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Dollar hit a 3-week low vs Euro on fears of US recession

News and Events:

The Dollar fell broadly on Friday, hitting a three-week low against the Euro, amid mounting fears of a US recession and more credit-related losses. But a CNBC television report that a bailout for bond insurer Ambac Financial Group was imminent saw US stocks stage a late rally, helping the Dollar fight back from earlier troughs against the Yen.

The Dollar came under pressure as Thursday's contraction in the Philadelphia Federal Reserve Bank's Mid-Atlantic business activity index stoked recession fears, in contrast to the euro zone's surprising growth in the service sector reported on Friday.

EurUsd was up 0.09% at 1.4827, after racing to a three-week peak of 1.4863 on the back of the better-than-expected euro zone services sector data. It rose to 52.3 in February from 50.6 the previous month, a survey showed on Friday. The data dampened expectations of near-term rate cuts from the European Central Bank.

UsdJpy traded down 0.25% at 107.16, after sliding to a session low 106.73.

UsdChf dropped 0.46 to 1.0852. A late rally on the US stock market caused the Euro to erase earlier losses versus the Yen. EurJpy last traded -0.14% at 158.93 after touching an intraday low of 158.16.

Analysts warned the Dollar would remain vulnerable this week, with key Housing and Confidence reports due for release. They said the data would most likely confirm that the world's largest economy was sharply slowing down and back expectations of another 50bp reduction in the fed funds rate target next month. Rate futures markets are fully pricing in a half percentage point cut at the Federal Reserve's next meeting in March to 2.50 percent and factor in a small chance of a bigger 75bp reduction. That would add to an unusually aggressive 125bp cuts in January, as the Fed tries to stave off a US recession.

The Canadian dollar weakened after a domestic retail sales report missed expectations and supported the case for more rate cuts from the Bank of Canada. On Friday, UsdCad was up 0.14% at 1.0130.



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Today's Key Issues (time in GMT):

08:30 SEK January Trade Balance SEK 9.2B

13:30 USD January National Activity Index -0.91

15:00 USD January Existing Home Sales 4800k vs 4890k

The Risk Today:

EURUSD Market confirmed the recent strength over 1.4500 pivot point and 1.4800 recovering from 7th February 1.4440. Medium term trading range is still 1.4366 – 1.4952. Trendline support holds 1.4311 ahead of 1.4280 strong support. Initial resistance holds 1.4863 Friday high.

GBPUSD Cable broke Friday 1.9630 upper Trendline resistance. But 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 Wednesday low.

USDJPY It returned last week below 108 pivot point. On the downside, supports are set on 105.77 February low and 104.97 23rd January low, ahead of 104.20 trendline support. Renewed Dollar strength may open the way up to 110.10 strong (Trendline) resistance and mid January double top ahead of 111.92 early January high.

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 1.0836 Friday low, almost 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
1.4863 M	1.9730 T	110.10 T	1.1123 M
1.4815	1.9660	107.40	1.0890
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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