

Yen gains as investors unwind riskier trades

News and Events:

The yen rose sharply on Thursday as investors ran from risky low-interest rate-funded trades following further revelations the US sub-prime mortgage crisis has spread to Europe. The Euro fell as much as 2.46% against the Yen and 1.5% against the Dollar after France's largest listed bank, BNP Paribas, temporarily suspended redemptions at three funds worth 1.6 billion euros (\$2.2 billion), sending overnight US and euro zone borrowing rates soaring.

The high-yielding Australian and New Zealand Dollars dropped by respectively 3% and 4% against the Yen, as investors scrambled to unwind carry trades. In carry trades, investors borrow in low-yield currencies like the yen to finance investments denominated in high-yield currencies. Analyst said "It's a flight from risk. Those currencies with high yields that have been backed by speculative inflow have been crushed."

Reflecting liquidity fears, European overnight borrowing rates spiked to their highest level since October 2001, prompting the European Central Bank to inject around 95 billion euros (\$130 billion) into the system in a quick overnight tender.

In yesterday trading, UsdJpy was down 1.5% at 117.94 while the EurJpy slid 2.46% to 160.97, the biggest daily drop in two years. In recent weeks, the Yen has maintained a tight negative correlation with US stocks, with investors buying back Yen when stock prices fall. US equities markets sputtered, with the Dow Jones industrial average down by 2.83%, as investors turned to safe-haven US Treasury bonds.

The EurUsd slipped 0.98% to 1.3667, well below July's record high near 1.3852. Analysts said the Euro may continue to be vulnerable against the dollar and the yen if credit market sentiment does not improve.

Meanwhile, high-yielding currencies fell, contrasting with Wednesday's trend, when investors embraced carry trades after the Federal Reserve predicted sustained economic growth.



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Today's Key Issues (time in GMT):

10.00 EU June OECD Leading Index (vs 107.6 May)

12.00 CAD July Unemployment rate 6% to 6.2% vs 6.1%

12.30 US July Import Prices 1% vs 1%

12.30 US July Export Prices 0.3% vs 0.3%

18.00 US Federal Budget \$-32.5B vs \$-33.2B

The Risk Today:

EurUsd has corrected from Monday 1.3840 high erasing all Friday's rebound. Yesterday dropped under 1.3750 pivot point has put the July positive trend on hold. Further decline will open the way toward 1.3610 late July low. Initial resistance holds 1.3750 former support. Renewed strength over 1.3750 may focus again on 1.3925 and 1.3986 resistances.

GbpUsd dropped down to 2.0211 yesterday near earlier weekly lows 2.0188 Tuesday and 2.0157 Wednesday. Further weakness may open the door toward new low at 2.0138 (50% retracement of 1.9623 – 2.0654 advance). On the downtrend market may find support around 2.0200 before looking at 2.0100 support (former trend resistance). A break there will open the door back down to 2.0000 pivot point. Rebound looks limited with recent Trendline from 2.0654 to 2.0396 closing the way up near 2.0362 open/close Wednesday/Thursday.

UsdJpy touched yesterday the Trendline resistance at 119.78. Downtrend remains strong and going back to further downtrend and 116.58 Trendline support. Initial resistance holds 119.50 end of July high.

UsdChf in consolidating near 1.1950 area. Market traded down to 1.1819 on Monday new key support. Pressure remains below 1.2091 (23.6% retracement of 1.2771 – 1.1881 decline) and current down trend, may shift on 1.1742 May 2005 low support and 1.1483 March 2005 low. Trendline resistance hold 1.2016 at very short term before 1.2050 strong resistance (retracement of 1.2771 – 1.1819 decline).

Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.4571 K	2.0706 T	124.15 T	1.2157 S
1.3925 S	2.0683 S	120.78 P	1.2091 S
1.3750 P	2.0463 M	119.50 M	1.2050 S
1.3680	2.0205	117.95	1.1940
1.3659 S	2.0188 M	117.19 M	1.1819 K
1.3610 S	2.0138 S	116.58 T	1.1742 T
1.3550 P	2.0100 S	115.59 K	1.1442 S
S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot			

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