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- ▶ Forex Trading
- ▶ New To Forex
- ▶ Forex Quotes
- ▶ Charts
- ▶ White Labels
- ▶ Asset Managers
- ▶ Introducing Brokers

Yen fell against major currencies on rising risk appetite and investors return in carry-trades

News and Events:

The Yen fell broadly on Monday as euphoria over the US bond insurance sector boosted the appeal of stocks and other risky assets, helping to underpin high-yielding currencies like the New Zealand dollar.

Standard & Poor's said it had removed MBIA Corp's top "AAA" rating from credit watch negative, but added the outlook was negative, suggesting that a rating downgrade remained likely over the next two years. That announcement came on the heels of news of a possible rescue plan for troubled Ambac Financial Group, the second-largest US bond insurer. Such a step would help limit the damage from the ongoing credit crisis that has fractured investor confidence. Dresdner Bank, part of insurer Alliance, on Monday said it intends to support a rescue package for Ambac.

UsdJpy raced to a session high of 108.22 before retreating in late trade to around 108.09, still up 0.87%. EurJpy jumped to a five-week high of 160.41 and last traded up 0.86% at 160.30. EurUsd was little changed at 1.4832, taking a breather after hitting a three-week peak 1.4863 on Friday.

Global stocks have gained on hopes of the Ambac bailout. Ambac, which insures municipal bonds as well as other forms of debt, is facing Billions of Dollars of expected losses from guaranteeing repackaged risky sub-prime mortgages. A bailout could see Ambac avoiding a ratings downgrade that would force investors to sell Billions of Dollars' worth of securities, which would lift borrowing costs for consumers and US city governments and further strain an already slowing economy.

The New Zealand dollar, which has the highest interest rates among industrialized countries at 8.25%, rose to levels not seen since it was floated 23 years ago. NzdUsd hit a 0.8152 today from yesterday close 0.8138 (+0.62%). NzdJpy advanced 1.44% to 87.95. UsdCad fell 1.74% to 0.9954. The Australian dollar and sterling also posted gains against the Japanese currency. AudJpy rose 1.29% to 100.30, while GbpJpy climbed 0.84% to 212.54. The Yen often suffers in times of rising risk appetite because investors borrow it at low Japanese interest rates to fund "carry trades" that invest in higher-yielding currencies.



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Today's Key Issues (time in GMT):

09:00 EUR February Germany IFO Climate 102.8 vs 103.4
09:00 EUR February Germany IFO Current 107.2 vs 107.9
09:00 EUR February Germany IFO expectations 98.7 vs 99
09:30 GBP February CBI Distributive Trades Survey 4 vs 4
11:00 EUR ECB's Weber speaks, Paris
11:00 GBP Bank of England's Lomax speaks, London
13:30 USD January PPI 0.4% vs -0.3% (MoM)
13:30 USD January PPI Core 0.2% vs 0.2% (MoM)
15:00 USD February Consumer Confidence 82 vs 87.9
15:00 USD February Richmond Fed Manufacturing -12 to -3 vs -8
17:15 USD Fed's Kohn speaks on the economy, North Carolina
21:00 CAD December Budget balance Cad\$ 0.085B
21:00 CAD December Budget balance Cad\$ 6.7B year to date
21:45 NZD January Building Consents -5.2%
22:00 USD ABC/Wash Post index -37 vs -37

The Risk Today:

EURUSD Market looks confident in February Euro uptrend over 1.4500 pivot point and 1.4800 recovering from 7th February 1.4440 low. 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 Market still trading around 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 Market 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
1.4790	1.9670	108.00 P	1.0910
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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