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Dollar fell to record low against Euro on US rate concerns

News and Events:

The Dollar fell to a record low against the Euro and a basket of currencies on Thursday, pressured by soft US economic data and sluggish corporate earnings that bolstered chances of an interest rate cut.

Bank of America's poor third-quarter earnings on the back of mounting credit losses took their toll on the currency market early as it fanned concerns that the global liquidity crunch is far from over. It also strengthened the case for a cut in the target federal funds rate from the current 4.75% to avert a sharper slowdown.

US short-term rate futures on Thursday showed a 68% implied chance of a rate cut at the Fed's next monetary policy meeting on Oct. 30-31, from Monday, expectations around 35%.

The Philadelphia Federal Reserve business activity survey was the latest report to provide evidence of a slumping US economy. Earlier in the session, higher-than-expected initial weekly US jobless claims also gave the dollar a negative tone. Both reports followed dire US housing data on Wednesday, suggesting the slowdown is deeper than many initially thought.

Yesterday, EurUsd was up 0.59% at 1.4291, after climbing to a lifetime peak at 1.4309 during New York session. The Yen gained as investors became more risk-averse and unwound carry trades in which they buy high-yielding currencies funded by borrowing low-yielder such as the Yen. This was the Yen's fourth straight day of gains against the Dollar; UsdJpy was 0.71% weaker at 115.55 near a 115.28 two-week low. The EurJpy fell 0.11% to 165.13. UsdChf dropped 0.8% to 1.1700 after touching intraday low 1.1663 two-week low. GbpUsd went up to 2.0512 high (three-month high) before closing up 0.3% to 2.0449. GbpJpy fell 0.4% to 236.30 in a third down session.

Forex investors are also cautious ahead of a Group of Seven meeting over the weekend. European businesses on Thursday urged France, Germany, and Italy to push for a clear commitment from the G7 group of rich industrial nations against further Euro appreciation. But few analysts were willing to bet any action will be taken to address the Euro's surge against the dollar. Analysts added that situation could improve in coming months as the currency volatility (in the Euro) has fallen significantly from the spikes seen in August. On the US side, markets believe that Dollar weakness will not be mentioned in the statement at all given its limited impact on inflation. Analysts said the G7's focus is more likely to be on the tightly controlled Chinese Yuan currency.



Today's Key Issues (time in GMT):

08:30 GBP 3Q GDP 0.7% vs 0.8% (QoQ)

08:30 GBP 3Q GDP 3.1% vs 3.1% (YoY)

11:00 CAD Sept Consumer Price Index 0.2% vs -0.3% (MoM)

11:00 CAD Sept Consumer Price Index 2.5% vs 1.7% (YoY)

11:00 CAD Sept Bank of Canada CPI 0.2% vs 0.1% (MoM)

11:00 CAD Sept Bank of Canada CPI 2% vs 2.2% (YoY)

14:00 USD Fed's Bernanke and Poole speak at conference, St. Louis

20&21st Oct IMF & World Bank meetings in Washington

20&21st Oct G7 meeting in Washington

The Risk Today:

EurUsd headed into new highs yesterday and this morning respectively 1.4309 and 1.4319. Recent break up 1.4280 previous high opens the way toward 1.4333 strong resistance. Next resistance holds 1.4400. On the downside, a return below 1.4280 former resistance and 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.

GbpUsd hit yesterday 3-month 2.0512 high. But it failed to hold such level and initial resistance is again holding 2.0435 ahead of 2.0477 strong resistance Oct 10th high. On the downside, it would need renewed pressure below 2.0200 and further weakness toward 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).

UsdJpy was down in fourth straight session. Downside dominates with recent break of 116.81 and 116.45 supports opening the way down to 113.39 (Sept. 11 low). Further drop might follow toward 112.61 and retest of ultimate 111.60 (August 17 low). On the upside, it still need a confirmation over 117.63 resistance to open the way for further extend toward 119.06 (61.8% retracement of 123.67 to 111.60 decline).

UsdChf needs a recovery beyond 1.1962 to relieve the 3 months bear threat. Initial resistance holds 1.1790 (23.6% retracement of 1.2477 to 1.1577 decline) and strong resistance 1.1923 (38.2%). However, renewed weakness below 1.1680 key level may reopen the way toward 1.1500 psychological support and possibly 1.1484 (2005 March 14 low).

Resistance and Support:

| EURUSD | GBPUSD | USDJPY | USDCHF |
|--|----------|----------|----------|
| 1.4400 S | 2.0512 S | 123.67 T | 1.2000 S |
| 1.4333 S | 2.0500 K | 119.06 T | 1.1923 S |
| 1.4319 M | 2.0477 S | 117.79 M | 1.1790 M |
| 1.4295 | 2.0435 | 115.10 | 1.1685 |
| 1.4280 M | 2.0200 S | 113.39 S | 1.1680 K |
| 1.4165 S | 2.0000 P | 112.61 M | 1.1500 P |
| 1.4000 S | 1.9880 S | 111.60 T | 1.1484 S |
| S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot | | | |

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