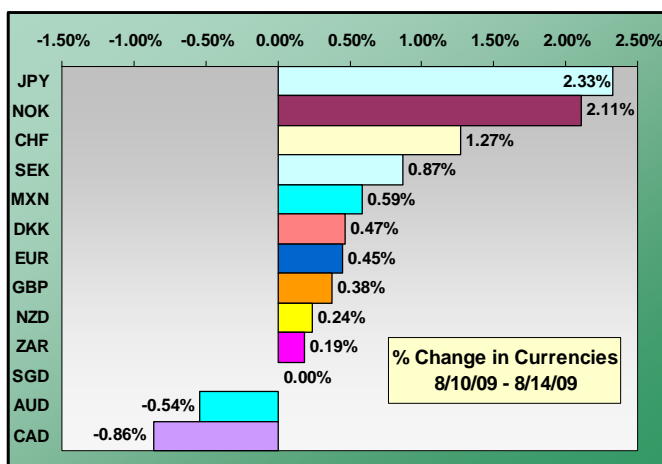


WEEKLY MARKET COMMENTARY

August 17, 2009

While the consensus among economists seems to be that the US economy is now recovery bound, most feel it will be a u-shaped rather than a v-shaped recovery (slow and modest rather than quick and sharp). And even with a recovery underway, the toughest part of Fed head Ben Bernanke's job may still be ahead of him. The Fed must now walk a very fine line, finessing interest rates slowly higher to prevent inflation while still providing enough slack in the markets so as to not hinder the fragile recovery. Both are very real risks. Because of this, the FX market—and other financial markets as well—could be without a strong direction for awhile. Watch for a yo-yoing dollar.

- ❑ **A little Monday morning caffeine for the buck—it's higher this morning against all majors except the yen.** Falling equity markets in China resulting from suggestions that credit will be tightened there have given the dollar its momentum and the yen even more. China's sovereign wealth fund is reportedly considering investing in the US Treasury's Public-Private Investment Program, distressed mortgage related securities that the Treasury Department acquired to stem the financial market meltdown. This is pro-dollar inasmuch as it shows China's government is not shying away from US dollar-denominated investments.



- ❑ **The market will see a slew of new US data this week, much of it housing related.** The numbers are expected to be good but not great.

- ❑ **Last week's data show the trade deficit grew a bit in June, to \$27 billion, up from a revised \$26.0 billion in May.** The good news: But both exports and imports were up for the month. *Hopefully signs of a trend...*

Date	Country	Description	Result
12-Aug	US	FOMC Interest Rate	0.25%
13-Aug	US	Business Inventories	-1.10%
14-Aug	US	CPI MoM	0.00%
14-Aug	US	Industrial Production	0.50%
18-Aug	US	Housing Starts	
18-Aug	US	PPI MoM	
18-Aug	US	ABC Consumer Confidence	
21-Aug	US	Existing Home Sales	

- ❑ **Second-quarter earnings season is getting better by the day.** Of the S&P 500 companies, 463 have now reported; earnings versus the same quarter last year are down just 16.09% versus the expected 29.7% decline. Despite this, stocks finished last week marginally weaker and have opened up 2% lower this morning. World stock markets were/are mostly down this morning as well. Last Thursday's retail sales data (-0.1% vs. an expected +0.8%) continue to cause questions about when US consumers will return to their old go-go spending habits. Friday's University of Michigan consumer confidence number was also disappointing (63.2 vs. an expected 69.0). (ES/AD)
- ❑ **Credit markets have weakened significantly over the past week with the CDX Investment Grade Index widening out 15 BPs to 122.** The CDX High Yield Index, which tracks credit spreads on 5 year BB to B rated companies, is now trading at 840 BPs. This is about 90 BPs wider than levels achieved just last week. At the lows in March, this High Yield index traded at over 1500 BPs! The rate curve is still steep with 2/30s LIBOR trading at 277 BPs. Ten-year notes last traded at 3.49% and the thirty-year bond last traded at 4.36%. (ES)
- ❑ **Political conservatives will take the credit while the corporate lobbyists will be satisfied with just the big paycheck they get... the chances for a government-run US healthcare plan are apparently dead and soon to be buried.** *No comment from Mrs. Clinton as of yet...*

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