

## Dollar rose as Fed signals rate cut not imminent...

### News and Events:

The Dollar rose against the Euro on Tuesday, maintaining gains after the Federal Reserve held US interest rates steady, as expected, and said inflation remained its primary concern. The Fed acknowledged that financial markets have been volatile in recent weeks and credit conditions have become tighter, but the US central bank said the economy was likely to expand at a moderate pace in the coming quarters.

Investors viewed the Fed's statement as an indication that it will hold off cutting interest rates, effectively preserving the greenback's yield advantage over other major currencies. The Fed said a moderation in US core inflation was still not evident. Analysts said "The statement is not as dovish as some participants hoped for, and the Dollar has strengthened modestly in the immediate aftermath".

Yesterday, EurUsd was down 0.42% at 1.3754. UsdJpy was slightly up +0.29% at 119.06 after touching 117.98 intraday low. The yen had briefly rallied against major currencies on the Fed's inflation remarks, tracking initial falls in the US stock market, but came off highs as equities rebounded. In recent weeks, the yen has maintained a tight negative correlation with US stock prices. When stock prices are falling, investors tend to buy back the yen to unwind investments in risky carry trades, in which purchases of higher-yielding currencies are financed by borrowing cheaply in the Japanese currency. UsdChf rose 0.45% to 1.1963. GbpUsd, meanwhile, fell 0.42% to 2.0236 after hitting 2.0188 low. US equities closed higher, with investors heartened by the Fed statement that it is keeping an eye on credit markets, although future policy would still depend on the outlook for inflation and growth. The implied chances for a rate cut at the next Federal Open Market Committee meeting in September fell to 20% from 46% on Monday. Prospects for an October cut dropped to 52% from 84%. An October ease was fully priced as recently as Friday but has retreated in step with a higher stock market. Futures prices still imply one quarter-percentage-point Fed rate cut by year-end and two by mid-2008.

Some analysts said that while inflation remained a focus of the Fed, it could move to a more neutral stance at the September meeting. Analysts said "It appears that if the Fed is forced to cut interest rates due to the sub-prime crisis, it will not be a pre-emptive 25 basis-point action but rather an after-the-fact 50-100 bps rescue effort".

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

**07 August AU** Reserve Bank of Australia increased rates to 6.5%

**09.30 GB** Bank of England quarterly Inflation report

**14.00 US** June Wholesale Inventories 0.4% vs 0.5%

**14.00 US** Fed's Stern speaks on economic education, Washington

## The Risk Today:

**EurUsd** is correcting from Monday 1.3840 high erasing parts of Friday's rebound. A return under 1.3750 last week initial resistance will put the recent positive trend on hold. Further decline will open the way toward 1.3610 late July low. Initial resistance holds 1.3852 late July high. Renewed uptrend may refocus the way upward 1.3925 and 1.3986 resistances. Market is turning around 1.3750 Pivot point.

**GbpUsd** found strong resistance at 2.0463 (Friday and Monday high) and corrected down to 2.0188 low yesterday. Market is heading for new low at 2.0138 (50% retracement of 1.9623 – 2.0654 advance). Downtrend looks limited as market may find support around 2.0200 before looking at 2.0100 support (former trend resistance). A break there will open the door back down to 2.0000 pivot point. Initial resistance holds 2.0337 yesterday high.

**UsdJpy** Strongly rebounded on Monday from 117.19 (3-month low) and added advance up to 119.39 this morning. Market is going away from further downtrend and 116.58 Trendline support. Initial resistance holds 119.50 end of July high.

**UsdChf** tested 1.1881 8-month low on Friday and broke that support level trading down to 1.1819 on Monday. 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. Trendline resistance hold 1.2016 at very short term before 1.2050 strong resistance (retracement of 1.2771 – 1.1819 decline).

## 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	2.0337 M	119.50 M	1.2050 M
1.3745	2.0240	119.25	1.1980
1.3659 S	2.0182 M	117.19 M	1.1819 K
1.3610 S	2.0138 S	116.58 T	1.1742 T
1.3550 P	2.0100 S	115.59 K	1.1442 S
S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot			

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