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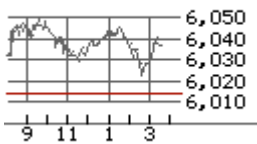
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As of 1247 GMT Wednesday, January 12, 2011

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MARKET WATCH

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FTSE	6,037.08	0.38%
DAX	7,049.07	1.55%
CAC	3,927.53	1.70%
Stoxx	2,862.98	2.37%
DJIA	11,747.11	0.64%

15:35 GMT

At least 20 minutes delayed.

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after data show US import prices posted another strong gain in December.

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FOREX FOCUS

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Reprints

The Rise And Rise Of The Canadian Dollar

By **NICHOLAS HASTINGS**

A DOW JONES NEWSWIRES COLUMN

LONDON -- Watch the country cousin come to town.

For years, the Canadian dollar has lived in the shadow of its U.S. counterpart.

Like Canada itself, it was the tag-along currency driven largely by its all-powerful southern neighbor.

Now, though, as the global economy recovers from the financial crisis, the Canadian currency is coming into its own.

The Canadian dollar is being seen as an alternative to the U.S. dollar because it doesn't have the problems of the U.S. banks; as an alternative to the Australian dollar because it doesn't have the floods; and as an alternative to the euro because it doesn't have sovereign-debt problems.

With its triple-A credit rating and an economy showing one of the most sure-footed returns from the financial crisis, Canada is increasingly being seen as an attractive destination for the international investor.

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rd

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ABOUT

Forex Focus is written daily by Nicholas Hastings and spotlights trend in the global foreign exchange markets, putting the day's currency-trading events into context. It aims to provide a early morning, forward-looking analysis for market watchers but also discusses broader issues that could

[Oil futures hold](#)

gains on U.S. inventory data.

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after Portugal's debt sale.

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The Canadian dollar has already risen sharply in the last month or two, with the U.S. dollar falling to a 2.5 year low this week.

See how the dollar has fallen:

<http://www.dowjoneswebservices.com/chart/view/5248>

However, there is little sign that the strong currency is hampering the country's economic recovery just yet.

On the contrary, data in the last few days, including the Bank of Canada's own quarterly business outlook, have pointed to further improvements in the employment market, a continued rise in house prices and expectations that consumer inflation will rise over 2% over the next year or so.

Although the Bank of Canada isn't expected to hike its interest rates as early as its policy meeting next week, the central bank is likely to take a more hawkish stance from now.

Down south, meanwhile, the U.S. continues to suffer from a highly irregular recovery, with employment levels still disappointing expectations, the housing market remaining uncertain and deflation fears still haunting the Federal Reserve. Instead of starting to unwind its extraordinarily easy monetary conditions, the Fed is still pledging to preserve them for as long as needed.

Much of the strength of the Canadian recovery could well be traced to the health of Canadian banks, which, unlike U.S. ones, weren't tainted with the subprime mortgage crisis and have continued lending to Canadian companies. According to the BOC survey, businesses have easier access to credit and expect sales to accelerate.

The Canadian currency's status as a commodity currency has also risen in recent weeks, not only because of the country's position as an energy producer at a time when crude oil prices are rising, and expected to continue to rise to more than \$100 a barrel, but because Canada isn't Australia, that other major commodity producer.

impact currency dealing in the near-term.

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Although Australia had been staging an even stronger and more rapid recovery than other G-10 countries, given that its economy is tied so closely to those of Asia, the currency has stumbled in the last few weeks.

Damage from the unprecedented flooding in Queensland could slash GDP growth by anywhere up to a percentage point this year and fears of long-term damage to the country's mining industry have knocked the Aussie off its pedestal, with analysts looking for further losses, especially against the Australian currency's Canadian counterpart.

The sovereign-debt crisis in the euro zone is also playing into the hands of the Canadian dollar, as international investors continue to look for alternatives to the euro.

Instead of just turning to the U.S. dollar, they are now showing more interest in the currency north of the border that once attracted minimal attention and was rarely seen as an alternative to the city-slicker down south.

Bloomberg TNI FRX POV
Reuters
USD/DJ
Thomson
P/1066 or P/1074

(Nick Hastings has covered the foreign exchange markets and industry for more than 20 years. Apart from his written commentary and analysis, he also appears on Fox Business News and CNBC television in Europe, Asia and the U.S. He can be contacted on +44-20-7842-9493 or by email: nick.hastings@dowjones.com)

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