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Fed is still seen cutting again interest rates to support economy

News and Events:

The Dollar rose on Wednesday but gains were constrained amid indications that the Federal Reserve would likely continue cutting US interest rates to heal an ailing economy even as inflation pressures mount.

Minutes of the Federal Open Market Committee's Jan. 29-30 policy meeting showed most officials saw risks to growth as weighted on the downside. The Fed also lowered its 2008 growth forecast to between 1.3% and 2%, from a forecast of between 1.8% and 2.5% in November. News that underlying inflation accelerated at a faster-than-forecast pace in January had earlier cooled expectations of steep rate cuts by the Fed, sending EurUsd to a session low of 1.4615. The Fed has lowered its benchmark overnight lending rate by 225bp to 3% since mid-September. Fed funds futures show a 90% chance of a 50bp easing next month and a 25bp reduction has been fully priced in.

Yesterday, EurUsd was down 0.04% at 1.4722. It slipped earlier down to 1.4615 after a top German politician said the country's regional state-backed Landesbanks were in crisis.

Data showed the US core CPI rose 0.3% in January, the strongest monthly rise since June 2006. Underlying inflation trends are closely watched by the Fed in setting interest rates. St. Louis Federal Reserve President William Poole said while the rise in January consumer prices was not-welcome, the figures were no cause for alarm.

UsdJpy last traded unchanged at 108.04, off intraday highs at 108.37, boosted by a rise in US stocks. UsdChf gained 0.38% to 1.0985, while GbpUsd dropped to a one-month low at 1.9363. The Cable last traded at 1.9421, down 0.3% from late on Tuesday.

Oil's surge above \$100 per barrel, marking a record for a second straight day, pushed the UsdCad to a session low of 1.0106. It last traded down 0.29% at 1.0126.

Investors will watch the weekly jobless claims data on Thursday for fresh clues on the health of the labor market. The Fed has forecast the unemployment rate at between 5.2 and 5.3% this year. The jobless rate is currently at 4.9%.



Today's Key Issues (time in GMT):

09:00 EUR December Euro-zone Current account €0.2B vs €0.7B
09:00 EUR December Euro-zone Current account NSA €1.0B
09:00 SEK Riksbank governor Ingves speaks on inflation, Stockholm
09:30 GBP Retail Sales 0.2% vs -0.4% (MoM)
09:30 GBP Retail Sales 4.7% vs 2.7% (YoY)
13:30 USD February 16th, Initial Jobless Claims 350k vs 348k
13:30 USD February 9th, continuing claims 2760k vs 2761k
13:45 GBP Bank of England's Sentence delivers speech, London
15:00 USD February Philadelphia Fed Business Index -11 vs -20.9
15:00 USD January Leading Indicators -0.1% vs -0.2%

The Risk Today:

EURUSD Market confirmed the recent strength over 1.4500 pivot point recovering from 7th February 1.4440 low. Medium term trading range is now 1.4366 – 1.4952. Trendline support holds 1.4311 ahead of 1.4280 strong support. Initial resistance holds 1.4757 yesterday high.

GBPUSD Cable had found resistance on upper Trendline at 1.9723 4-days ago. Friday move ended the five-day positive trend from 1.9388 February 7th low. Initial resistance holds 1.9730 upper Trendline. Return in uptrend will be only confirmed over 2.0000 key level before 2.0100 resistance. Most recent pressure below 1.9500 had open the way toward 1.9337 January low and 1.9105 (50% retracement of 1.7049 – 2.1162 advance). Initial support holds 1.9363 yesterday low.

USDJPY It has been testing level over 108 pivot since last week. This may open the way up to 110.10 strong (Trendline) resistance and mid January double top ahead of 111.92 early January high. On the downside, supports are set on 105.77 February low and 104.97 23rd January low, ahead of 104.20 trendline support.

USDCHF It is trading in 1.0732 – 1.1104 range. Next resistance holds 1.1123 late January high. Market might look for 1.1130 (38.2% of 1.1603 – 1.0838 decline). Early January double top 1.1191 marks strong resistance. Initial support holds 1.0887 Thursday low, 2 figures away from February 1st 1.0732 low.

Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.5000 K	2.0100 S	114.00 P	1.1500 P
1.4967 S	2.0000 P	111.92 S	1.1191 S
1.4757 M	1.9730 T	110.10 T	1.1123 M
1.4730	1.9460	108.10	1.0980
1.4500 P	1.9363 M	106.00 S	1.0887 M
1.4366 T	1.9337 S	105.77 M	1.0812 K
1.4280 S	1.9105 S	104.97 T	1.0732 S
S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot			

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