

Euro to retest its lows, inviting intervention once again

The ECB, BoJ and Federal Reserve will support the euro, if necessary. Further weakness by the single currency is not in anyone's national interest. There was multilateral support for the euro last September and the ECB intervened on its own again in October. Judging from the euro/dollar chart, which broke under the late-May/early-July range yesterday, they will need to intervene once again. Now that this year's step-sequence downtrend has been reaffirmed, a rally back above 85¢ is the minimum required to offset a break of last year's low at 82.3¢. Subject to intervention, which usually commences with jawboning, the euro's current downside risk in the 82¢ to 79¢ region. Factors weighing on the single currency are cash conversions (mostly black economy money moving out of marks), corporate capital flows, a lack of confidence in the ECB and a growing realisation that the US economy will recover before Euroland.

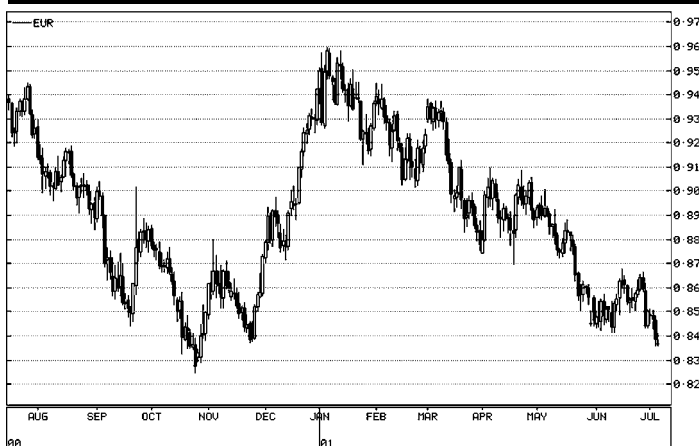
Sterling may be dragged down by the euro. The pound has rolled over beneath overhead supply evident above \$1.42 against the greenback. A decisive break above this level is needed to offset current scope for a further retracement of last month's rally.

The US dollar is unlikely to encounter more than temporary resistance near its March/April highs up to ¥126.84. The greenback broke up out of a small range on yesterday's move over ¥125. The entire pattern since April looks like a medium-term consolidation, which is nearing completion. A move back under ¥124 is now required to further delay higher scope towards the ¥130 to ¥140 region in coming weeks.

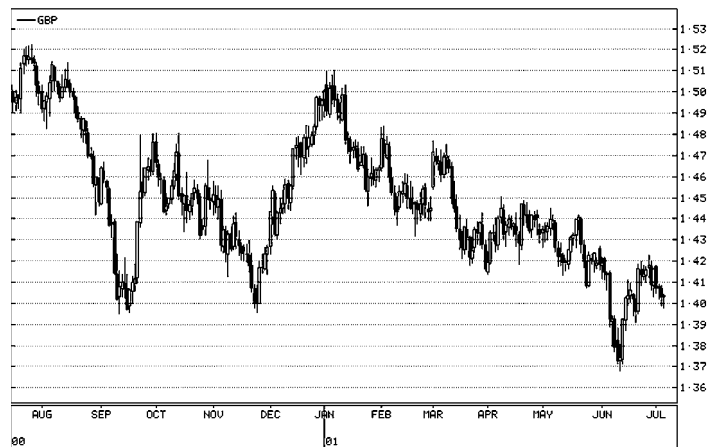
The euro may ease a little further against the yen before challenging the January-April highs. This is a tough call because both are currently weak currencies. However, the euro probably won't break ¥100 again and intervention could easily catapult it back to at least the year's highs.

Best regards - David Fuller

Euro/US Dollar (Daily) : 0.8364



Sterling/US Dollar (Daily) : 1.4028



US Dollar/Yen (Daily) : 125.68



Euro/Yen (Daily) : 105.11



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