

Dollar rises against Euro and Yen ahead of US data, ECB and BoE meetings.

News and Events:

The Dollar rose to a nearly six-week high against the Yen on Wednesday after economic reports showed growth in US employment, boosting expectations for a favorable reading on Friday's non-farm payrolls data. The Dollar advanced for a third consecutive day after a report on the US services sector and another on private-sector payrolls indicated modest growth in the labor market last month, feeding hopes that the troubled housing market has not dragged down other parts of the US economy. Forex analysts are already anticipating a solid payrolls report on Friday which could provide further reason to square up short dollar positions.

In yesterday trading, UsdJpy was 0.92% higher at 116.69 while the EurJpy climbed 0.54% to 164.53. The EurUsd edged 0.39% lower to 1.4099, down from a record high of 1.4281 hit on Monday.

Investors' cautious venture back into carry trades this week has helped to lift higher-yielding currencies such as the Australian Dollar, which touched an 18-year high, and the New Zealand Dollar. Such trades are used to borrow in low-yielding currencies to buy assets in higher-yielding ones. The Australian Dollar rose to an intraday high of 0.8916, about a third of a cent from an 18-year high of 0.8950 hit on Monday. It last traded little changed at 0.8844.

Forex analysts said for the Dollar's rally to continue it would have to sustain itself beyond Friday's US employment report. The payrolls number would have to far exceed the consensus forecast for a 94,000 gain to peel FX Dealers away from the current Dollar negative trend. Long-term investors point to lengthy Dollar-negative trends that show no sign of ending soon. Qatar's prime minister said on Tuesday in an interview that the country's \$50 billion sovereign wealth fund has slashed its exposure to the dollar in half in the last two years. This trend of diversifying portfolios out of dollars and into currencies that are expected to appreciate in coming years is one that has been often cited as a reason for Dollar weakness over the last several years.

Italian Prime Minister Romano Prodi said he and German Chancellor Angela Merkel were worried about the Euro's strength, the latest officials to express concern about the exchange rate's impact on euro zone economies. However Foreign Exchange traders have largely put aside policy-makers' comments and focused instead on monetary policy, especially with both the Bank of England and the European Central Bank meeting today.

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Today's Key Issues (time in GMT):

- 11.00 UK** Bank of England announces rates 5.75% vs 5.75%
- 11.45 EUR** ECB announces rates 4% vs 4%
- 12.30 US** Sept 29th, Initial Jobless Claims 310k vs 298k
- 14.00 US** August Factory Orders -2.6% vs 3.7%
- 14.00 US** August Durable Goods orders -4.9% vs -4.9%
- 14.00 CAD** Sept Ivey Purchasing Managers Index 60 vs 58.5

The Risk Today:

EurUsd hit Monday all time high 1.4282, which marks initial resistance before a new extension to 1.4291 and 1.4333 strong resistance. But market reversed on Wednesday and broke down 1.4165 support, opening 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.

GbpUsd started this week with a strong tone up to 2.0494 two-month high. Yesterday, it return below 2.0363 which may open the way to further downside. 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).

UsdJpy downtrend remains intact below 117.13 major resistance. Confirmation over this level is needed to relieve the negative tone and open the way for further extend toward 119.36 (61.8% retracement of 124.15 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 resistance holds 116.78 yesterday high.

UsdChf remains negative below 1.1816 former key support. Further weakness may open 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). However, on the uptrend, a recovery beyond 1.1923 and 1.1962 is needed to relieve the actual bear threat.

Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.4500 K	2.0660 S	119.36 T	1.2000 S
1.4333 S	2.0500 K	117.13 S	1.1923 S
1.4282 M	2.0465 S	116.78 M	1.1816 M
1.4100	2.0320	116.65	1.1795
1.4000 S	2.0200 S	113.39 S	1.1680 K
1.3827 S	2.0000 P	112.61 M	1.1500 P
1.3719 P	1.9880 S	111.60 T	1.1484 S
S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot			

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