

Euro falls after ECB cash injection

News and Events:

The Euro fell to a one-month low against the Dollar on Monday after the European Central Bank pumped cash into the banking system for a third straight day to soothe a market rattled by US sub-prime mortgage market problems. The Euro came under pressure as investors began to lower their expectations for a rate rise in September from the ECB in the face of turbulent credit markets. Analysts said "the market has been expecting the ECB to hike rates, but if all these injections lead the market believe that they won't hike it, and this credit contagion gets worse, that could definitely hurt the Euro". The ECB injected 47.67 billion euros (\$64.93 billion) into euro-zone money markets Monday in a one-day tender to replace Friday's special three-day tender for 61.05 billion euros. The moves by ECB helped ease short term borrowing costs that jumped higher last week after redemptions were frozen on several European banks' funds associated with the US sub-prime mortgage sector, including three at France's largest bank, BNP Paribas.

Expectations that the ECB would raise rates to 4.25 percent in September fell to 65 percent, after being fully priced in only a few weeks ago. Analysts said the euro would continue to weaken as a European rate rise becomes less likely.

In yesterday trading, EurUsd was down 0.59% at 1.3609, a one-month low. The Euro fell 0.74% against the Yen at 160.90 and the Dollar fell 0.08% against the Yen at 118.27, up from an intraday low of 117.69.

High-yielding currencies such as the British pound and New Zealand dollar also declined against the US Dollar, as investors unwound carry trades where low-yielding currencies are borrowed and then sold to buy higher yielding ones. The GbpUsd was down 0.48% to 2.0116 and the NzdUsd slipped 1.58% to 0.7339.

Analysts have now a positive outlook for the Dollar and the Yen, with increased risk aversion, there may be a skeptical view of carry trades for some time.

The US dollar also got a lift from higher-than-expected U.S. July retail sales data.

The Federal Reserve's injected \$2 billion into money markets on Monday, a big reduction from the \$38 billion it pumped into the market on Friday, signifying the possibility that US credit concerns had calmed.

But there were still signs of the US markets' vulnerability to a credit crisis as all three US equities indexes were down for the day, and the futures markets were pricing in a solid chance of an emergency reduction in fed funds rates ahead of the next scheduled meeting in September. In the United States, rate futures are pricing a 75% chance of an emergency inter-meeting rate cut by the Federal Open Market Committee this month. Earlier on Monday, an inter-meeting August rate cut was fully priced after ending Friday at about a 33% chance.

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Today's Key Issues (time in GMT):

08.30 GB July Consumer Price Index -0.2% vs 0.2% (MoM)
08.30 GB July Consumer Price Index 2.3% vs 2.4% (YoY)
08.30 GB July Core Consumer Price Index 2.0% vs 2.0% (YoY)

09.00 EUR 2Q Euro zone GDP 0.5% vs 0.7% (QoQ)
09.00 EUR 2Q Euro zone GDP 2.8% vs 3.1% (YoY)

12.30 US June Trade Balance -\$61.0B vs -\$60.0
12.30 US July Producer Price Index 0.2% vs -0.2% (MoM)
12.30 US July Producer Price Index 3.4% vs 3.3% (YoY)
12.30 US July PPI ex-food & energy 0.2% vs 0.3% (MoM)
12.30 US July PPI ex-food & energy 2.5% vs 1.8% (YoY)

12.30 CAD June Trade Balance C\$5.6B vs 5.76B

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 broke 2.0200 yesterday down to 2.0085 low. Further weakness may open the door toward new low to 2.0000 pivot point. Rebound looks limited to 2.0200 former support and 2.0260 resistance, with down Trendline from 2.0654 to 2.0259 closing the way up near 2.0362 open/close Wednesday/Thursday.

UsdJpy remains weak under 119.50 resistance and last week Trendline resistance at 119.78. Downtrend remains strong and further weakness will open the door toward 116.58 Trendline support. Initial resistance holds 119.50 end of July high.

UsdChf has consolidated near 1.1950-1.2000 area after rebound from early August 1.1819 low to 1.2044 (23.6% retracement of 1.2771 – 1.1819 decline). Market traded down to 1.1819 last week new key support. 1.2050 marks strong resistance.

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	2.0200 M	119.50 M	1.2050 S
1.3615	2.0120	117.95	1.2040
1.3659 S	2.0100 S	117.19 M	1.1819 K
1.3610 S	2.0085 S	116.58 T	1.1742 T
1.3550 P	2.0000 P	115.59 K	1.1442 S
S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot			

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