

Short-covering and risk-taking revival pushes USDJPY over 116.00

News and Events:

Traders focused on the outcome of Bank of Japan's rate decision. The dollar-yen carry trade may be king again, squeezing out short positions. Investors were more focused on the voting result, as the BOJ voted by 8-1 to keep rates steady. It was widely believed that the non-unanimous vote would signal a possible rate hike in September or October as board member Atsushi Mizuno expressed a more hawkish view. Traders will keep an eye on any remarks from Governor Fukui.

The turn in the global equity markets has reignited an appetite for risk. Although conditions have not recovered completely, there has been a rebuilding of the carry trade by some big players in the market.

The Euro rose yesterday as traders interpreted the European Central Bank's policy stance expressed by its president on August 2nd remains intact. What was he saying on August 2nd?... "Strong vigilance..." indicated the ECB may still want to hike rates. Traders long EURUSD yesterday were paid handsomely on their positions.

Today's most interesting chart is AUDJPY. With the carry trade coming back, at least temporarily, this pair has a way to go technically speaking. Our short term target is 99.55, the 61.8% Fibonacci retracement of the 107.88 - 86.07 bear trend. Be careful, this is only for the brave.



Today's Key Issues (time in GMT):

- 08:30 UK Total Business Investment (QoQ) 2.50% vs. -0.60%
- 08:30 UK Total Business Investment (YoY)
- 12:30 US Initial Jobless Claims 315K vs. 322K
- 12:30 US Continuing Claims

DIRECT LINKS:

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The Risk Today:

EurUsd: The pair never broke down out of the upward trend, bouncing off the lower trend line at 1.3360 on August 16th. The pair has since retraced 38.2% from its 1.3860 high. Look for a breakout to 13610, the 50% retracement. On the downside, should EURUSD break down through 1.3450, look for the start of a big leg down to 1.3260.

GbpUsd: for those looking to Winnipeg this pair, a short at 1.9800 could be a very profitable bet down to 1.9620, a strong support level. On the upside, should we close above 1.9980 today, look for a move to 2.0043, the 38.2% retracement of the 2.0673-1.9654 slide.

UsdJpy The pair is bullish assuming the carry trade stays intact. There are no obstacles up to 117.90, the 50% retracement of the 124.22-111.58 slide, as long as the pair keeps above 114.60 at today's close.

UsdChf finds strong support at 1.2032, however the pair may want to test the upper trend line again at 1.2180 before moving back into the long term downward channel.

Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.3858 K	2.0673 K	121.81 S	1.2355 S
1.3669 S	2.0284 S	119.39 K	1.2287 S
1.3552 M	2.0043 S	117.90 S	1.2192 T
1.3540	1.9945	115.90	1.2074
1.3479 M	1.9894 S	114.57 T	1.2032 S
1.3362 S	1.9654 T	111.58 K	1.1882 S
1.3259 T	1.9263 S	107.22 T	1.1819 T

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

Quick access to our 5 previous newsletters:

- ▶ [Yen rose as investors kept unwinding from carry-trades](#)
- ▶ [Yen extends losses on Equity market rally](#)
- ▶ [Dollar falls after Federal Reserve action last week end](#)
- ▶ [Yen hits 14-month high vs dollar on credit fears](#)
- ▶ [Dollar drop against Yen to 4-1/2-month low on risk unwinding](#)

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