

Investors see less chance of the Bank of Japan raising rates

News and Events:

The Yen edged up against the Dollar on Monday as a squeeze in money markets from the spreading US sub-prime mortgage distress prompted investors to trim risky positions such as carry trades. The Yen gave up some gains on Friday after surging to a four-month high against the Euro as major central banks pumped in about \$150 billion in overnight funds for a second straight day to relieve the tight conditions in money markets. Investors are keeping an eye out to see whether money markets start to function more normally and equity and corporate bond markets settle down from the sharp volatility of the past few weeks on the spreading jitters about big bank and fund losses.

Analysts said "the moves by central banks have only calmed down markets intraday. The central banks cannot ease the concerns over sub-prime loans. Adding, the Dollar and other currencies were at risk of a deeper pull-back against the Yen as long as the fears about credit markets linger".

The Yen has rebounded across the board as investors have cut short positions in the low-yielding Japanese currency, which has been widely used by speculators as a cheap source of funds to buy higher-yielding currencies in the carry trade. But even the Dollar has edged up from a 15-year low against a basket of currencies struck a week ago as market players have trimmed some of the hefty short positions in the US currency.

UsdJpy was slightly up to 118.36 after having touched 117.22 low on Friday not far from the four-month low of 117.19 yen hit last week.

EurJpy was up 0.57% at 162.10, having crawled back from a four-month low of 159.98 yen hit on Friday. EurUsd was little changed near 1.3700, holding off the all-time high of 1.3852 reached in July. GbpUsd was unchanged at 2.0239 after having hit 2.0151 low on Friday. Investors see less chance of the Bank of Japan raising rates to 0.75 percent this month from 0.5 percent as the financial market volatility has flared up. Swap contracts on the overnight call rate show just a 35% chance of a BoJ rate hike this month, down from as high as 75% last Thursday.



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Today's Key Issues (time in GMT):

08.30 GB July PPI Input 0.7% vs 0.6% (MoM)
08.30 GB July PPI Input 1.4% vs 2.1% (YoY)
08.30 GB July PPI Output 0.3% vs 0.2% (MoM)
08.30 GB July PPI Output 2.4% vs 2.4% (YoY)
08.30 GB July PPI Output Core 0.2% vs 0.2% (MoM)
08.30 GB July PPI Output Core 2.2% vs 2.1% (YoY)

12.30 US July Advance Retail Sales 0.2% vs -0.9%
12.30 US July Retail Sales Less Autos 0.3% vs -0.4%

14.00 US June Business Inventories 0.2% vs -0.9%

14.30 GB June Leading Indicator Index previously 0.2%

The Risk Today:

EurUsd broke last week 1.3750 pivot point and 1.3700 Trendline support. This dropped under 1.3750 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 tested 2.0200 last week and dropped this morning down to 2.0099, near last week lows 2.0188 and 2.0157. Further weakness may open the door toward new low 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 last week 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 has consolidated near 1.1950-1.2000 area. Market traded down to 1.1819 last week 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
1.3670	2.0185	118.20	1.1995
1.3659 S	2.0154 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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