

## Overview

The USD traded higher Friday supported by safe haven demand sparked by fears about a Dubai debt crisis. Two major Dubai firms seek to delay debt payments ahead of plans to restructure Dubai World. Dubai World's debt is estimated at 80 to 90bn. Dubai is seeking to raise billions in bonds to repay the debt and has asked for a temporary standstill from its creditors. The Dubai World news surprised investors and fueled a reduction in risk exposure. JPY surged to a 14 year high versus the USD supported by safe haven demand sparked by concern about a Dubai debt default. JPY upside was partly limited by threat of intervention and rumors that the BOJ was checking for rates. Commodity currencies traded lower pressured by weaker crude and gold prices with crude initially tumbling \$4 a barrel and gold dropping by 2%. The decline in commodities was attributed to a spike in risk aversion generated by concern that the Dubai debt crisis could spark a new global financial crisis. Reduction of risk exposure was the driving factor in Friday's trade sparked by fear that a Dubai debt default could generate a new global financial crisis and hurt the global recovery. The key question is whether concern about the Dubai debt default overshadows recent optimism about the global recovery. Worries about Dubai's debt may force investors to take more risk of the table. The size of the Dubai debt that is not that great. A key issue is whether this is the start of a second financial crisis or an isolated incident. The Dubai Monetary Authority may be forced to stand behind the debt. The Dubai debt worries overshadowed positive economic data from Europe with French consumer confidence rising and EU economic and business sentiment rising for the eighth consecutive month. USD erased some of its overseas gains as stocks and commodities recoup some earlier losses. There is speculation that the markets may have overreacted to the Dubai news. Gold recovered over half of its initial losses. AUD and European currencies rebounded in cross trade to the JPY. This rebound helped to limit USD gains. Focus turns to next week's central bank policy meetings in Australia and the EU and the release of US November unemployment next Friday.

### Today's US data:

No major US economic data was released in today's trade

### Upcoming US data:

Next week's US economic calendar includes the November 30th release of November Chicago PMI expected 53 compared to 54.2 last month. On December 1st October construction spending, November ISM and October pending home sales index will be released along with November domestic auto sales. Construction spending is expected to fall by 0.4% compared to a 0.8% rise last month. The ISM is expected at 55 compared to 55.7 last month and pending home sales are expected at 110.5 compared to 110.1 last month. ADP for November will be released on December 2nd expected at -185k compared to -203 k last month. On December 3rd initial jobless claims for week ending 11/28 will be released expected at 480k compared to 466K last month along with Q3 final productivity and unit labor costs. Productivity is activities expected 8.9% and unit labor costs expected at -4.7%. November ISM nonmanufacturing index will be released on December 3rd as well expected 51 compared to 50.6 last month. November nonfarm payrolls and unemployment will be released on December 4th with the unemployment rate expected unchanged at 10.2% and nonfarm payrolls expected -145k compared to 190k last month. October factory orders will be released on December 4th expected at 0.2% compared to 0.9% last month.

### JPY

JPY traded at a 14 year high versus the USD with USD/JPY falling to a low of 84.82 Thursday sparked by news that the Dubai World seeks to delay debt payments for two of its flagship firms. Dubai World has requested a six-month delay in the payment of its debt. Fear of a Dubai debt default sent stock and commodity markets sharply lower fueling safe haven demand for the JPY. Threat of intervention sparked a USD rebound versus the JPY with USD/JPY recovering to trade back above 86.50 in Friday's trade. There were rumors that the BOJ was checking for rates. This could be a prelude to physical intervention. In addition, Japanese Finance Minister Fujii said that Japan would be open to a joint G-20 statement on currencies. It's interesting to note that, in Wednesday's trade former MOF official Sakakibara said that the MOF would not be concerned about the strength of the JPY as long as USD/JPY remained above 85.00. The risk of joint intervention in support of the USD is unlikely at this time but Japan may decide to intervene alone. Japan's Deputy Prime Minister Kan said JPY gains will hurt the economy and the Japanese government will take necessary steps in the currency markets. The last time that Japan intervened in the Forex markets was March 2004 when USD/JPY was trading around 109. The Dubai debt default fears overshadowed today's Japanese economic data. Japan reported that October unemployment declined to 5.1%, October household spending rose by 0.7%, October retail sales declined by 0.9% and October CPI

declined by 2.5%/y. Japanese officials are expected to increase the threat of intervention should USD again drop below 85.00. The direction of JPY will depend on how investors digest the Dubai debt fears. Asian banks are said to have larger exposure to Dubai debt than Europe and the direction of equities will remain key to risk sentiment.

Next week's Japanese economic calendar includes the November 30th release of October construction orders and housing starts. Construction orders are expected to fall by 16.5% compared to 14% drop last month and housing starts are expected to rise by 1.2% compared to 3.4% last month.

Key technical levels to watch in USD/JPY include support at 84.82 the November 27th low and 84.50 the July 1995 low with resistance at 87.50 the November 26th high.

## **EUR**

EUR traded sharply lower giving back all of this week's gains pressured by a spike in risk aversion sparked by Dubai debt default fears and tumbling global equity markets. Threat of BOJ intervention and statements from French and Italian officials downplaying Europe's exposure to Dubai's debt helped to stabilize EUR around 1.4900. In addition, EU economic data was positive with economic and consumer confidence rising for the eighth consecutive month. EU November economic sentiment rose to 88.8 from 86.1 last month. November business climate index improved to -1.56 from -1.78 last month. French consumer confidence also gained in November. German November CPI declined by 0.2%. These reports suggest that the EU economy is recovering with little upside pressure on inflation. Focus turns to next week's ECB policy meeting on December 3rd. The ECB is expected to leave interest rate policy unchanged at 1% and outline late details of its exit strategy.

Next week's EU economic calendar includes the November 30th release in October HICP expected unchanged at -0.1%. German October retail sales will also be released on November 30th expected at 0.2% compared to -0.5% last month. On December 1st EU manufacturing PMI index for November and EU November unemployment will be released. The PMI is expected 50.7 and unemployment is expected at 9.7%. On December 2nd EU October PPI will be released expected at -0.2% compared -0.4% last month.

The technical outlook for the EUR is mixed as the EUR fails to hold above 1.5000. Expect EUR support at 1.4800 the November 20th low with resistance at 1.5025 the November 27th high.

## **GBP**

GBP traded mixed to lower pressured by a spike in risk aversion sparked by Dubai debt default fears. GBP was also pressured by fear that Dubai will have to sell UK assets to raise capital. The Dubai debt news overshadowed positive statements from BOE officials about the outlook for the UK economy. The BOE's Posen said that the UK economy has bottomed out. The BOE's Bean says that growth in Q4 would not be a surprise. These comments may dampen speculation that the BOE will expand quantitative ease at the December policy meeting. Earlier in the week the UK reported a slight upward revision in its Q3 GDP. Despite the upward revision in Q3 GDP the GDP report confirms that the UK economy is still in recession. GBP has underperformed primarily because of concern about the outlook for the UK recovery and speculation that uncertainty about the strength of the UK recovery will leave the BOE with little choice but to continue to expand its quantitative ease. The BOE expects the UK recession to end in Q4 and expects growth of 2.2% in 2010.

Next week's UK economic calendar includes the November 30th release of October consumer credit, money supply and mortgage lending. Consumer credit is expected at -0.214bln compared to -0.262bln. Money supply is expected to rise by 2% compared to 1.8% last month and mortgage lending is expected at 0.965bln compared to 0.922bln last month. November GfK survey will also be released on November 30th expected -11 compared to -13 last month. On December 1st November Nationwide House Price Index will be released expected unchanged at 0.4%. Also on December 1st November CIPS PMI Manufacturing index will be released expected 53.9 compared to 53.7 last month.

The technical outlook for GBP is negative as GBP trades below 1.6400. Expect near-term support at 1.6127 the October 8th low with resistance at 1.6515 for November 27th high.

## **CAD**

CAD traded lower pressured by a sharp drop in commodity markets and global equities sparked by fear that Dubai World's plan to delay debt payments could spark a contagion to other financial markets. Investors were liquidating risk in all markets and reducing exposure to high yield investments. Earlier in the week the CAD traded sharply higher supported by report that Russia plans to add CAD to its reserves. The Russian announcement to diversify some reserves to the CAD fits with the scenario of nations looking for a hedge against the potential continued drop of USD. The Russian diversification news may also generate concern about the sustainability of the USD's global reserve currency. The Dubai news will be an interesting test of whether the USD reestablishes its viability as the primary global reserve currency. Canada's Q3 current-account came in at -13.12bln compared to -11.2bln last quarter, a reading of -13.3 was expected. CAD direction remains closely correlated to the price of commodities and risk sentiment.

Next week's Canadian economic calendar includes the November 30th release of October IPPI and RMPI along with September GDP. On December 4th November Ivey PMI will be released.

The technical outlook for CAD is negative as USD/CAD trades above 1.0700. Look for near-term support at 1.0500 the November 27th low with resistance at 1.0855 the November 3rd high.

### **AUD**

AUD traded mixed initially pressured by deleveraging of risk assets sparked by weaker equities and concern about a Dubai debt crisis. The AUD rebounded from overnight lows with support from gains in cross trade to the JPY sparked by threat of BOJ intervention. AUD traded higher earlier in the week supported by RBA rate hike speculation and surge to a record high in the price of gold. It will be interesting to see whether concern about a Dubai debt default forces the RBA to reconsider a December rate hike. Wednesday RBA Deputy Governor Battellino said that he expects the economic rebound to last for a few more years. His comments were seen as hawkish and an indication that the RBA would not hesitate in hiking interest rates at the RBA policy meeting on December 1st. The direction of equity markets and commodities remain key to the AUD. Focus turns to the RBA policy meeting Tuesday with the trade expecting the RBA to hike rates 25 bps to 3.75%

Next week's Australian economic calendar includes the November 30th release of Q3 business inventories expected at -1% compared to 3.4% last month. October private sector credit will also be released on the 30th expected flat compared to -0.2% last month. On December 1st October building approvals will be released expected at 1.5% compared to 2.7% last month. On December 3rd October retail trade will be released expected at 0.6% compared to -0.2% last month.

The technical outlook for the AUD is mixed as the AUD struggles to hold above 9000. Expect AUD support at 8906 the November 2nd low with resistance at 9325 the November 26th high.