for a sixth straight week on continuing concerns over the fiscal deficits in Europe's weakest economies. Sterling, declining in four out of the last five weeks, fell on worries about the UK fiscal deficit and weak retail sales. The Australian and Canadian dollars rose today and gained for a second week, supported by recovering commodity prices.
- Amid signs of a continuing US economic expansion, the dollar index rose this week and reached the highest level since June 2009. Although in a strong uptrend and nearly 9% above its December low, the dollar index was overbought and unable to break its strong resistance at the 81 handle today. Some consolidation is expected before a new attempt to penetrate this important resistance. If this resistance is broken, the dollar index will possibly rise to the 83 area.



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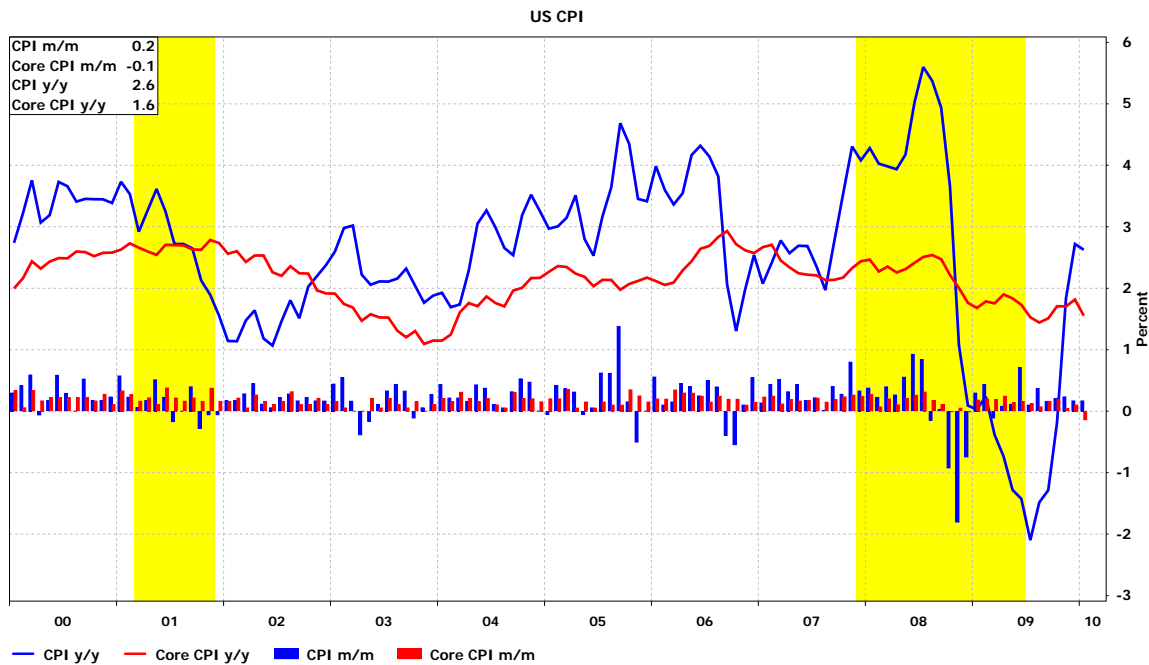
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Financial and Economic News and Comments

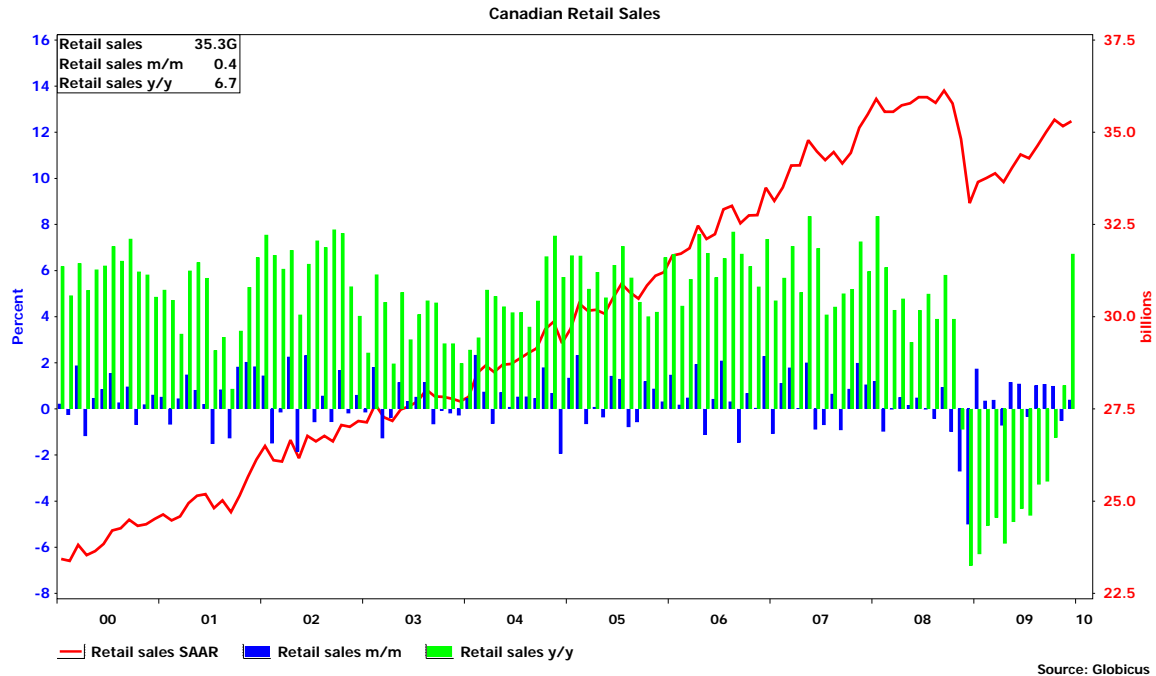
US & Canada

- US consumer prices grew a slightly less-than-expected 0.2% m/m in January after an upwardly revised 0.2% m/m increase in December, according to CPI data from the Labor Department, which also showed a 0.2% m/m consumer-price increase for a fifth consecutive month; thus, suggesting US consumer-price inflation is well contained. The CPI rate slowed to 2.6% y/y from December's 2.7% y/y. The January month-on-month CPI increase was due to a 2.8% m/m rise in energy costs. Food prices were up 0.2% m/m in January after a 0.1% m/m increase in December. The core CPI, which excludes food and energy, unexpectedly slipped 0.1% m/m in January, the first decline since 1982, after a 0.1% m/m increase in December. The core CPI rate decelerated to 1.6% y/y from December's 1.8% y/y. Real average hourly earnings declined 0.1% m/m in January and fell 0.9% y/y, a separate report from the Labor Department showed.



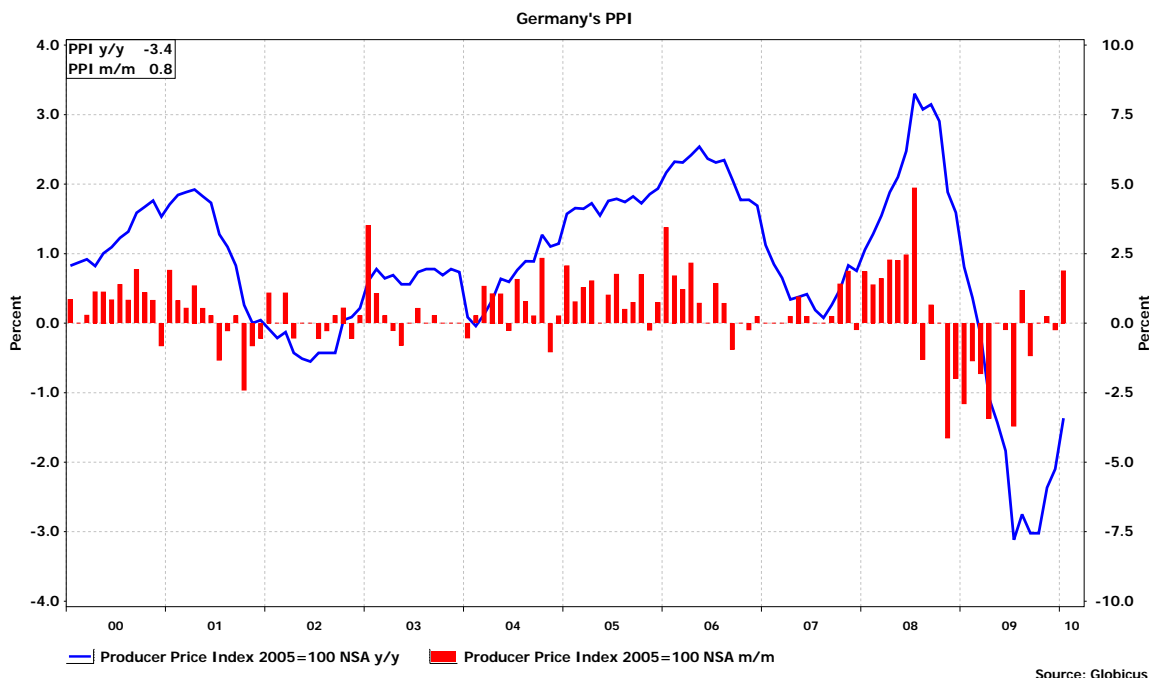
- Canada's leading economic indicators index, a measure of future economic activity, rose a slightly less than-expected 0.9% m/m to 231.1 in January, an eighth consecutive monthly rise, after a 1.5% m/m December gain that was the largest in almost 27 years, LEI data from Statistics Canada showed, pointing to continuing Canadian economic growth. Eight of the 10 LEI components climbed in January, led by a 1.3% m/m advance in the housing index.
- Canadian retail sales increased 0.4% m/m to C\$35.3 billion (\$33.6 billion) in December after a revised 0.5% m/m decrease in November, led by a 3.3% m/m gain at general merchandisers such as department stores, Statistics Canada reported. December retail sales climbed 6.7% y/y. Excluding car and parts dealers, retail sales increased 0.4% m/m in December after a revised 0.2% m/m decline in November. The numbers were in line with forecast.

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Europe

- The eurozone seasonally adjusted current account recorded a €1.9 billion (\$2.6 billion) surplus in December, improving from a revised €0.5 billion deficit in November, the European Central Bank reported.
- The eurozone composite PMI unexpectedly remained at 53.7 in February, advance February PMI data from Markit Economics showed, indicating euro-area manufacturing and service industries expanded for a seventh straight month. The manufacturing PMI increased to a higher-than-expected 54.1 in February from 52.4 while the services PMI unexpectedly declined to 52.0 from 52.5.
- The German manufacturing PMI rose to a higher-than-expected 57.1 in February from 53.7 in January indicating the manufacturing sector in Germany expanded at a faster pace, while the services PMI unexpectedly slipped to 51.7 from January's 52.2 suggesting the services sector grew at a slightly slower rate, according to advance February PMI data from Markit Economics.
- Germany's producer prices rose a more-than-expected 0.8% m/m in January, the second rise in three months, after a 0.1% m/m decline in December, according to PPI data from the Federal Statistical Office. January PPI fell 3.4% y/y, an eleventh consecutive year-on-year fall, following a 5.2% y/y December slide.



- In January the seasonally adjusted value of retail sales declined 1.3% m/m and grew 3.2% y/y, while the seasonally adjusted volume of retail sales fell 1.8% m/m and increased 0.9% y/y, according to data from the Office for National Statistics. The ONS used new methodology, noting that “from this release, the headline estimate for ‘All retailers’ now includes the sale of automotive fuel.” Excluding automotive fuel, the seasonally adjusted retail-sale volume declined a more-than-expected 1.2% m/m in January and rose 2.6% y/y.

Asia-Pacific

- Japan’s all industry activity index unexpectedly declined 0.3% m/m in December after an upwardly revised 0.2% m/m increase in November, indicating overall production by all sectors of the Japanese economy fell for the first time in three months, according to data from the Ministry of Economy, Trade and Industry.
- The Japanese economy is “picking up mainly due to various policy measures taken at home and abroad, although there is not yet sufficient momentum to support a self-sustaining recovery in domestic private demand,” the Bank of Japan said in its latest monthly report, adding that economic conditions will possibly “continue improving, although the pace of improvement is likely to remain moderate for the time being.” The financial environment has shown “signs of improvement,” according to the BOJ report.

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
Outlook	Negative	Positive	Negative	Positive	Positive	Negative	Neutral
Action	Sell	Buy	None	Buy	None	None	None
Current	1.3593	91.63	1.5453	1.0767	1.0402	0.8982	124.56
Original Position	1.4628	88.67	N/A	1.0340	N/A	N/A	N/A

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	EUR/USD	USD/JPY	GBP/USD	USD/CHF	USD/CAD	AUD/USD	EUR/JPY
Objective	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Stop	1.4060	87.30	N/A	1.0345	N/A	N/A	N/A
Support	1.3400	88.50	1.5400	1.0500	1.0400	0.8600	121.50
Resistance	1.3200	86.00	1.5300	1.0200	1.0250	0.8400	119.00
	1.3650	92.00	1.5900	1.0900	1.0800	0.9050	126.00
	1.3850	94.00	1.6100	1.1100	1.1000	0.9300	130.00

Monday's Economic Calendar

Time (EDT)	Region	Data	Period	Change	Forecast	Previous
8:30	US	Chicago Fed national activity index	Jan			-0.61
10:30	US	Dallas Fed general business activity index	Feb			8.3
18:50	Japan	Bank of Japan meeting minutes				

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, LEI=leading economic indicators index, PPI=producer price index, PMI=purchasing managers index

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New York, February 19, 2010, 16:00 EDT