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Foreign Exchange Market Highlights

Good morning,

EUR: One week euro volatility climbed nearly 2% this morning as European Central Bank (ECB) policy makers publicly joined the debate over how the ECB should address euro-area stimulus in light of the strengthening currency. Yesterday, ECB Vice President Victor Constancio expressed his concern, explaining how the exchange rate does not reflect changes in economic fundamentals, specifically in regard to inflation. Despite recent euro gains following news of relatively solid economic growth throughout the region, investors are expecting ECB President Mario Draghi to take a more dovish approach amidst these deflationary concerns during the next meeting on January 25th.

GBP: The pound continued its rally yesterday as hopes of a "soft Brexit" grew following comments from European Commission President Jean-Claude Juncker. During a speech on Wednesday, Juncker stated how the EU would like to maintain strong ties with the British, going so far as to give the U.K a re-entry option. Juncker explained "Even if the British leave under Article 50, then Article 49 would allow them to accede again, and I would be happy to facilitate that." His comments reflect calls by European Council President Donald Tusk for the British to reconsider their decision. British officials, however, continue to adamantly refuse the idea of a second referendum.

CNY: The Chinese Yuan rallied following data released this morning that showed Chinese economic growth accelerated last year for the first time since 2010. GDP full-year growth reached 6.9% in 2017, up from 6.7% achieved in 2016. Additionally, fourth quarter GDP, industrial output and 2017 fixed asset investment also came in above expectations. Largely driven by an increase in exports, the recent economic boom is giving President Xi Jinping and the People's Bank of China (PBoC) room to tackle the country's growing debt risk, as investors have become more confident in the Chinese economy heading into 2018.

CAD: The Canadian dollar appreciated over 0.8% last night following the Bank of Canada's (BoC) decision to raise rates yesterday. Despite the initial rally, dovish comments following the decision re-affirmed the BoC's concerns with economic growth due to uncertainty surrounding NAFTA and political matters in the U.S. The CAD nearly reversed all its gains this morning, as investors now turn their attention to the potential U.S. government shutdown that could occur this weekend.

Have a great morning!

Rami Saker - Philadelphia

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