

Dollar rebounds against the Yen helped by US stocks

News and Events:

The dollar rallied against the yen on Monday, as investors pared extremely bearish bets on the greenback amid a strong recovery in the US stock market and a rise in benchmark Treasury yields. However, the Dollar was down slightly against the Euro and fell to a 15-year low against a basket of major currencies as traders speculated that woes in the US credit market will prompt the Federal Reserve to cut interest rates.

Analysts said the positive correlation between movements in the stock market and gains in the dollar against the yen over the past year have been fairly consistent. Equities and carry trades currency pairs such as EurJpy and UsdJpy have risen and fallen together in recent sessions due to the perception of the relatively high risk that each investment holds.

In carry trades, investors borrow in a low-yielding currency to invest in higher-yielding assets.

US stocks rallied on bargain-hunting, led by recently battered shares in financial companies. Further boosting stocks was news from Standard & Poor's saying the market has vastly over-reacted to the ratings agency's lowering of its outlook on Bear Stearns to negative from stable last week. Analysts said the recovery in stocks also sparked a rise in benchmark yields, now at around 4.74%.

In yesterday trading, UsdJpy climbed 0.94% to 118.72, while EurJpy rose 0.85% to 163.97. For now, the fall in the Yen and the stock market's gains are giving traders the courage to reenter carry trade positions and retest some riskier waters. But the moves should be limited ahead of the FOMC's meeting tomorrow.

The Fed is expected to keep rates on hold at 5.25% after the one-day meeting. But some are looking for the US central bank to acknowledge growing risks to economic growth stemming from problems in the credit markets, raising the chances of a rate cut in coming months. The growing crisis in the credit sector has led financial markets to start pricing in up to two 0.25% Fed rate cuts by the end of the year to shore up a slowing economy. Addressing the current credit market crisis would mark a change from recent meetings, where the Fed has emphasized inflationary pressures as the predominant risk to its scenario for the economy. If the Fed sticks to this view, the dollar may gain some respite from the big sell-off that has dragged it to record lows against the euro in recent weeks.

Yesterday, EurUsd was up 0.28% at 1.3818, still close from record high touched last month. GbpUsd, meanwhile, fell about 0.43% to 2.0322. Traders said a technical break in the EurGbp cross helped weigh on the pound.

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Today's Key Issues (time in GMT):

12.30 USD 2Q Productivity +2% vs +1%

18.15 USD FOMC rate decision 5.25% unchanged

23.30 AUD Royal Bank of Australia rate decision 6.25% to 6.50% vs 6.25%

The Risk Today:

EurUsd traded up to 1.3840 high following Friday's rebound. The break over 1.3728 and return over 1.3750 last week initial resistance accelerate the move up to 1.3840 yesterday. Initial resistance holds 1.3852 late July high. Renewed uptrend may refocus the way upward 1.3925 and 1.3986 resistances. 1.3750 Pivot point marks the initial support.

GbpUsd initially traded up to 2.0463 high yesterday but returned down to 2.0322 - 0.43% after touching 2.0280 low, a 100 pips away from last week low 2.0182. Yesterday high 2.0463 marks initial resistance. Further advance may focus on 2.0494 resistance last Monday high. Downtrend looks limited as market is going away from 2.0200 support which could put 2.0100 support (former trend resistance) in sight. A break there will open the door back down to 2.0000 pivot point.

UsdJpy traded up to 119.11 after breaking through 118.50 pivot point. Yesterday market went down as low as 117.19, a new 3-months low. The risk of further downtrend remains; further weakness may open the door to 116.58 trend support. Initial resistance holds 119.50 end of July high

UsdChf tested 1.1881 8-month low on Friday and broke that support level yesterday trading down to 1.1819. Pressure remains below 1.2091 (23.6% retracement of 1.2771 - 1.1881 decline). Current down trend, may shift on 1.1742 May 2005 low support and 1.1483 March 2005 low. Initial resistance holds 1.1927 yesterday high.

Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.4571 K	2.0706 T	124.15 T	1.2157 S
1.3925 S	2.0683 S	120.78 P	1.2091 S
1.3852 M	2.0462 M	119.50 M	1.1927 M
1.3810	2.0310	118.60	1.1905
1.3750 M	2.0182 M	117.19 M	1.1881 M
1.3659 S	2.0100 S	116.58 T	1.1742 T
1.3550 P	2.0000 P	115.59 K	1.1442 S
S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot			

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