

## Market is looking for direction and risk appetite possible return

### News and Events:

The yen fell broadly on Wednesday after a Federal Reserve statement tempered fears about the impact of US credit troubles on the wider economy, boosting stocks and other risky assets. Signs of a recovery in investor appetite for risk, underscored by rising stocks, weighed on the low-yielding yen, a favorite vehicle for carry trades.

In carry trades, investors borrow in low-interest-rate currencies such as the yen so they can invest in assets denominated in higher-yielding currencies such as the Australian dollar.

The dollar declined against other major currencies after Tuesday's Fed statement gave no indication of any near-term interest rate action, contrasting with the European Central Bank and the Bank of England, which have signaled rate rises this year.

Analysts said "The Fed did a pretty good job of calming the market down a bit yesterday" adding that "They didn't show any signs of panic, which has helped Equities recover and move us back into carry trades".

Yesterday, UsdJpy was up 0.56% at 119.73, more than 2.5 yen up from this week's four-month low 117.18. The EurJpy was up 0.92% at 165.24.

On Tuesday, the Fed left interest rates on hold at 5.25%, as expected, and acknowledged that financial markets have been volatile and credit conditions are becoming tighter for "some households and businesses". But the statement said that, despite the increase in risks to growth, the US economy was still likely to expand at a moderate pace in coming quarters. That sent stocks higher, US government bonds down, and emerging market spreads tighter.

US Treasury Secretary Henry Paulson also weighed in on the credit market crisis. In an interview with the CNBC financial television channel on Wednesday, Paulson was upbeat, saying "the fundamentals of the economy are very solid". He added that US exports would be "kicking in" to boost economic growth.

The EurUsd rose 0.35% to 1.3802, less than half a cent below a record high hit in July. Analysts said the dollar will likely continue to lose its interest rate advantage in coming months, with the ECB having already signaled a rate increase in September. GbpUsd was up 0.62% at 2.0362 after a quarterly report from the Bank of England suggested UK interest rates may have to rise more to combat inflation. The Australian dollar also rose, up 0.65% against the US dollar at 0.8633 after the Reserve Bank of Australia raised rates a quarter point to 6.5 percent.

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

- 09.30 GB June Trade Balance £-6.5B vs -6.29B
- 09.30 GB June Trade Balance Non-EU £-3.5B vs -3.48B
- 12.30 CAD New Housing price Index 0.7% vs 1.1%
- 12.30 US weekly initial claims 310k vs 307k
- 18.00 US Fed's Stern speaks on economic education, Minneapolis

### 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 Tuesday. Further weakness may open the door toward 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.

**UsdJpy** Strongly rebounded on Monday from 117.19 (3-month low) and added advance up to 119.84 yesterday. 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	2.0463 M	119.50 M	1.2050 S
1.3775	2.0365	119.15	1.1945
1.3659 S	2.0188 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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