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Yen rises on risk fears as US stocks dropped

News and Events:

The Yen rose broadly on Thursday after brokerages downgraded two of the largest US banks, stinging equities and sapping investor appetite for risk. Among the hardest hit currencies on the day were the Australian and New Zealand Dollars, the focus of "carry trade" bets by speculators borrowing in low interest rate currencies like the Yen in order to buy higher interest rate assets in Australia and its neighbor. When volatility slaps stock markets, it dulls investors' tolerance for risk, triggering a bailout of carry trade bets, with investors repaying Yen loans, thus boosting demand for the Japanese currency.

The UsdJpy fell 0.8% to 114.48, after falling as low as 114.37. The EurJpy was down 1.12% at 165.12 while GbpJpy dropped by 0.88% after having hit intraday 241.38 high. The EurUsd also slipped 0.31% to 1.4425, a day after it hit a record peak 1.4504. The AudUsd fell 1.77% to 0.9150 after touching 0.9108 intraday low. On Wednesday, it surged to a 23-year peak above 0.9340. The Australian Dollar was on track for its biggest one-day decline against the Dollar since August. Against the Yen, the Australian Dollar dropped 2.56% to 104.75. The NzdUsd tumbled 1.7% to 0.7591. NzdJpy slumped 2.5% to 86.9250.

The blue-chip Dow Jones industrial average Index and S&P 500 index both tumbled 2.6% on Thursday after brokerages downgraded the two biggest US banks, Citibank and Bank of America, sparking fears of more credit crisis fallout. The VIX equities option index, often known as the "fear index," jumped nearly 26 percent, its sharpest rise in nearly eight months, reflecting more perceived investment risk.

Trading in the US Dollar against currencies outside the Yen was subdued ahead of the October US employment report on Friday, which could heavily influence views on what the Fed may do at its next policy meeting in December. Dealers in the interest rate futures market have priced in a 64% chance of a Fed rate cut next month, up from about 42% late Wednesday. Analysts said the increase was mainly due to the steep losses in US equities.



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Today's Key Issues (time in GMT):

BoJ left rate unchanged at 0.5%

06:45 CHF Oct CPI 0.7% vs 0.1% (MoM)

06:45 CHF Oct CPI 1.1% vs 0.7% (YoY)

09:30 EUR Oct Euro zone RBS Manufacturing PMI 51.5 vs 53.2

11:00 CAD Oct Unemployment Rate 5.9% vs 5.9%

11:00 CAD Oct Net Change in Employment 11k vs 51.1k

12:30 USD Oct Change in Nonfarm Payrolls 80k vs 110k

12:30 USD Oct Unemployment Rate 4.7% vs 4.7%

12:30 USD Oct Change in Manufacturing Payrolls -10k vs -18k

14:00 USD Sept Factory orders -0.5% vs -3.3%

14:00 USD Sept Durable Goods Orders revision -1.7%

14:00 USD Sept Durable Goods Orders ex-trans revision 0.3%

14:00 USD Sept Durable Goods Orders ex-defense revision 0.7%

14:00 USD September Construction spending -0.5% vs 0.2%

The Risk Today:

EurUsd Outlook remains bullish. This put 1.4500 key level into focus. Next resistance holds 1.4530 March 1995 trend high. On the downside, a return below 1.4280 former resistance may threaten the trend and reopen the way down toward 1.4000 nearby support and 1.4125 trendline support. On a long term view, it would need a return below 1.3719 to confirm trend change. Initial support holds 1.4400 former resistance.

GbpUsd Cable remains positive following recent break of 2.0654 key resistance. A clear confirmation over that level would support a return of the bull trend paving the way for strength toward 2.1000 and a channel top at 2.1030. 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). Initial support holds 2.0500 former resistance.

UsdJpy Trend remains bearish. It has been consolidating within last week high and low 115.03 and 113.26. Further drop below 113.26 might push 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). Key support holds 114.

UsdChf dropped down to 1.1565 new low this week. Initial resistance holds 1.1790 (23.6% retracement of 1.2477 to 1.1577 decline) and strong resistance 1.1923 (38.2%). However, recent downtrend development below 1.1680 former key level reopened the way toward 1.1500 psychological support and possibly 1.1484 (2005 March 14 low).

Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.4570 S	2.1030 S	119.06 T	1.2000 S
1.4530 T	2.1000 T	117.63 S	1.1923 S
1.4500 K	2.0862 S	115.03 M	1.1790 M
1.4430	2.0790	114.65	1.1575
1.4400 M	2.0500 M	114.00 K	1.1565 M
1.4280 S	2.0200 S	113.39 S	1.1500 P
1.4125 T	2.0000 P	111.60 T	1.1484 S
S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot			

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