

Tuesday, September 18, 2007



## Forex Brief

**Pulse of the Market**

- Japanese tertiary industry index plunges 0.5% in July, in line with the expectations
- Euro-zone trade surplus shrinks to 4.6B in July, weaker-than-expected
- Canadian international securities transactions soars to 1.50B in July, much stronger-than-expected
- US Empire manufacturing index drops to 14 in September, much weaker-than-forecast



The Dow lost 39 points to close just above 13,400-level. Yesterday, the yields for 2 and 5 year bonds went up, but the 30 year bonds yields went down. Today, all eyes and ears are set to FOMC rate decision and the accompanying statement. Fed fund futures are currently pricing in a 54 percent chance of a 50bp cut against a 46 percent chance of a 25bp cut. Leaving rates unchanged is not a conceivable option. If the Fed slashes rate by 25bp and remains hawkish about inflationary pressures, then the market might see a drop in stocks, high yielders and carry trades. The second option for Fed could be easing of 25bp and a warning of more easing to come. This would be slightly bearish for greenback. The third option could be a half point cut by the Fed which will most likely result in a sharp drop in the US dollar and a nice pop in the stock market, which may be bullish for carry trades because a larger interest rate cut would be seen as an uncharacteristically proactive move by Bernanke. Today apart from FOMC rate decision, producer prices, Treasury international capital flows and the NAHB housing market index are on tap.

Time		Economic Release	IMP	Actual	Forecast	Prior
GMT 04:00 AM		JPY BoJ Monetary Policy Meeting	MEDIUM			
GMT 07:15 AM		CHF Industrial Production (QoQ) (2Q)	MEDIUM		5.2%	-4.7%
GMT 08:00 AM		EUR Bank of Spain's Ordonez Testifies in Spanish Parliament	MEDIUM			
GMT 08:30 AM		GBP Consumer Price Index (MoM) (AUG)	HIGH		0.4%	-0.6%
GMT 08:30 AM		GBP Retail Price Index (AUG)	MEDIUM		207.0	206.1
GMT 09:00 AM		EUR German ZEW Survey (Economic Sentiment) (SEP)	HIGH		-17.0	-6.9
GMT 09:00 AM		EUR German Zew Survey (Current Situation) (SEP)	HIGH		75.0	80.2
GMT 12:30 PM		USD Producer Price Index (MoM) (AUG)	MEDIUM		-0.3%	0.6%
GMT 12:30 PM		USD Producer Price Index Ex Food & Energy (MoM) (AUG)	MEDIUM		0.1%	0.1%
GMT 13:00 PM		USD Fed's Open Market Committee Meets on Interest Rates, Economy	HIGH			
GMT 13:00 PM		USD Total Net TIC Flows (JUL)	HIGH		\$60.0B	\$58.8B
GMT 17:00 PM		USD NAHB Housing Market Index (SEP)	LOW		20	22
GMT 18:15 PM		USD FOMC Rate Decision Expected (SEP 18)	HIGH		5.00%	5.25%
GMT 21:00 PM		USD ABC Consumer Confidence (SEP 16)	LOW			-17

**Euro**

The Euro has been extremely range bound. The only piece of data released yesterday was Euro-zone trade balance which came out weaker-than-expected. The Euro is waiting for the Fed's rate decision. Today, German ZEW survey is due for release. A sharp drop is expected in business confidence as the problems in the credit markets drive borrowing costs higher. Technically speaking a slight correction is expected and Euro may test \$1.3800.

**Yen**

Today the Asian equity markets are down following the fall in Dow. The Japanese Yen has very range bound in the last few trading sessions and is hovering around 115 mark. The Bank of Japan will be announcing their interest rate decision tomorrow, but no reaction is expected in the currency market since financial market turmoil and political uncertainty will prevent the BOJ from lifting interest rates. The economic data out of Japan has been very disappointing and no rate hike is expected.

**British Pound**

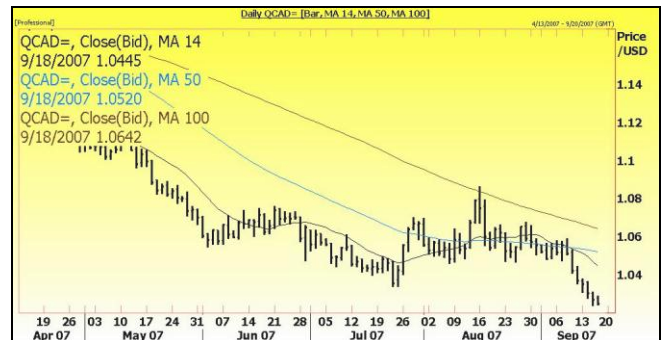
The Cable has witnessed real battering in the last few days. Northern Rock's financial troubles continue to plague the British pound. Despite the UK Chancellor's announcement that the government will guarantee all deposits of Northern Rock account holders, the British pound has fallen for the fourth consecutive trading day to break below 2.0. Going forward, the market will expect the Bank of England to leave interest rates unchanged for the remainder of the year with the risk of easier monetary policy if there are further problems in the UK banking sector.

**Canadian Dollar**

The Loonie has hit a new 30 year high today on the back of stronger economic data and record oil prices. Foreign purchases of Canadian securities were expected to drop 4.5 billion in the month of July, but instead, it rose for the first time in 3 months by 1.5 billion. Demand for Canadian equities was very strong, which may suggest that foreign investors expect the Canadian economy to remain resilient in the face of slower US growth.

**Australian Dollar**

Australia's dollar fell the most in almost three weeks as a slide in global stocks on concern the credit crisis at British bank Northern Rock Plc will spread spurred traders to sell higher-yielding assets. The carry trades have been unwound as investors are taking a back seat as far as risk appetite is concerned. The investors are taking a cautious stance before FOMC rate decision.



**Euro-Yen**

EUR/JPY is trading above its 14, but below its 50 and 100 day moving averages. Fast stochastic and MACD are issuing a bearish signal. The Dow has lost 39 points. Today, Nikkei and other Asian market are down as well. This cross has lost 0.37%. Today's event risk is FOMC rate decision.

**Sterling-Yen**

The cross is trading below its 14, 50 and 100 day moving averages. . Fast stochastic and MACD are issuing a bearish signal. This cross has lost on the back of weakness in Cable. The weakness in Sterling is owing to weak economic data and the bail out of Northern Rock by BOE. Today UK CPI is due for release.

**Aussie-Yen**

The cross is trading above its 14, but below its 50 and 100 day moving averages. Fast stochastic and MACD are issuing a bearish. This cross has lost as Dow and Asian equity markets have headed south. Today's Fed rate decision is important for the future direction of this cross.

**Euro-Sterling**

The pivot point is at 0.6938. This cross is trading above its 14, 50 and 100 day moving averages. The fast stochastic and MACD are issuing a bullish signal. The relative strength of Euro has been fueling this cross higher. Today German Zew survey is due for release. But, the event risk is FOMC rate decision.

**Sterling-Swiss**

This cross is trading below its 14, 50 and 100 day moving averages. It's fast stochastic and MACD are issuing a bearish signal. This cross has lost 0.87% as the weakness in Cable and rise in interest rates in Switzerland continue to take their toll. Today Swiss industrial production and UK's CPI are due for release. Today, the event risk lies in FOMC rate decision.



FOREX Closing Prices for Monday, September 17, 2007					
Currency	Open	High	Low	Close	Net Chg
<b>USD</b>	79.67	79.79	79.56	79.72	<b>0.1000</b>
<b>EUR/USD</b>	1.3867	1.3888	1.3847	1.3865	<b>-0.0008</b>
<b>USD/JPY</b>	155.26	115.37	114.64	115.02	<b>-0.3400</b>
<b>GBP/USD</b>	2.0054	2.0092	1.9913	1.9941	<b>-0.0145</b>
<b>USD/CHF</b>	1.1887	1.1898	1.1847	1.1875	<b>-0.0019</b>
<b>AUD/USD</b>	0.8417	0.8459	0.8309	0.8336	<b>-0.0075</b>
<b>USD/CAD</b>	1.0301	1.0312	1.0237	1.0268	<b>-0.0037</b>
<b>NZD/USD</b>	0.7131	0.7159	0.7025	0.7059	<b>-0.0066</b>
<b>EUR/JPY</b>	159.83	160.15	158.96	159.45	<b>-0.5900</b>
<b>GBP/JPY</b>	231.13	231.67	228.75	229.37	<b>-2.2700</b>
<b>CHF/JPY</b>	96.93	97.18	96.57	96.83	<b>-0.1300</b>
<b>AUD/JPY</b>	96.98	97.52	95.46	95.86	<b>-1.1500</b>
<b>EUR/GBP</b>	0.6914	0.6961	0.6903	0.6951	<b>0.0045</b>
<b>EUR/CHF</b>	1.6485	1.6489	1.6435	1.6462	<b>-0.0039</b>
<b>GBP/CHF</b>	2.3838	2.3873	2.3638	2.3680	<b>-0.0209</b>

Daily Swings (The Pivot Levels)							
Currency	The Trading Range						
	S3	S2	S1	Pivot	R1	R2	R3
USD	79.36	79.46	79.59	<b>79.69</b>	79.82	79.92	80.05
EUR/USD	1.3804	1.3826	1.3845	<b>1.3867</b>	1.3886	1.3908	1.3927
USD/JPY	113.92	114.28	114.65	<b>115.01</b>	115.38	115.74	116.11
GBP/USD	1.9693	1.9803	1.9872	<b>1.9982</b>	2.0051	2.0161	2.0230
USD/CHF	1.1798	1.1822	1.1849	<b>1.1873</b>	1.1900	1.1924	1.1951
AUD/USD	0.8127	0.8218	0.8277	<b>0.8368</b>	0.8427	0.8518	0.8577
USD/CAD	1.0158	1.0197	1.0233	<b>1.0272</b>	1.0308	1.0347	1.0383
NZD/USD	0.6869	0.6947	0.7003	<b>0.7081</b>	0.7137	0.7215	0.7271
EUR/JPY	157.70	158.33	158.89	<b>159.52</b>	160.08	160.71	161.27
GBP/JPY	225.27	227.01	228.19	<b>229.93</b>	231.11	232.85	234.03
CHF/JPY	95.93	96.25	96.54	<b>96.86</b>	97.15	97.47	97.76
AUD/JPY	92.98	94.22	95.04	<b>96.28</b>	97.10	98.34	99.16
EUR/GBP	0.6858	0.6880	0.6916	<b>0.6938</b>	0.6974	0.6996	0.7032
EUR/CHF	1.6381	1.6408	1.6435	<b>1.6462</b>	1.6489	1.6516	1.6543
GBP/CHF	2.3353	2.3495	2.3588	<b>2.3730</b>	2.3823	2.3965	2.4058

Sources: - News, Charts & Quotes (Courtesy: Reuters)

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