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Dollar drops as Forex players stay cautious on risk

News and Events:

The Dollar fell against most major currencies on Tuesday, resuming a long-term decline after a respite the previous session as investors expected further signs of housing weakness and sluggish consumer spending that could hurt US economic growth. However, the Dollar was higher against the Yen as the Japanese currency fell from an 18-month high against the Dollar after comments from Japan's prime minister abruptly ended the unwinding of carry trades that had pushed the unit higher in recent days. Japanese Prime Minister Yasuo Fukuda told the Financial Times that the Yen was appreciating "too fast" and speculators needed to be careful to avoid the possibility of intervention. Dealers had previously been rapidly unwinding risky trades, increasing volatility in the Currency and Equity markets. The low-yielding Yen had surged in recent days as renewed fears that credit-related problems could spread to the wider US economy sapped risk appetite among investors, prompting them to buy back Yen they had sold to fund purchases of higher-return currencies in carry trades. For the moment, the rapid cutting down from risk appeared to be over and the market continued to maintain bets against Dollar strength, though they have shrunk since last week. EurUsd edged up 0.67% from Monday to 1.4620 lifted partly by a EurJpy 2.14% rise to 162.51. UsdJpy was up 1.46% at 111.16 after falling as low as 109.13 on Monday. AudUsd recovered 2.29% to 0.8995 after having lost 3.54% on Monday. NzdUsd rose 1.91% to 0.7619. It was the biggest one-day percentage gain for both the Aussie and the Kiwi against the Dollar since mid September. UsdCad posted 1.09% loss to 0.9576 after posting its largest one-day advance on Monday, +2.48% to 0.9682, since 1971. Worries about the US economy continued to drive trade. The Dollar extended gains in afternoon trade as the National Association of Realtors reported its September US pending home sales index unexpectedly rose. US interest rate futures still fully expect the Federal Reserve to cut benchmark rates another 0.25 to 4.25% next month.



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Today's Key Issues (time in GMT):

08:00 EUR ECB's Trichet speaks on Euro Payments Area
09:00 USD Fed's Fisher speaks on Economic Outlook
09:30 GBP Oct Claimant unemployment change -6k vs -12.8k
09:30 GBP Oct ILO unemployment rate 5.4% vs 5.4%
10:00 EUR 3Q Euro zone GDP 0.6% vs 0.3% (MoM)
10:00 EUR 3Q Euro zone GDP 2.5% vs 2.5% (YoY)
12:00 GBP Nov 9th, MBA Mortgage Applications -1.6%
13:30 CAD Oct Leading Indicators 0.3% vs 0.4%
13:30 USD Oct Producer Price Index 0.3% vs 1.1% (MoM)
13:30 USD Oct PPI ex-food & energy 0.2% vs 0.1% (MoM)
13:30 USD Oct Producer Price Index 6.4% vs 4.4% (YoY)
13:30 USD Oct PPI ex-food & energy 2.6% vs 2% (YoY)
13:30 USD Oct Retail Sales 0.2% vs 0.6% (MoM)
13:30 USD Oct Retail Sales ex-autos 0.3% vs 0.4% (MoM)
14:10 USD Bernanke speaks on FOMC communications
15:00 USD Business Inventories 0.3% vs 0.1%
17:00 TRY CBT Interest rate announcement 16.25% vs 16.75%
22:45 NZD Sept Retail Sales 0.6% vs 0.2% (MoM)
22:45 NZD Sept Retail Sales ex-auto 0.6% vs 0.8% (MoM)
23:50 JPY Sept Tertiary Industry Index -1% vs 1.3% (MoM)

The Risk Today:

EURUSD Euro upside potential remain bullish. EurUsd found support at 1.4520 Monday and Tuesday low. It recovered up to 1.4673 this morning. On the downside, only a return below 1.4500 and further drop to 1.4280 former resistance would threaten the uptrend. This could open the way down toward 1.4000 nearby support and 1.4125 trendline support. Initial support holds 1.4520 strong support.

GBPUSD Following Monday largest drop since October 22nd, Cable found support on 2.0525 last two days low. On the upside, last Friday 2.1161 high put 2.1355 May 11th 1981 into focus. On the downside, 2.0525 will bring strong support, but a break there may open a market reversal. But it would need renewed growing pressure below 2.1000 and further weakness toward 2.0500 psychological levels to confirm a trend change. Initial support holds 2.0654 former resistance.

USDJPY Trend remains bearish. Recent pressure pushed toward 111.60 (August 17 low) on Monday and posted a new ultimate 109.57 low. On the upside, market needs a return over 114 and 116 to undermine the actual downtrend. This may open the way toward 117.63 resistance. Initial resistance holds 111.60.

USDCHF is consolidating from last 3-week downtrend. It posted a fresh low 1.1189 on Friday, near 12-year low 1.1110 from April 1995. Last week break of 1.1500 pivot point holds initial resistance. Extreme target holds 1.1000 key level. It would need a return over 1.1500 and 1.1640 level to relieve actual bear threat.

Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.5000 K	2.1355 K	117.63 S	1.1923 S
1.4730 T	2.1161 T	114.00 P	1.1640 T
1.4703 M	2.0870 M	111.60 M	1.1500 P
1.4640	2.0775	111.35	1.1250
1.4520 S	2.0654 M	109.57 M	1.1189 S
1.4500 K	2.0525 S	109.00 S	1.1110 T
1.4400 M	2.0500 P	108.77 S	1.1000 K
S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot			

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