

The Dollar Supported By Interest Rates Reduction In Europe

The euro moved sharply lower against the US dollar Thursday as the single currency tested bids around the 1.2710 levels. The European Central Bank reduced its main refinancing rate by 50bps to 3.25%. Many traders signaled disappointment with the 50bps move, noting BoE reduced rates by 150bps and even Swiss National Bank cut rates by 50bps in an unexpected move. ECB President Trichet reported "I don't exclude that we could decrease rates again". The rate futures are now pricing in an additional 50bps of easing in December. In the US business productivity slows in Q3 to an annualized 1.1% rate. Also, weekly initial jobless claims fell 4 thousand to 481 thousand. The yen continued to rise against the US dollar as the greenback tested bids around the 99.25 level. The euro also moved lower versus the yen as the single currency tested bids around the 124.25. The British pound and the Swiss franc weakened against the yen as the crosses tested bids around the 154.10 and 83.05 levels. The British pound came off vs. the US dollar as cable tested bids around the 1.5715 level. Bank of England's Monetary Policy Committee shocked the markets by reducing its headline repo rate by 150bps, confounding watchers who anticipated a 25bps or 75bps move. The main rate now stands at 3.00% and some economists believe the central bank will make another rate move lower next month.

EUR/USD

The short term picture is natural as the euro trade in wide range trying to get closer and test the key resistance level at 1.3320, which is 61.8% retracement of the 1.1640-1.6035. So far first target will be the resistance at the 1.3100, followed by the key 1.3320. A successful break of 1.3320 will give us a signal that the positive mid-term trend is resumed and will target 1.3680. On the contrary, the

negative risk remains and on the downside support is seen at 1.2500, followed by 1.2340 and the psychological 1.2000.



Support	1.2500	1.2340	1.2000
Resistance	1.3100	1.3320	1.3680

USD/JPY

The short term picture remains negative as the pair traded below the resistance level at 98.70, which is 23.6% retracement of the 124.12-90.90 drop. If the level is overcome again from upside the next key resistance level will be 103.50, which is 38.2% retracement of the mentioned drop. A successful test of 103.50 will give us a signal that the mid-term uptrend has resumed. On the downside support is seen at 95.75, followed by 90.85 and 85.00.



Support	95.75	90.85	85.00
Resistance	103.50	105.50	107.50

GBP/USD

The short term picture remains negative. The pair registered another drop and back test of resistance at 1.6650, which is 23.6% retracement of the 2.1150-1.5266 drop seems to be difficult. If broken successfully, next targets will be 1.6900 and the key level at 1.7510, which is 38.2% retracement of the mentioned drop. The downside risk remains, as far as, the pair holds below 1.7510, and its overcoming will give us a signal the mid-term positive trend has resumed. On the downside support is seen at 1.5500, followed by 1.5420 and 1.5270.



Support	1.5500	1.5420	1.5270
Resistance	1.6650	1.6900	1.7510

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