

Yen declined against Euro and Dollar on US stock recovery

News and Events:

The Yen suffered its biggest one-day percentage decline against the Euro in more than 3 years and the Dollar in more than 2 years on Wednesday, as investors took recovering US stock markets as a cue to slash short-term bets that the Japanese currency would strengthen. Foreign exchange dealers have been using global equity markets as a gauge of risk appetite, particularly because the tightening credit market has lifted volatility and slowed the carry trade, in which investors borrow in low-yielding currencies such as Yen to buy higher-yielding, riskier assets.

The yen had climbed sharply Tuesday in tandem with tumbling global stocks, as traders cut back carry trade bets on greater apprehension of the fallout from the US sub-prime mortgage meltdown.

However, on Wednesday, UsdJpy rose 1.51% percent to 115.70, rebounding from a one-week low of 113.86 earlier in the session, as US stock indexes climbed after falling more than 2 percent on Tuesday.

EurJpy climbed 2.22% to 158.17 and EurUsd rose 0.67% to 1.3669.

The Euro gain on the Yen so far on the day was the biggest since March 2004. GbpUsd climbed 0.83% to 2.0151 and GbpJpy went up 2.35% to 233.14.

Earlier in the week, soft data from the US housing and consumer sectors and news of more financial institutions being affected by troubles in the US sub-prime mortgage sector led to a broad sell-off in risky assets earlier in the week. But on Wednesday investors cashed in on the Yen's two-day rally, helped by the solid rise in Wall Street stocks, despite more signs of difficult credit conditions in short-term money markets. Caution is still the word on most analysts' lips, particularly as dealers wondered whether tough lending conditions would prompt easing in the Federal Reserve's monetary policy. US economic growth data on Thursday and inflation figures on Friday could give investors a clearer picture on how the recent market turbulence might have affected the real economy, ahead of the keenly watched payrolls report the following week.

Speculation is rising that the Fed might cut the benchmark federal funds rate from 5.25% at its next meeting in September, although the central bank maintained its focus on inflationary risks in its August minutes. How Fed Chairman Ben Bernanke characterizes the surge in financial market volatility of the last month in a speech on Friday could very well determine the outlook for risk taking.

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Today's Key Issues (time in GMT):

08.30 UK July BoE Consumer Credit £0.88B vs £0.87B

08.30 UK July Mortgage Lending £9.2B vs £9.55B

10.00 UK August CBI Distributive trades 14 vs 18

12.30 US 2Q Core PCE Prices preliminary 1.4% vs 1.4%

12.30 US 2Q Personal Consumption 1.5% vs 1.3%

12.30 US 2Q GDP deflator preliminary 2.7% vs 2.7%

12.30 US 2Q GDP Price Index preliminary 2.7% vs 2.7%

12.30 US August 25th Initial Jobless Claims 322k vs 322k

12.30 US 2Q House Price Index 0.3% vs 0.5% (QoQ)

12.30 CAD 2Q Current account C\$ 8.5B vs C\$6.5B

12.30 CAD July Producer Prices -0.5% vs -1.3%

23.30 JPN July All Households spending 0.2% vs 0.1%

23.30 JPN July CPI core nationwide -0.1% vs -0.1%

23.30 JPN July CPI core Tokyo -0.1% vs -0.1%

23.30 JPN July Unemployment rate 3.7% vs 3.7%

The Risk Today:

EurUsd earlier this week went near 1.3687 resistance before correcting down to 1.3575. Nearby support cut in at 1.3550, August 24 low, ahead of 1.3449 low from August 22nd. A move below this would be necessary to threaten the current uptrend, and confirmation of trend end under 1.3360. On the upside, a break toward 1.3687 will pave the way for extended gains to 1.3858 key resistance.

GbpUsd need to confirm a clear break of Trendline resistance 2.0195 to confirm recent uptrend. A break there is required to trigger gains towards 2.0272 and 2.0395 resistances. On the downside and further to recent development, market looks for a decline towards 1.9916, August 23rd low and potentially 1.9653 key level from August 17th.

UsdJpy The downtrend remains intact below 117.13. Renewed weakness may break toward 113.67 support down to 111.60, August 17th low, and may open the way to 110.30 (61.8% retracement). On the uptrend, 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 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	2.0395 K	118.93 S	1.2216 S
1.3776 M	2.0272 S	117.13 M	1.2183 T
1.3687 S	2.0195 S	116.61 T	1.2113 S
1.3635	2.0120	115.60	1.2040
1.3563 M	1.9916 S	113.67 M	1.1962 S
1.3550 P	1.9653 K	111.60 K	1.1819 T
1.3396 T	1.9622 S	110.30 T	1.1529 S
S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot			

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