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Dollar edges up in year-end profit taking

News and Events:

The Yen advanced on Thursday, buoyed by the view that the US economy has yet to see the worst of the sub-prime mortgage crisis after investment bank Bear Stearns reported its first-ever quarterly loss. An unexpected fall in a US Mid-Atlantic manufacturing activity index also weighed on the market already pressured by a persistent credit crunch. That prompted investors to avoid risky carry trades where they buy the yen and sell higher-yielding currencies. Concerns that the credit fallout was spreading to other market segments mounted late Wednesday, with Standard & Poor's revising its outlook downward for major bond insurers Ambac Financial Group, MBIA Insurance Corp and XL Capital Assurance. Yesterday, MBIA, the world's largest bond insurer, said it had exposure to \$30.6 billion in complex mortgage securities that it ensures, an amount that exceeds its entire net worth.

UsdJpy fell 0.11% to 113.18 and EurJpy dropped 0.47% to 161.18. The Yen briefly extended gains against the dollar earlier after the Philadelphia Federal Reserve's index of regional manufacturing fell sharply to its lowest since April 2003. But gains in the Yen kicked off after Bear Stearns reported the first quarterly loss in the company's history of \$854 million, and took a write-down of \$1.9 billion in the quarter ended November. In addition, Bank of Japan left interest rates on hold. Meanwhile, EurUsd slipped 0.35% to 1.4331, hurt by continued position adjustment and some repatriation of funds as the year winds down. GbpUsd hit four-month low, having broken below the key 2.0000 mark the previous session after minutes from a Bank of England meeting suggested it may cut rates again as soon as January. In contrast, expectations of Federal Reserve rate cuts next year have been slightly scaled down in the wake of last week's unexpectedly strong US economic data. GbpUsd fell to a four-month low of 1.9810 and was last trading at 1.9837, down 0.62%. EurGbp rose 0.28% to 0.7225 close to a 4-1/2-year high 0.7257.

Today, Forex market will focus on the release of the Fed's favored gauge of inflation, the core personal consumption expenditures.



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Today's Key Issues (time in GMT):

09:30 GBP November Retail Sales 0.2% vs -0.1% (MoM)
09:30 GBP November Retail Sales 4.4% vs 4.4% (YoY)
10:30 EUR November Industrial New Orders 2% vs -1.6% (MoM)
10:30 EUR November Industrial New Orders 6.5% vs 2% (YoY)
11:30 GBP December GfK consumer Confidence previously -10
13:30 CAD October Gross Domestic Product 0.1% vs 0.1% (MoM)
13:30 CAD October Retail Sales ex-auto 0.1% vs 0.1% (MoM)
13:30 CAD October Retail Sales -0.2% vs -0.2% (MoM)
13:30 USD November Personal Income 0.5% vs 0.2%
13:30 USD November Personal Spending 0.6% vs 0.2%
13:30 USD November PCE Core 0.2% vs 0.2% (MoM)
13:30 USD November PCE Core 2% vs 1.9% (YoY)
15:00 USD December University of Michigan Confidence 74.9 vs 76.1

The Risk Today:

EURUSD December downtrend remains strong below 1.4520 former support. Further pressure might open the way toward 1.4280 former resistance. This could put into focus 1.4000 nearby support and 1.4125 trendline support. Initial support hold 1.4311 yesterday low. Initial resistance holds 1.4520 former support.

GBPUSD Following recent break of 2.0200 support (23.8% retracement) it dropped below 2.0000 psychological and key level. Further pressure might open the way down to 1.9590 (50% retracement 1.7049 – 2.1161). On the upside, 2.0000 former support marks now the initial resistance in front of 2.0200 and 2.0577 Dec 12th high. Yesterday low 1.9810 holds initial support.

USDJPY Uptrend started end November hit 113.61 last Friday. This recent move up put 114 into focus. Further strength may open the way toward 117.63 resistance. On the downtrend, initial support holds 110, before 107.22 trend November 26th low. Initial resistance holds 113.61 last Friday high.

USDCHF Uptrend from 1.0888 late November low remains strong. Market had found support on 1.1327 end November high. It would need a return over 1.1640 level to relieve 6 months bear threat. Initial support holds 1.1402 Friday low. Initial resistance holds 1.4595 yesterday high.

Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.5000 K	2.0200 M	117.63 S	1.1895 T
1.4967 S	2.0000 K	114.00 P	1.1640 S
1.4520 S	1.9985 M	113.61 M	1.1595 M
1.4370	1.9830	113.20	1.1565
1.4280 S	1.9810 M	112.29 M	1.1402 M
1.4125 T	1.9590 S	110.00 S	1.1000 S
1.4000 S	1.9150 K	107.22 T	1.0888 K
S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot			

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