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Forex market is looking for direction further to end-month squaring

News and Events:

The Dollar rallied across the board on Friday, posting its biggest weekly rise against a basket of currencies in more than a year, on profit-taking in the Euro and month-end squaring up of positions by Corporate. It was also supported by optimism that further Federal Reserve interest rate cuts would help the world's biggest economy avoid a recession, temporarily shifting market focus away from a diminishing yield appeal. Forex traders attributed the Dollar's surge to a combination of factors ranging from month-end transactions, chart levels, and a drop in the price of Gold which dropped to a 10-day low on profit-taking. Analysts said the euro could slip to 1.4500 by year end. On Friday, EurUsd ended at 1.4634, down 0.84%, its lowest level in more than a week. It scaled also on Friday session peak of 1.4785. The Dollar also got a lift from a magazine report that Bahrain would maintain the Dinar's peg to the Dollar as OPEC prepares to meet next week amid growing pressure on some Gulf States to unpeg their currencies of the sluggish dollar. Fed Chairman Ben Bernanke hinted late on Thursday that the central bank might cut rates to help the economy weather a resurgence of financial market turmoil. Lower US interest rates usually weigh on the Dollar because they reduce the yield on Dollar-denominated assets, but this time analysts said the market was taking a longer view adding it is very unlikely that the ECB is going to increase rates any time soon. The euro is losing strength because of that and could correct down to 1.4500. UsdJpy was up 1.32% at 111.23, well off a 2-1/2-year low of 107.22 hit last Monday. The EurJpy was up 0.48% at 162.78 and UsdChf gained 1.35% at 1.1320. UsdCad rose 0.16% to 99.85, while NzdUsd fell 0.86% to 0.7643. In remarks to the Charlotte Chamber of Commerce, Bernanke said a resurgence in financial market strains had dimmed the outlook for the US economy, suggesting the central bank will cut rates when it meets on Dec. 11th. But some analysts still said the market was likely to continue being driven by interest rate differentials rather than stronger growth prospects and expected further monetary easing to undermine the Dollar.



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Today's Key Issues (time in GMT):

08:30 CHF PMI 63.4 vs 60.7

09:00 EUR November Euro zone PMI 52.4 vs 51.5

09:30 GBP November Manufacturing PMI 52.5 vs 52.9

09:30 EUR ECB's Trichet speaks at a conference, Brussels

10:00 EUR October Euro zone Unemployment 7.3% vs 7.3%

13:00 USD Fed's Rosengren speaks on sup-prime, Boston

15:00 USD November Manufacturing ISM 50.5 vs 50.9

15:30 USD Treasury Secretary Paulson speaks on Housing, Washington

20:30 USD Fed's Yellen speaks on Monetary Policy, Seattle

The Risk Today:

EURUSD Euro is searching for direction after having pull back from last Friday 23rd November record high 1.4967. It might return down to two weeks ago support on 1.4520. On the downside, only a return below 1.4500 and further drop to 1.4280 former resistance would threaten the last 3 months uptrend. This could open the way down toward 1.4000 nearby support and 1.4125 trendline support. Initial resistance holds 1.4723 former support.

GBPUSD Cable found support last week around 2.0600. On the upside, 2.0833 Nov 28th high marks the strong resistance before putting 2.1161 trend high and 2.1355 May 11th 1981 into focus. Initial resistance holds 2.0700 Friday high. On the downside, a sharp return below 2.0525 may open a market reversal. But it would need renewed pressure below 2.0200 and further weakness toward 2.0000 psychological levels to validate a downtrend. Initial support holds 2.0525.

USDJPY Downtrend might have end early last week. even with last three days pullback. Last Friday break up 110 level will put 114 into focus. This may open the way toward 117.63 resistance. On the downtrend, supports hold 106.50 June 2005 low and 101.68 January 2005 low. Initial support holds 110.50 former resistance. Initial resistance holds 111.23 Friday high.

USDCHF Downtrend remains heavy, even with last week 4 positive sessions started on 1.0888 23rd November low. Market had found support on 1.1000 key level and posted a fourth consecutive positive session. Initial resistance holds 1.1300 (12th Nov) high. It would also 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 | 2.1161 T | 117.63 S | 1.1640 T |
| 1.4970 S | 2.0922 S | 114.00 P | 1.1500 P |
| 1.4870 M | 2.0833 S | 111.23 M | 1.1300 S |
| 1.4640 | 2.0540 | 110.60 | 1.1295 |
| 1.4723 M | 2.0525 M | 110.50 K | 1.1000 S |
| 1.4650 S | 2.0200 S | 107.50 K | 1.0900 M |
| 1.4500 K | 2.0000 P | 106.50 S | 1.0888 K |
| S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot | | | |

Quick access to our 5 previous newsletters:

- ▶ [Dollar was supported by Corporations squaring books at month end](#)
- ▶ [Dollar stays under pressure as market anticipate further rate...](#)
- ▶ [Dollar pulled away from 2 ½ year low as Citigroup news help...](#)
- ▶ [Dollar stays weak near Euro record high and Yen 2 ½ year low](#)
- ▶ [Dollar posted new record lows vs majors in thin Forex market](#)

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