Knowledge Worth Trading
aroundFX

CURRENCY CHATTER

September 2nd, 2010

From Helaba: The euro is tracking the equity markets closely, says a research note from Helaba on Friday. "The euro remains highly dependent on the general perception of risk and events on the equity market, and has therefore recovered in response to firmer equity markets," explains the report. "The technical outlook is improving in this setting. The euro's rise above the resistance at 1.2775/80 and the higher levels of the technical indicators are favorable. Buy signals from the Stochastic and a dynamic MACD were confirmed yesterday. This generates potential for a recovery to 1.2923, the high from mid-August. The 1.3000 mark will be the next target above this. Our favored trading range: 1.2740 – 1.2923."

From TD Securities: EUR/USD is looking technically bullish, explains a research note from TD Securities on Thursday. "EUR/USD slipped back quickly from yesterday's intraday peak in the upper 1.28s," explains the report. "Spot has bettered the mid/upper 1.27 zone that we had expected to provide better resistance to gains and now, intraday gains through 1.2855/60 will suggest the EUR is poised to move higher still from a technical point of view. However, if the above-noted correlation between the USD and equities is as strong as the statistics suggest it is at the moment, we will need to see a turnaround in equity sentiment in order to generate more EUR gains or the 1.2855/60 area will start to look like firmer resistance."

From Scotia Capital: The prospects for the euro are improving, explains a research note from

Market Snapshot

(As of 9:20 AM EDT/1:20 PM GMT)

FX	Last Price	Net Change
EUR/USD	1.2822	0.0014
USD/CAD	1.0517	0.0019
USD/JPY	84.26	-0.18
GBP/USD	1.5374	-0.0081
AUD/USD	0.909	-0.0027

Bonds	Last Price	Net Change
US 10-Year Future	124.6875	-3.5
US 10-Year Yield	2.6141	0.0411
Canadian 10-Year Bond Yield	2.873	-0.4
German 10-Year Bund Yield	2.271	0.047
UK 10-Year Gilt Yield	2.964	-0.16
Aussie 10-Year Bond Yield	4.816	0.033
Japanese 10-Year Bond Yield	1.119	-0.03

Stocks	Last Price	Net Change
Eurostoxx	2506.96	-6.77
FTSE 100	5365.62	-0.79
DAX	6079.53	-4.37
Nikkei	9062.84	135.82
S&P ASX 200	4532.7	37
Hang Seng	20868.92	245.09
Shanghai Composite	2655.776	32.894
Dow Jones Industrial Average	10269.47	254.75
S&P 500	1080.29	30.96

Commodities	Last Price	Net Change
WTI Crude Oil	73.2	-0.71
Spot Gold	1251.65	7.35

Scotia Capital on Thursday. “EURUSD has managed to develop an upside propensity over the past few sessions, with an encouraging close above its 50-day moving average yesterday, a level that the pair currently holds above today (at 1.2803),” explains the report. “EURUSD’s MACD is on the verge of generating a buy signal for the first time since the pair’s impressive rebound off of the June low. Our new EURUSD forecast foresees a more buoyant EUR towards the end of 2011, with our outlook now adjusted for a much steeper appreciation to 1.38 by Q4’11 from the previous 1.30 as we expect that a reversion towards a broad weakening trend in the USD makes itself felt in EURUSD. Our target for the end of this year has been revised up to 1.29 from the previous 1.24. Failing a resumption in intense sovereign risk related pressure on EURUSD, we feel that the monetary, fiscal and economic dynamics increasingly favour less Eurozone bearishness and a return to a more constructive outlook for the pair.”

From KBC: EUR/USD is hesitating to move higher, trading to reconcile the differences between the risk trade and economic data, explains a report from KBC on Thursday. “So, EUR/USD traders still haven’t decided whether this is a global risk story or whether they should give more weight to the economic development in the US and/or the euro zone area,” explains the report. “This issue on which trading paradigm should prevail is still far from solved. Nevertheless, from a technical point of view, yesterday’s move in EUR/USD was significant. The pair closed the session 1.2809, compared to 1.2680 on Tuesday evening... there is a good chance that the European and US equity markets will keep a wait-and-see approach, digesting yesterday’s rally and looking forward to tomorrow’s US payrolls. This trading pattern might also apply for EUR/USD trading. Nevertheless, yesterday’s price action should be considered as euro constructive.”

From Mizuho: EUR/USD is looking more bullish from a technical standpoint, says a research note from Mizuho on Thursday. The pair is “Gaining a little traction as we try and rally from the 50% Fibonacci retracement support and the Ichimoku ‘cloud’, managing a daily close above the top of this and the 9-day moving average,” says the report. “Momentum is no longer bearish and we are trading at the 50-day moving average. Let’s see if the Euro can capitalise on these small bullish Technical points.” The firm recommends “Attempt[ing] small longs at 1.2795, adding to 1.2750; stop below 1.2580. First target 1.2855, then 1.2925.”

From TD Securities: The Canadian dollar is range bound against the USD no Thursday morning despite some expectations of smaller gain, explains a research note from TD Securities. “A range-bound USD/CAD is not quite performing as we had expected in the recent past (we rather favour a push through resistance in the high 1.06 zone to take us out of the broader trading range in place over the middle of the year),” explains the report. “But at least the range parameters are holding on the downside as well as they appear to be holding on the topside of the range at the moment… In the shorter-run though, the market seems capped around the 1.0665 resistance point and – so far – supported in the mid/upper 1.04 area. A short-term double top at 1.0665 does threaten a move to 1.0272 from a technical point of view if the "neckline" at 1.0474 is pierced. We do think that fairly firm support runs down through the mid 1.04s for USD/CAD currently, however, raising the risk of a "false break" – one that derives little or no follow through selling interest – below the 1.074 support line."

From Scotia Capital: Canadian dollar traders are looking ahead to the Bank of Canada's interest rate decision from some direction, says a research note from Scotia Capital on Thursday. "After yesterday's strength, CAD is a mid-performer today, leading into the North American open flat to yesterday's close," says the report. "There are no data releases in Canada until next Tuesday, when the Bank of Canada will make its highly debated interest rate decision. Currently, the market is pricing in a 52% chance that the BoC will increase interest rates. With a slowing US economic growth trajectory and early evidence that the Canadian economic backdrop is not as strong as the BoC had expected, the risk that the BoC pauses has increased. However, one interest rate hike and a dovish statement or a pause with a statement that leaves the door open to an October hike, might (after the knee jerk reaction) elicit the same somewhat neutral currency response."

From RBC Capital Markets: The pound sterling is under pressure in the aftermath of some poor economic data this morning, says a research note from RBC Capital Markets. "GBP is underperforming on most crosses after weak August Nationwide house price data (-0.9% m/m; consensus -0.3%), though the data need to be treated with some caution as volumes are typically very low in the month," says the report.

From Scotia Capital: The Pound sterling s likely to finish the year stronger than previously expected, says a research note from Scotia Capital on Thursday. "Sterling is weaker today, underperforming most majors and off 0.3% against the USD," explains the report. "The near term price action for GBP has been unconstructive, as GBP is undermined by weaker than expected housing and construction data. Nationwide house prices fell 0.9% in August against the –0.3% m/m expected. In addition, the construction sector PMI declined to 52.1 from 54.1, around 1.1 points worse than expected, leaving GBPUSD fundamentally unsupported following selling in the Asian session. Our new GBPUSD forecasts have been upgraded significantly as we now see 1.57 by the end of this year versus the previous 1.53. Our forecast now incorporates a much steeper appreciatory bent for GBPUSD, to 1.69 by the end of 2011 versus the 1.55 previously foreseen."

From Mizuho: The pound sterling is trying to make a technical recovery, explains a research note from Mizuho on Friday. "Lets see if Cable can form an interim base against the 38% Fibonacci retracement with help from the large daily Ichimoku 'cloud'," says the report. "A daily close above the 9-day average at 1.5474 might help push bullish momentum higher." The firm recommends "Attempt[ing] longs at 1.5400; stop below 1.5300. First target 1.5500, then 1.5700."

From Bank of New York Mellon: FX interventions to weaken the yen in Japan are more likely now that hopeful leader for the ruling Democratic Party of Japan, Ichiro Ozawa said that he is open to such measures to weaken the yen. According to a report from the Bank of New York Mellon on Thursday, “Given the upcoming DPJ leadership election on September 14th it would seem reasonable to assume that PM Naoto Kan would prefer not to muddy the water by having to authorise FX intervention. However, over the past two days the challenger for his position, Ichiro Ozawa, has thrown down a fairly direct challenge by openly supporting the idea of intervention. In particular, he noted today: "Room for further monetary policy steps is limited. With the global community tolerating a strong JPY, it might be hard for solo currency intervention to have an effect. Still, the JPY's rise has come to a level where we will need to act with such a determination." Given this, PM Kan runs the risk of looking weak and indecisive if he now fails to react to a further burst of JPY strength.”

From RBC Capital Markets: Yen traders are again paying close attention to comments from Prime Minister Naoto Kan’s opponent in an election for leadership of the nation, says a report from RBC Capital Markets. “USD/JPY has remained heavy overnight, briefly touching 84.00. Ozawa, PM Kan’s challenger for the DPJ leadership, sounded decidedly more mixed on his view on intervention in overnight comments,” begins the report. “Although Ozawa reiterated that Japan “must stop rapid rises in the Yen”, he went on to say that there was “limited room for the BoJ alone to fix the FX rate”, that intervention “may not have much effect” and that JPY rises in the long-term were not bad for the economy. That Ozawa’s interventionist stance might provoke incumbent PM Kan into action or the outside chance that Ozawa wins the leadership contest were widely perceived as the latest reason to fear imminent JPY intervention. Along with other perceived reasons to be bearish JPY, these risks appear to be rapidly disappearing.”

From TD Securities: Equity trading suggests a weaker Japanese yen, explains a research note from TD Securities on Thursday. “For today, intraday equity market softness so far suggests the USD may trade slightly better bid, with the exception of USD/JPY perhaps,” explains the report. “While USD/JPY recovered strongly form the 83.60/70 area again yesterday, the underlying bear trend here remains strong. We think the USD can only stabilize above 85.90/00 for the moment and that minor counter trend corrections will attract renewed selling while we remain below that point.”

From Danksebank: The fact that the Japanese yen has not let up from moving lower is significant, explains a research note from Danksebank on Thursday. “Also note that despite the improvement in risk appetite, USD/JPY is still trading below the 85-level,” says the report. “This underlines that the JPY appreciation pressure is strong and that direct intervention in the market can still not be ruled out in the coming weeks.”

From Mizuho: USD/JPY’s technical momentum remains bearish, says a research note from Mizuho on Thursday. The pair is “Consolidating fairly neatly either side of 84.50, though admittedly with some fairly sharp intra-day swings as traders are understandably skittish at these very low levels," explains the report. "We continue to prepare for a series of cautious downside probes, politics or no politics, Bank of Japan or Ministry of Finance." The firm recommends "Attempt[ing] shorts at 84.25, adding to 84.65; stop well above 85.00. First target 84.00, then 83.50."

From Scotia Capital: The Swiss Franc has capitalized form a better than expected GDP report, says a research note form Scotia Capital on Thursday. "CHF is up around 0.3% against EUR following better than expected Q2 GDP data," begins the report. "While Q2 came in at 0.9% q/q against the 0.8% expected, Q1 was revised up to 1% q/q from 0.4%, an impressive gain. EURCHF remains close to record lows at 1.2850, with buyers today helping keep the pair above 1.2940. Risk sentiment remains a key driver of this pair as it has over the past two months as the rolling 1- month correlation between EURCHF and the MSCI World Index holds at 0.87, just off of recent 1-year highs at 0.96."

From RBC Capital Markets: The Swiss Franc has made some headway in the aftermath of an upbeat GDP report from Switzerland, says a research note from RBC Capital Markets. "EUR/CHF fell to 1.2942 following slightly better than expected Q2 GDP (0.9% q/q; consensus 0.8%)," says the report. "The annual rate was considerably stronger at 3.4% (2.6% expected), though this largely reflected the upward revisions to Q1 reported last week."