

Yen rose as investors kept unwinding from carry-trades

News and Events:

The yen gained broadly on Tuesday as jitters about global credit conditions led investors to shed risky assets funded by borrowing in the Japanese currency. Analysts said investors remained on edge about disorder in credit markets, brought on by losses in bonds backed by risky US mortgage debt. That has prompted investors to unwind carry trades that involve borrowing cheap yen to buy higher-yielding assets and to snap up US Treasury debt, providing a safe-haven bid for the dollar against most major currencies save for the yen. Analyst said "People are willing to accept low yields in exchange for safety right now, and you see that in carry trades."

By Tuesday, markets were pricing in at least two cuts to the Federal Reserve's benchmark federal funds rate by year end. Economists have also pared back expectations of rate hikes by the European Central Bank and the Bank of England.

Yesterday, the Dollar was down 0.34% at 114.43, while the Euro changed hands at 154.12 against Yen, down 0.37% on the day. The high-yielding Australian dollar, a proxy for carry trade appetite, lost also against the yen, falling 0.53% to 91.68.

Sterling and Euro were fairly unchanged against Dollar, respectively down 0.22% to 1.9837 and 0.04% to 1.3468. This is partly the result of US investors repatriating funds into "cash or assets that are good as cash, such as Treasuries".

The Fed has held its benchmark lending rate at 5.25% since June 2006, and Richmond Fed President Jeffrey Lacker said on Tuesday that recent market turmoil is not enough by itself to justify a cut. The central bank cut the discount lending rate at which banks can borrow money directly from the Fed by 50 basis points late last week, but the move appears to have done little to calm market nerves. Also on Tuesday, Treasury Secretary Henry Paulson said in a CNBC Television interview that liquidity would return to normal when investor reassess risk, but warned that the current credit problems would take time to play out. Most market participants now think cuts in the federal funds target rate for overnight inter-bank loans are likely. The Fed may cut by 50 basis points before its next (scheduled) meeting on Sept. 18. Whether a cut does come will hinge on how healthy the global economy remains in the months ahead.



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Today's Key Issues (time in GMT):

08.00 EUR June Euro zone Current Account -€2B vs -€8.6B

09.00 EUR June Industrial new orders 2% vs 1.7%

10.00 UK August CBI trends survey -3 vs -6

11.00 US MBA 30-yr Mortgage Rate previously 6.45%

23rd Aug JPN BoJ interest rate decision 0.5% to 0.75% vs 0.5%

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 had rebound from last week drop to 111.60 low. It recovered up to 115.51 on Monday, but consolidate around 114.5. 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
1.3470	1.9815	114.35	1.2065
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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