

Forex market is mixed ahead of Friday's US data

News and Events:

The Euro climbed against the Dollar for the third straight session on Thursday and was on track for its biggest daily rise against the Yen in three weeks as investors rediscovered a taste for risk.

Analysts said expectations of more interest rate cuts from the Federal Reserve to shield the US economy from housing and credit market woes boosted high-yield currencies.

The Bank of Japan's decision on Thursday to hold rates at 0.5% also emboldened investors to extend carry trades, which use cheaply borrowed Yen to buy higher-yielding assets. Investors feel comfortable taking on more risk because there's a lot of faith now in the Fed, which has shown it's willing to fight for the economy, said analysts.

The Fed slashed interest rates by half a percentage point in September, and while the odds of another cut this month have receded somewhat, markets still see a roughly 70% percent chance of more easing by year-end.

Yesterday, EurUsd had climbed as high as 1.4242 but eased slightly after European Central Bank Governing Council member Jose Manuel Gonzalez-Paramo said 4% euro-zone interest rates are appropriate. The EurJpy rose as high as 167.64 before easing to 166.80. The UsdJpy hit a two-month peak at 117.79, before easing to 117.47. The Euro also climbed 0.3% to 1.6791 against Swiss francs and gained 0.72% against Sterling to 69.84, its biggest one-day rally since March. The high-yielding Australian Dollar pushed to 0.9061 high, a 23-year peak. The New Zealand Dollar rose 1.25% against the dollar to 0.7722. Both currencies gained against the Yen.

European policy-makers have worried in recent weeks that a stronger Euro will undermine growth. With the Group of Seven richest countries set to meet next week, some have urged Washington to reaffirm its strong Dollar policy, something US Treasury Secretary Henry Paulson did on Thursday. "A strong dollar is in our nation's interest," Paulson told as he left a meeting with President George W. Bush. He added that currency values should be set in the marketplace "based on underlying fundamentals." But European Central Bank President Jean-Claude Trichet said on Thursday that euro-zone growth remains robust despite recent financial market volatility.

US trade deficit narrowed more than expected in August, suggesting a weaker Dollar may be aiding the economy by boosting exports. However, the dollar remained under pressure as investors braced for more Fed cuts due to uncertainty about the US outlook and fear that the economy will be hit again by the global credit crisis.



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Today's Key Issues (time in GMT):

09:00 EUR August Euro-zone Industrial prod 0.2% vs 0.6% (MoM)

09:00 EUR August Euro-zone Industrial prod 2% vs 3.7% (YoY)

12:30 US Sept Producer Price Index 0.4% vs -1.4% (MoM)

12:30 US Sept PPI ex Food and Energy 0.2% vs 0.2% (YoY)

12:30 US Sept Retail Sales 0.2% vs 0.3%

12:30 US Sept Retail Sales ex-autos 0.3% vs -0.4%

14:00 US University of Michigan Confidence 84 vs 83.4

14:00 US August Business Inventories 0.2% vs 0.5%

The Risk Today:

EurUsd is narrowing between 1.4280 and 1.4015 October high and low. A break down 1.4165 support may open the way down to 1.4000 nearby support and 1.3927 where a lower development would threaten the up-trend. On a long term view, it would need a return below 1.3719 to confirm trend change. Initial support holds 1.4165. On the Upside, positive development might be limited by 1.4242 yesterday high and but will have strong resistance at 1.4280 October high.

GbpUsd hit 2.0477 high this week close to previous week 2.0494 two-month high. Cable broke yesterday 2.0363 support which open further downside toward 2.0200. But it would need a drop below 2.0000 psychological level and 1.9880 support to confirm trend change. Beyond that point, 1.9821 marks strong support (76.4% retracement of 1.9652 to 2.0366 advance). Initial resistance holds 2.0363 former support and 2.0477 Oct 10th high.

UsdJpy has tested 116.63 resistance (50% retracement of 123.67 to 111.60 decline). It need a confirmation over that point to open the way for further extend toward 119.06 (61.8% retracement of 123.67 to 111.60 decline). On the downside, a return below 113.39 (Sept. 11 low) would open the way toward 112.61 and a possible retest of 111.60 (August 17 low). Initial support holds 116.81 Tuesday low.

UsdChf hit 1.1895 high on Tuesday. Initial resistance holds 1.1923 (38.2% retracement of 1.2477 to 1.1577 decline). On the actual uptrend, a recovery beyond 1.1962 is needed to relieve the 3 months bear threat. However, renewed weakness below 1.1790 may reopen the way toward 1.1680 key support. A break there will extend the downtrend toward 1.1500 psychological support and possibly 1.1484 (2005 March 14 low).

Resistance and Support:

| EURUSD | GBPUSD | USDJPY | USDCHF |
|----------|----------|----------|----------|
| 1.4333 S | 2.0500 K | 123.67 T | 1.2133 T |
| 1.4280 S | 2.0477 S | 119.06 T | 1.2000 S |
| 1.4242 M | 2.0363 M | 117.63 M | 1.1923 S |
| 1.4185 | 2.0250 | 117.30 | 1.1820 |
| 1.4165 M | 2.0200 S | 116.81 M | 1.1790 M |
| 1.4000 S | 2.0000 P | 113.39 S | 1.1680 K |
| 1.3827 S | 1.9880 S | 111.60 T | 1.1500 P |

S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot

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