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ECB and BoE rates decisions today, both seen unchanged

News and Events:

The dollar rose versus the yen on Wednesday in volatile trading, tracking a sharp rebound in US equities late in the session. Global financial markets have been pounded over the past month by a wave of risk aversion sparked by worries over the state of credit markets worldwide. Troubles started in the high-risk US sub-prime mortgage sector, and investors fear it may spread and affect credit markets globally.

The rebound in equities prompted investors to resume selling yen in so-called carry trades, in which the Japanese currency is used to fund purchases of higher yielding assets. Analysts said "The dollar is slightly higher, but still following the wild swings in the stock market" and "We will need extremely strong data, or strong reassurance about the credit markets, to lift stocks and support the dollar and carry trades."

Equities and carry trade currency pairs such as EurJpy and UsdJpy have risen and fallen together in recent sessions due to the perception of relatively high risk that each investment holds. In carry trades, investors borrow in a low-yielding currency to invest in higher-yielding assets.

In yesterday trading, the Dollar reversed losses to stand 0.3% higher on the day at 118.88 Yen, more than a yen above the session low of 117.61, the lowest since April. The EurJpy was up 0.23% buying 162.44.

Markets earlier showed little reaction to data from the Institute for Supply Management that showed a key manufacturing index was lower than expected. However, the Dollar initially slid against the Euro after a report showing the US economy added just 48,000 private sector jobs in July, way below the median forecast of 100,000. The EurUsd was little changed at 1.3665. The report put out by ADP Employer Services suggested Friday's closely watched Labor Department payrolls data may come in lower than expectations. But if on Friday we see a better number, we might see the dollar gaining some support. The Labor Department is expected to report the US economy likely added 130,000 jobs in July, according to a Reuters poll.

Over the past few sessions, investors have paid little attention to U.S. economic data as they focused on developments in the U.S. credit and housing markets. News reports that US mortgage lender American Home Mortgage Investment Corp. and two Australian funds were the latest casualties in the currency global credit crisis, for instance, had pushed the Yen to multi-month highs.



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Today's Key Issues (time in GMT):

09.00 EUR June Euro zone Producer Price Index 0.3% vs 0.3%

11.00 GB Bank of England rate decision 5.75% vs 5.75%

11.45 EUR European Central Bank rate decision 4% vs 4%

12.30 US July 28th, Initial Jobless claims 310k vs 301k

14.00 US June Durable Goods orders, revision, 1.4% vs 1.4%

14.00 US June Factory orders 1% vs -0.5%

The Risk Today:

EurUsd consolidated in recent markets low-high range 1.3610 – 1.3728. The break below 1.3750 from last week marks the initial resistance and put 1.3659 former resistances in sight. Initial minor support holds 1.3610 Monday low. Renewed uptrend may refocus the way upward 1.3925 and 1.3986 resistances.

GbpUsd also consolidated after touching 2.0182 Monday low. Sterling was nearly unchanged yesterday at 2.0297 in volatile trading range 2.0204 – 2.0351. Renewed weakness below 2.0200 will put 2.0100 support (former trend resistance) in sight. A break there will open the door back down to 2.0000 pivot point. Initial resistance holds 2.0378 Tuesday high before 2.0494 Friday high.

UsdJpy touched a new 3-months low at 117.61 yesterday before rebounding up to 118.88. The risk of further downtrend remains; a clear break of 118.50 pivot point may accelerate the slide to 116.58. Minor resistance holds 120.78 pivot hit last week. Initial resistance holds 119.50 Tuesday high.

UsdChf tested 1.1980 low yesterday before rebounding to 1.2037. Pressure remains below 1.2082 (23.6% retracement of 1.2470 – 1.1962 decline). A break there will open the door for further advance toward 1.2217 (50% retracement). But renewed down trend, may shift on 1.1881 early December low and 1.1739 April 2005 trend supports.

Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.3986 S	2.0706 T	124.15 T	1.2217 S
1.3925 S	2.0683 S	120.75 M	1.2157 S
1.3750 M	2.0378 M	119.50 M	1.2082 M
1.3660	2.0315	118.65	1.2040
1.3659 S	2.0182 M	118.50 P	1.1962 S
1.3610 M	2.0100 S	118.01 M	1.1881 K
1.3550 P	2.0000 P	116.58 T	1.1739 T
S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot			

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