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The Euro drops on expectation the ECB could cut interest rates.

News and Events:

The Euro declined on Tuesday as dismal euro zone service sector data fueled expectations the European Central Bank might follow the United States in cutting interest rates. Meanwhile, the Dollar pared early US gains versus the Yen after a report showed a sharp drop in activity in the US service sector as well in January. The weak data reinforced fears the economy is slowing even as the Federal Reserve cuts rates aggressively to revive growth.

EurUsd fell more than 1% after figures showed service sector growth across the 15-nation bloc slowed in January to its most sluggish in 4-1/2 years. Germany, Spain and Italy registered contractions. A separate report showed euro-zone retail sales defied expectations of a monthly rise in December and fell, underscoring a slowing economy. At yesterday close, EurUsd was down about 1.28% at 1.4635, its steepest one-day loss since mid-January. The Euro's weakness helped lift the Dollar across the board despite the weak US service sector data.

The ECB meets to set interest rates on Thursday and is mostly expected to keep them on hold at 4%. UsdJpy traded down 0.18% at 106.53 after earlier climbing as high as 107.74.

The US currency gave up all its gains after the dismal showing in the ISM's non-manufacturing Index. The Index stepped in January to levels not seen since the 2001 recession. The Fed's aggressive rate cuts in recent months lent some support to the Dollar as investors took the view the bold action would sustain the US economy and fuel a recovery later in the year. The Fed has already slashed its key rate by 225bp and is seen cutting at least another 75bp by the end of the year.

Futures markets expect the ECB to cut rates by 50bp by the third quarter and are split on a further 25bp easing before the end of the year. The Bank of England also meets to set rates on Thursday and is expected to cut borrowing costs 25bp to 5.25%. It would be its second rate cut in three months. AUD dropped even as benchmark borrowing costs rose to an 11-year high of 7%. AudUsd traded down 1.27% at 0.8958.



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Today's Key Issues (time in GMT):

10:30 GBP January BRC Shop Price Index +1%
12:00 USD February 1st, MBA Mortgage Applications 7.5%
13:30 CAD December Building Permits 0% vs -9.9%
13:30 USD Q4 Non-Farm Productivity 0.5% vs 6.3%
13:30 USD Q4 Unit Labor Costs 3.5% vs -2%
15:30 GBP December Leading Indicator Index -0.3%
15:30 GBP December Coincident Indicator Index 0.2%
15:00 CAD January Ivey Purchasing Managers Index 47 vs 45.9
15:00 USD Fed's Lacker speaks on the US economy, West Virginia
15:00 USD Treasury's Paulson at Treasury Select Committee, Washington
17:30 USD Fed's Kroszner speaks on mortgage regulation, Washington
18:40 USD Fed's Plosser speaks on economic outlook, Alabama

The Risk Today:

EURUSD Rebounded from late January 1.4366 low for a clear run through 1.4500 pivot point. Current trading range is set 1.4366 – 1.4952. Market traded as high as 1.4952 last Friday, in sight of 1.4967 resistance November high. Further strength might open the door up to 1.5000 key level. Initial support holds 1.4500 pivot level, where below it, market might look down for 1.4280 next support after trendline support holding 1.4311 December low.

GBPUSD It is holding on former Trendline resistance as end January positive trend didn't last. Strength has been reversed Friday and Cable found support on the former Trendline resistance at 1.9559 (38.2% retracement of 1.7049 – 2.1161 advance). Uptrend confirmation will only lock within a return 2.0000 key level before 2.0100 resistance. Meanwhile, pressure below 1.9800 might open the door toward 1.9337 January low and 1.9105 (50% retracement of 1.7049 – 2.1162 advance).

USDJPY It remains weak having tested 104.97 low 23rd January. In recent downtrend, pressure opened the way to 106 support. Further support holds 104.97 ahead of 104.20 trendline support. Initial resistance holds 107.89 Friday high. Strong resistance holds 110.10 previous week double top ahead of 111.92 early January high.

USDCHF It dropped Friday down to 1.0732 new low but rebounded up to 1.0901 the same day. It extend up to 1.1057 high yesterday. Initial 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.

Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.5000 K	2.0245 S	114.00 P	1.1500 P
1.4967 S	2.0100 S	110.10 S	1.1191 S
1.4907 M	1.9959 M	107.89 M	1.1123 M
1.4600	1.9570	106.35	1.1000
1.4500 P	1.9483 M	106.00 S	1.0846 M
1.4366 T	1.9337 S	104.97 M	1.0812 K
1.4280 S	1.9105 S	104.20 T	1.0759 T
S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot			

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