

Dollar rises to 1-month high amid credit fears

News and Events:

The dollar rose to a one-month high against a basket of major currencies on Tuesday as growing signs that U.S. credit market turmoil is spreading overseas left investors seeking safety.

News that a Canadian trust was not able to repay some short-term debt sent investors slashing their bets against the greenback, particularly after last week's news that French bank BNP Paribas had frozen some funds because of sub-prime concerns.

Analysts said "Across global asset prices, it looks like there is some position unwinding going on and that is filtering through to FX where some of the biggest positions are long Euro, long Sterling and short Dollar".

The EurUsd was down 0.55% to 1.3532 the lowest in six weeks. It began to weaken overnight after reports that Spanish bank Santander is facing up to 2.2 billion euro (\$3 billion) exposure to high-risk U.S. loans.

Against the yen, the EurJpy was down 1.16% at 159.04 while the UsdJpy was down 0.61% at 117.55, as major U.S. stock indexes all fell more than 1 percent.

The equities markets on Wall Street continued to dictate the yen's direction. For the past several weeks, falling stocks have usually been interpreted as weakening appetite for risk, lifting the Yen.

GbpUsd dipped below 2.0000 after UK July inflation came in below the Bank of England's 2 percent target rate for the first time in over a year. It last traded at 1.9956, down 0.78%.

The UsdCad rose 1.24% to 1.06900 after two Canadian trusts said on Tuesday that they were unable to place asset-backed deals. On Monday, niche Canadian investment bank Coventree Inc. said the credit problems caused by losses in the U.S. sub-prime mortgage sector had left it unable to replace maturing debt. Analysts said, "We got a bit of news out that there might be more trouble up here in the asset-backed sub-prime sector".

The euro faced pressure as expectations of a rate hike in the euro zone were offset by weaker-than-expected growth data and further European Central Bank action to calm short-dated money markets. That contrasted somewhat with U.S. data showing the U.S. trade balance unexpectedly narrowed in June, while July producer prices rose more than expected. Federal Reserve officials have said inflation remains their main concern and analysts said signs of accelerating inflation would prevent the central bank from cutting interest rates.

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Today's Key Issues (time in GMT):

- 08.30 GB Bank of England Minutes for August 1-2 meeting
- 08.30 GB July Jobless Claims change -10k vs -13.8k
- 08.30 GB July ILO Unemployment Rate 5.4% vs 5.4%

- 12.00 NOK Norges Bank rates decision 4.5% to 4.75% vs 4.5%

- 12.30 US August Empire Manufacturing Index 18.5 vs 26.5
- 12.30 US July CPI inflation 0.2% vs 0.2% (MoM)
- 12.30 US July CPI inflation 2.4% vs 2.7% (YoY)
- 12.30 US July CPI ex-food & energy 0.2% vs 0.2% (MoM)
- 12.30 US July CPI ex-food & energy 2.2% vs 2.2% (YoY)

- 12.30 CAD June Manufacturing shipments -0.2% vs -0.1%

- 13.15 US July Capacity Utilization 81.8% vs 81.7%
- 13.15 US July Industrial Output 0.3% vs 0.5% (MoM)

- 17.00 US August NAHB Housing Market Index 23 vs 24

The Risk Today:

- EurUsd** correction from July 1.3852 high accelerate yesterday and early this morning breaking down 1.3610 and 1.3550 supports. Initial resistance holds 1.3550 pivot point and former support. Renewed strength over this may focus again on 1.3750 resistances and pivot point. Looking for supports around 1.3500 and at 1.3309 on the 1-year up Trendline.

- GbpUsd** extended downtrend from 2.0654 July high and broke yesterday 2.0017 support (61.8% retracement of 1.9624 to 2.0654 advance) and 2.0000 pivot point. Rebound looks limited to 2.0103 former support. .

- UsdJpy** remains weak under 119.50 resistance and last week Trendline resistance at 119.78. Tested this morning; 116.58 holds Trendline support. Downtrend remains strong and further weakness will open the door toward 115.59 Keylevel. Strong resistance holds 119.50 end of July high. Initial resistance holds 118.38 Friday/Monday closing/opening.

- UsdChf** extend its recovery from early August 1.1819 low to 1.2111 yesterday close. Further strength may open the way toward 1.2183 (38.2% retracement of 1.2771 – 1.1819 decline). Market traded down to 1.1819 last week new key support. Former resistance 1.2044 marks initial support.

Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.3925 S	2.0200 S	120.78 P	1.2295 S
1.3750 P	2.0103 S	119.50 S	1.2183 S
1.3550 P	2.0000 P	118.38 M	1.2157 S
1.3490	1.9890	116.85	1.2145
1.3431 S	1.9866 M	116.58 T	1.2044 M
1.3390 M	1.9808 S	115.59 K	1.1819 K
1.3309 T	1.9623 S	114.44 S	1.1742 T
S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot			

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