



Daily Forex Outlook

Traders struggle to explain dollar weakness

24th July, 2006

EUR USD (1.2640) The single currency continued its upside stroll on Friday and even peaked at 1.2715 in Australian session this morning. However, some short-term traders took their chances at playing it from the short side, which pushed it down to the current levels.

With no US data releases due on Friday and the Bernanke testimony also slowly starting to fade, many market participants had to seriously sit down and look at the consequences of a pause in the Fed's tightening cycle. Traders were clearly taken aback by the dollar's performance last week at a time when they thought they had it all figured out. Not only did they have to look at the possibilities of where the Fed will go next, but they also had to find some buying arguments for the euro. In this instance, one could hear murmurs that went beyond just a pause in the tightening cycle, but of rates actually coming down in the US. There was no mention of a rapid reversal, but it is clear that some dream about lower interest rates although this is rather unrealistic under the current conditions. Even though concerns about the US trade deficit have already been raised, traders went further and emphasised that it would just compound the structural problems, particularly against the backdrop of lower interest rates. With dampened interest rate expectations haunting the dollar, it is highly likely that traders will be very sensitive to any upside surprises over the coming weeks.

This morning's setback afforded us the opportunity to establish a bullish orientation for target **1.2865**. However, any dip should not violate our **1.2610/20** limit to the positive orientation, as below there demand becomes unreliable.

* **The EUR-Sentiment Survey is available as a separate document.**

USD JPY (116.60) The current objective remains at **115.10** and thereafter at **113.60**. The yen was initially in demand again on Friday as traders jumped in and bought it. While doing it, the possibility of a revaluation of the yuan fitted in perfectly with the idea of a stronger yen. For many the first anniversary of the renminbi and a scheduled PBoC press conference automatically meant that another change was in the pipeline. However, when their expectations were not met traders considered it as a welcome opportunity to buy the weak dollar, but they had to throw these positions out ahead of the weekend. This selling pushed it to a 115.85 low on Friday. For risk reward consideration we lower the limit of the bearish orientation to **116.70**. We expect the dollar to even achieve stability once above there.

EUR JPY (147.55) The cross still hovers around its recent record high at 147.90. For the time being, the position remains stable and another upside attempt to **148.30** is possible at any time, after which we could even see it as high as **149.20**. To the downside, we expect to run into support in the **146.50/70** zone, where we would try to adopt a bullish stance with a tight limit, and use the second resistance as target. A critical demand point stands at **145.45**.

EUR GBP (0.6825) Our current target remains **0.6730**. The single currency experienced a rather quiet day on Friday in which it only slowly drifted lower. For today, any further weakness can rely on support at **0.6805**. A change in direction should not violate our tightened **0.6860** risk-limit to the bearish orientation.

Resistance

1.3095	MINOR
1.3050	MINOR
1.2990	MINOR+
1.2915	MINOR
1.2865	TREND
1.2790	MINOR
1.2745	MINOR+
<i>1.2640</i>	<i>Actual</i>
1.2610/20	MINOR+
1.2560	MINOR
1.2490	MINOR
1.2405	MINOR+
1.2380	MINOR
1.2340	MINOR+
1.2250	MINOR

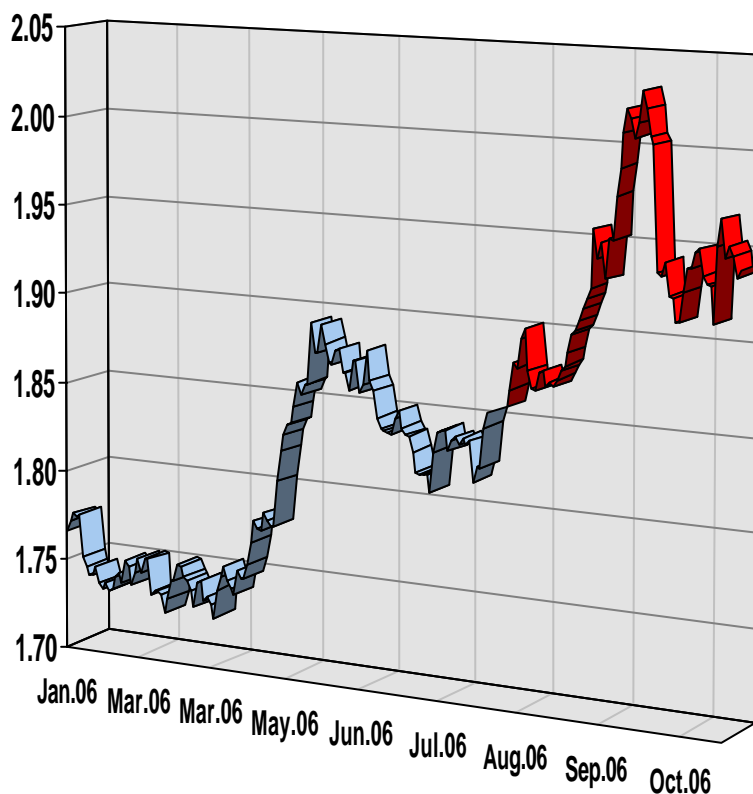
Support

GBP USD (1.8530) The current objective remains **1.8605/15** and thereafter **1.8775**. In the UK Friday's quarterly GDP showed that it grew at the fastest pace in two years. With the focus back on interest rates this just added to the belief that the BoE will also hike rates in August and Cable just followed the news up. We tighten the risk-limit to **1.8470** for today. Additional demand is visible at **1.8325**.

AUD USD (0.7515) The jump in Q2 PPI just further confirmed for many that a RBA rate hike is due in August. For the moment a bullish strategy is not feasible due to risk-reward considerations, but the position remains stable with upside potential to **0.7570**, which represents the best near-term resistance for the moment. Beyond there we can expect to see **0.7635/40**. To the downside, we anticipate running into demand at **0.7465** while **0.7405** is critical.

	USD CHF	USD CAD	NZD USD	EUR CHF	EUR SEK	EUR NOK
	↖	↖	↖	↖	→	↖
Resistance	1.2535	1.1460	0.6325	1.5780	9.3550	8.0225
	1.2450	1.1410	0.6255	1.5735	9.2850	7.9800
Support	1.2295	1.1260	0.6165	1.5670	9.2210	7.9250
	1.2235	1.1155	0.6070	1.5635	9.1975	7.8725

Pattern Recognition Forecast Model



GBP/USD

Goodness-of-fit* = 94%
(Best results above 90%)

* Closest representation of the last six months of activity in the historical database. The price forecast is the actual historical outcome adjusted for volatility.

The objective of this model is to explore the possible future developments by basing a forecast on past movements in a purely mechanical way. The outcomes are therefore unrelated to the analysis otherwise contained in this document.

Source: DB Global Markets

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