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Market awaits Fed rate decision today; Credit worries hit Pound

News and Events:

Euro at 1.3700 or 1.4000? That is the question. The market has priced in an incremental 25 basis point rate cut and 100 basis points for the next twelve months. What remains to be seen is how the Federal Reserve views the effect of the credit crunch on the overall economy. Investors will be paying close attention to the Federal Open Market Committee's statement which will hold clues to both the direction of the broader US economy and the particularly the dollar. Look for discussions about inflation – should the Fed still regard inflation has a priority risk, the dollar could gain considerably while slowing down the equity markets. Several banks eye Euro trading at 1.3700 after a 25bp announcement, while others eye 1.4000 after a 50bp cut.

The Sterling dropped below 2.0000 for the first time this month, hitting a low of 1.9880 in early trading today. Although Northern Rock, one of the U.K.'s largest mortgage lenders, "did not draw on" any funds arranged by the Bank of England, credit concerns continue to affect market sentiment.

The Australian and New Zealand dollars also took a hit yesterday as investors worry that the credit crunch could spread through the region. Increased risk aversion weakened the Australian equity market and triggered another wave of reductions in carry trades. The Australian and New Zealand dollars dropped 0.4% and 0.6% respectively against the Japanese Yen in yesterday's session.

Global market instability, pressure on the dollar, and a seasonal trend have pushed the spot price of Gold to a high of \$720 an ounce. Look for the target of \$730, the May 12th, 2006 high.



Today's Key Issues (time in GMT):

09:00 EC ZEW Survey (Econ. Sentiment) SEP -15 vs -6.1
09:00 GE ZEW Survey (Econ. Sentiment) SEP -17 vs -6.9
09:00 GE Zew Survey (Current Situation) SEP 75 vs 80.2

12:30 CA New Motor Vehicle Sales MoM JUL
12:30 US Producer Price Index (MoM) AUG -0.30% 0.60%
12:30 US PPI Ex Food & Energy (MoM) AUG 0.10% vs 0.10%
12:30 US Producer Price Index (YoY) AUG 3.20% vs 4.00%
12:30 US PPI Ex Food & Energy (YoY) AUG 2.20% vs 2.30%

13:00 US Net Long-term TIC Flows JUL \$95.0B vs \$120.9B
13:00 US Total Net TIC Flows JUL \$60.0B vs \$58.8B

17:00 US NAHB Housing Market Index SEP 20 vs 22

18:15 US FOMC Rate Decision Expected Sep-18 5.00% vs 5.25%



The Risk Today:

EurUsd: Downside risk remains high through to 1.3765. On the upside, anything above 1.3920 is very bullish.

GbpUsd remains comfortably below 2.0000. On the downside, the pair is currently exposed to 1.9800, while the first strong resistance holds at 2.0093.

UsdJpy is approaching a strong resistance at 115.66, which, if broken, will open the door back to 117.60. Downside remains focused on 112.60.

UsdChf still key support at 1.1810, and bearish under 1.1960.

Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.4000 K	2.0363 K	119.11 T	1.2219 K
1.3968 M	2.0234 S	116.50 M	1.2134 T
1.3900 S	2.0093 T	115.53 S	1.1996 S
1.3859	1.9946	115.06	1.1870
1.3713 M	1.9900 S	112.65 S	1.1812 T
1.3666 M	1.9840 S	111.58 T	1.1742 M
1.3551 S	1.9643 K	109.58 S	1.1630 S

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

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