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Yen extends losses on Equity market rally

News and Events:

The Yen fell broadly on Monday as stocks staged a late afternoon rally and investors cautiously waded back into risky trades after last week's surprise cut in the Federal Reserve's discount lending rate. The move reversed some of last week's yen rally, sparked by mounting losses on US mortgage debt that dulled investors' risk appetite and prompted an unwind in carry trades that involved borrowing yen cheaply to buy higher-yielding assets.

Market is still waiting on whether the Fed's attempt to stimulate lending will succeed or fail to loosen up the credit market, and that was keeping investor risk-taking in check. Analysts are still wondering about the effectiveness of the Fed's actions.

Yesterday, UsdJpy was up 0.4% at 114.70, off a session low of 113.68. The EurJpy was also up 0.34% at 154.69.

The Fed on Friday cut the discount rate it charges on direct loans to banks by half a percentage point to 5.75%, saying credit market tightening could slow US growth. The move halted a global sell-off in stocks, a rally in government bonds and the rush to dump high-yielding currencies in favor of the Yen. It also got Wall Street gearing up for the Fed to cut by year end its benchmark federal funds rate, which it has held at 5.25% since June 2006.

High-yield "currencies are probably off to the races again, as the Japanese won't raise rates rapidly and the Fed is going to have to cut rates," said analysts. Investors remain wary of a sharp carry unwind and, in the absence of US data, are looking to equity markets for their cue. But Markets are still skeptical of equities and carry trades in general and they will be looking to buy back the yen and sell high-yielding currencies once this euphoria about the Fed wanes.



Today's Key Issues (time in GMT):

09.00 EUR August German ZEW Current Conditions 85 vs 88.2

09.00 EUR August German ZEW Economic sentiment -1 vs 10.4

11.00 CAD July Bank of Canada CPI Core 0.1% vs 0.0% (MoM)

11.00 CAD July Bank of Canada CPI Core 2.3 % vs 2.5% (YoY)

11.00 CAD July CPI inflation 0.1% vs -0.2% (MoM)

11.00 CAD July CPI inflation 2.2 % vs 2.2% (YoY)

12.30 CAD June Retail Sales -0.5% vs 2.8%

12.30 CAD June Retail Sales ex-autos -0.3% vs 2.3%

21.00 US ABC/Wash Post index -12 vs -11

The Risk Today:

EurUsd is consolidating, after last week losses down to 1.3361 Thursday low, in 1.3370 – 1.3550 range. This 1.3361 low marks minor support before 1.3309 Trendline support. Renewed weakness may open the door toward 1.3263 June low. Initial resistance holds 1.3550 pivot point and former support. Strength over this may focus again on 1.3750 resistances and pivot point. Strong support is located at 1.3309 1-year up Trendline.

GbpUsd also consolidate in 1.9770 – 1.9910 range. Market had found support on 1.9808 (23.6% retracement of 1.7051 – 2.0660 2 years advance). A break there will open the way down to 1.9623 support from end of July and, on a longer term view, 1.9281 (38.2% retracement). Initial minor resistance holds 1.9960 Wednesday high. The possible rebound still looks limited to 2.0000 pivot point and former support.

UsdJpy yesterday added little rebound from last week drop to 111.60 low. It recovered up to 115.51 before closing at 114.70. But pressure remains strong and further weakness may open the door toward 110.3 support (retracement of 101.68 – 124.26 advance). Minor resistance holds 115.51 Monday high before 116.74 Thursday high and strong resistance 119.50 end of July high.

UsdChf After Friday weakness down to 1.1995 market is consolidating around 1.2044 (23.6% retracement of 1.2771 – 1.1819 decline). Market traded down to 1.1819, two weeks ago, new key support. Last Friday 1.1995 low marks initial support. Uptrend may be limited by 1.2183 resistance (38.2% retracement of 1.2771 – 1.1819 decline).

Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.3925 S	2.0100 S	120.78 P	1.2295 S
1.3750 P	2.0000 K	119.50 S	1.2233 M
1.3550 P	1.9960 M	115.51 M	1.2183 S
1.3480	1.9805	114.60	1.2040
1.3431 S	1.9762 M	113.00 S	1.1995 S
1.3361 M	1.9623 S	111.60 M	1.1819 K
1.3309 T	1.9550 S	110.30 K	1.1742 T

S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot

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- ▶ [Dollar drop against Yen to 4-1/2-month low on risk unwinding](#)
- ▶ [Dollar rises to 1-month high amid credit fears](#)
- ▶ [Euro falls after ECB cash injection](#)

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