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Dollar rallied on better-than-expected US Retail Sales

News and Events:

The Dollar rallied broadly on Tuesday after a report on April Retail Sales beat forecasts and supported views that the Federal Reserve will probably stop cutting interest rates next month. Retail Sales, ex-autos, increased 0.5%, more than double the increase that economists had forecast. That followed a 0.4% pickup in March, suggesting that the US consumer remained resilient despite the housing market rout. The reading bolstered the Dollar as consumer spending accounts for about 2/3 of the US economy. Analysts said the Dollar had also been boosted by a government report showing a slight rise in US import prices in April, which pointed to growing inflationary pressures. The market was little moved by Fed Chairman Ben Bernanke's comments that the central bank's liquidity measures had helped relieve strain in financial markets, but that the recovery process remained incomplete.

EurUsd dropped yesterday to a session low of 1.5431 and trades last at 1.5471, down 0.39%. UsdJpy dollar jumped to a session high of 104.92 and traded last at 104.76 up 0.86%. GbpUsd dropped 0.43% to 1.9448. UsdChf rose 0.72% to 1.0524.

Short-term interest rate futures, which track market expectations for Fed policy, showed a 92% chance that the central bank would leave benchmark lending rates unchanged next month. The fed funds target rate has been lowered by 325bp since mid-September 2007, undermining the Dollar's appeal to investors seeking higher returns. San Francisco Federal Reserve Bank President Janet Yellen said on Tuesday the current level of US interest rates should boost the economy in the second half of the year.

Euro was under pressure by a rights issue from Credit Agricole after it reported write-downs related to the US sub-prime mortgage sector. This indicated the euro zone is not immune to the problems in the United States and analysts are convinced that growing signs of a slowdown in economic activity in the Euro area will force the European Central Bank to cut interest rates at some point this year.



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Today's Key Issues (time in GMT):

08:30 GBP March Average earnings 3mths 3.7% vs 3.7% (YoY)

08:30 GBP March ILO unemployment rate 5.2% vs 5.2%

08:30 GBP April Unemployment change 0k vs -1.2k

09:00 EUR March Industrial production -0.3% vs 0.3% (MoM)

09:00 EUR March Industrial production 2.4% vs 3.1% (YoY)

09:30 GBP Bank of England Quarterly Inflation report

12:30 USD April CPI ex-food/energy 0.2% vs 0.2% (MoM)

12:30 USD April CPI inflation 0.3% vs 0.3% (MoM)

12:30 USD April CPI ex-food/energy 2.4% vs 2.4% (YoY)

12:30 USD April CPI nsa 4% vs 4% (YoY)

12:30 USD Fed's Rosengren speaks on Basel II, Boston

20:40 USD Fed's Yellen talks, Tacoma

22:45 NZD March Retail Ex-auto -0.4% vs 0.2% (MoM)

22:45 NZD March Retail -0.4% vs -0.7% (MoM)

22:45 NZD March Retail nsa 1.6% vs 7.7% (YoY)

The Risk Today:

EURUSD Euro returns on consolidation area 1.5500 after a three weeks downtrend. Initial resistance hold 1.5528 former support ahead of 1.5571 Monday high. Pivot point holds 1.6000 resistance ahead of key resistance 1.6200 market target. On downside, psychological 1.5000 key level marks strong support ahead of 1.4500 pivot point.

GBPUSD Cable broke 1.9500 level yesterday. Further pressure may open the way down to 1.9337 January low and 1.9105 (50% retracement of 1.7049 – 2.1162 advance). Renewed advance over 1.9600 and 1.9800 may reopen the way toward 2.0000 psychological level. Actual trading range is 1.9400 – 1.9600.

USDJPY Recent 1 ½-month uptrend found resistance around 105. Further advance would bring market up to 110.10 strong (Trendline) resistance and mid January double top ahead of 111.92 early January high. Profit taking on 105 might send the market back down to 100 – 104 consolidation trading range. Minor support holds 103.39 yesterday low.

USDCHF Market hit 1.0625 two-month high last Thursday. It is currently consolidating in 1.0400-1.0600 trading range. Renewed weakness would open the way down to 1.0200 and toward 0.9639 17th March low. Early January double top 1.1191 marks strong resistance.

Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.6200 T	2.0447 S	111.92 K	1.1191 K
1.6000 K	2.0100 P	110.10 T	1.0625 T
1.5528 M	1.9800 S	105.70 M	1.0582 M
1.5420	1.9410	105.05	1.0565
1.5285 M	1.9391 M	103.39 M	1.0390 M
1.5000 K	1.9337 S	100.00 P	1.0200 S
1.4500 P	1.9105 K	95.74 K	0.9637 K
S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot			

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- ▶ [ECB focus on inflation as Oil surge to fresh record high \\$...](#)
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