

## Dollar gained as investors reduced exposure to risky assets

### News and Events:

The Dollar gained against the Euro on Monday, but slipped against the Yen as investors attempted to minimize exposure to risky assets amid lingering fears of a global credit crisis.

European Central Bank President Jean-Claude Trichet added to weight on the Euro on Monday after he said his recent comments on policy on Aug. 2 preceded a period of market volatility. In those comments on monetary policy, he used the phrase "strong vigilance," signaling action on ECB rates was likely. But that was little reassurance for dealers who had been betting another benchmark interest-rate hike by the ECB would likely boost the euro.

In recent weeks, Central Banks worldwide have added liquidity to financial systems in an effort to ease credit problems.

Yesterday, EurUsd traded 0.3% lower at 1.3638, snapping a three-day advance against the Dollar. The Euro fell 1.04% against the yen to 157.66. The UsdJpy was down 0.72% at 115.60 after last week recovering nearly half of its losses from a sharp fall that began in early August from just below 120 yen. The dollar's decline ended three straight days of gains against the Japanese currency.

Small declines in the three major U.S. stock indexes, which investors have been watching as a gauge of appetite for risk, supported the Yen on Monday and left dealers uncertain whether last week's air of calm in markets had been premature following weeks of volatility caused by rapidly tightening credit markets.

Throughout the market turmoil of the last month, profitable strategies such as the carry trade, in which investors borrow low-yielding currencies like the Yen to buy higher-yielding assets, have been damaged and government debt and money markets have benefited.

This week, investors will be especially focused on Bernanke's speech on Friday to see if he sheds light on whether market developments require additional monetary policy responses. After the Federal Reserve entered the fray to defuse the crisis by slashing the lending rate to commercial banks on Aug. 17 and promising to do more if needed, some confidence in the financial system cautiously returned. But analysts said it is still far too early to say the credit storm has passed, especially if the yen continues to strengthen and U.S. stock markets are weak.

Elsewhere, The New Zealand dollar was down 1.01% at 0.7144 against Dollar, snapping three days of gains, and NzdJpy was down 1.66% to 82.5350.

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### Today's Key Issues (time in GMT):

- 08.00 EUR** August German IFO Business climate 105.4 vs 106.4
- 08.00 EUR** August German IFO current condition 110.7 vs 111.3
- 08.00 EUR** August German IFO expectations 100.3 vs 101.8
  
- 13.00 US** August Consumer Confidence 104 vs 112.6
- 13.00 US** August Richmond Fed Manufact. Index 1 vs 4
  
- 18.00 US** Minutes of August 7th FOMC meeting

### The Risk Today:

**EurUsd:** The pair has stalled at the 38.2 retracement level of 1.3552. Strong resistance 1.3610 has been broken and the pair can hold above it after its close, look for a second leg move up to 1.3687, yesterday high. On the downside, there is strong supports and pivot point on 1.3550 level before 1.3396 Trendline support. Initial support holds 1.3610.

**GbpUsd** was back last week in its upward channel, and stayed over 38.2% retracement level of 2.0043. Further up trend might find resistance on 2.0395. Key resistance holds 2.0654 July high. On the downside, the market could test 2.0000 psychological level and might look for 1.9894 support. Further weakness can open the door down to 1.9653 August consolidation support.

**UsdJpy** traded down 0.72% to 115.60 following three positive days. Market will find support on 115.63 (38.2% retracement of 101.68 to 124.26 advance). Renewed weakness may open the way down to 110.30 (61.8% retracement). On the uptrend, minor resistance holds 117.13 last week high, before 118.93 (former 23.6% retracement). Trendline resistance (former downtrend channel) might slow the break up on 116.61.

**UsdChf** is again consolidating after having hit 1.2216 and 1.1819 August high and low. On the uptrend, 1.2044 is holding initial resistance before 1.2183 (38.2% retracement of 1.2771 to 1.1819 decline). Initial support holds 1.1994 Friday low. There is very light support till 1.1819. A break down might open the way toward 1.1529 (61.8% projection).

## Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.3858 K	2.0673 K	118.93 S	1.2216 S
1.3776 M	2.0395 S	117.13 M	1.2183 T
1.3687 S	2.0193 M	116.61 T	1.2113 S
1.3640	2.0065	115.60	1.2025
1.3610 M	2.0043 S	114.26 M	1.1962 S
1.3550 P	2.0000 T	111.60 K	1.1819 T
1.3396 T	1.9653 K	110.30 T	1.1529 S

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

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