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Location	Phone	Reuters Code	Contacts
CIBC Toronto	416-594-8703 416-594-8704 416-594-8733	CIBC	Dan McNevin Brendan Stark, Alan Tigert, Darcy Browne
CIBC Singapore	65-6423-3831	CIBQ	Joe Cortese, Patrick Bei, Martin Drake
CIBC London	44-171-407-4194	CIBL	Robert Alan, Mark Sweeting
CIBC New York	212-856-6604	CIBN	David Ricketts, Eric Price



USD/CAD

RANGES: TOR: 1.0687-1.0807

1.0800

Fundamental:

Canada's slight resistance to the further USD recover yesterday didn't hold over night as Funds edged higher in Asia stalling initially at 1.0680. Warnings of more troubles in UK bank stocks combined with yesterday's ING news saw the recent USD reversal extend with Oz Kiwi and Cad suffering the most against Yen. Funds ran up to look at trend resistance at 1.0750 and managed to hold. A brief trade through 50 meet resting domestic USD sellers and we edged back into the low 1.07's. North American markets were less nervous though with US equities opening mostly flat with the dollar giving up some of its gains. Funds failed to spend much time below 1.07 though, and as the Euro traded down through 1.4750-60 everything else followed with Funds extending up top look at 1.0800. Another strong treasury auction weighed on equities and kept the dollar firm as risk trades were taken off. Stg faired well today reinforcing that the market continued to unwind recent optimism trades. Oil off 2 dollars and the TSX off 2% kept Funds closing at recent highs.

Technical:

USD/CAD has now cleared daily trend line resistance off the July peak at 1.1725, and is closing right on the 38.2% retracement target of the July-October down leg, which is 1.0786. The next major resistance point is the 100-day MA (1.0948), although we would be surprised to see this indicator tested on the current leg of USD strength. The upper daily Bollinger band presently lies at 1.0881, and selling any test of this indicator since the March 1.30 highs has proven to be a profitable trade thus far. Given we still view current USD/CAD strength as corrective; we would sell any approach of this level, risking a daily close above the 100-day MA. Below, 1.0710 and 1.0650 are seen as initial support points.

Options:

CAD vols. were on a tear again today. 1 month opened at 15.5% and offered on. However with spot trading back up, better buyers of 6month came in and pushed the entire curve a lot higher. 1 month was paid as high as 15.8% and 1 year traded from 15.65% to 15.8%. 1 week 1.0700s traded at 16.1% on the open for 1.0700 strikes and later in the afternoon got paid at 16.25% for 25d cad puts. Risk reversals were sharply higher as well, with 1 month 25d RR getting paid as high as .65 USD calls over. Friday strikes traded at 18.75% on the open, with overnight 1.0790 trading from 18.75% down to 16.5% on the close. O/n 1.0880s were given at 17.5% and offered on. Strikes for tomorrow: 1.0750 1.0790 1.0880

Prognosis:

Today's break and close above trend resistance off July's 1.17 highs at 1.0750 combined with the continued unwinding of short USD and Stg trades has us looking for the correction off the 1.02 mid Oct lows to extend targeting 1.10-1.11 last month's highs and the 62% retracement of the 3 1/2 month Cad rally. We look to trade from a long USD position prepared to add on a dip to 1.0760 targeting 1.0950 as first profit objective, 50% retracement and the 100 day avg.



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