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Dollar fell as oil prices hit record high and worries for more corporate fallout from credit crunch

News and Events:

The Dollar fell on Monday for the first time in three sessions as oil prices hit a record high, sparking debate about the strength of the US economy. The US services sector grew in April for the first time in four months, according to a report on Monday. But that news was overshadowed by a Federal Reserve survey showing the banking sector remained in the grips of a credit crunch.

After trimming interest rates to 2% last week, the Federal Reserve hinted it may move to the sidelines and pause its aggressive seven-month easing campaign that has reduced the Dollar's appeal to global investors. But while data shows the US economy continued to eke out modest growth in the first three months of 2008, investors remain wary with oil at a fresh record high above \$120 a barrel and more corporate fallout expected from the credit crunch.

Yesterday trading volumes were lighter than usual with London and Tokyo closed for public holidays. EurUsd rose 0.44% to 1.5505 despite weaker than expected investors sentiment index in May. Investors are far more concerned with the expected trajectory of European Central Bank interest rate policy. With food and energy costs on the rise, ECB President Jean-Claude Trichet warned again on Monday of "significant" inflation risks, suggesting benchmark rates would likely stay fixed at 4% when the central bank meets on Thursday.

Consumer prices in the euro-zone rose by 3.3% in the last 12 months, below the prior month's reading but still well above the ECB's target of about 2%. The Fed next meets on June 24-25 and federal funds futures contracts were on Monday pricing in just a 12% chance of another 25bp rate cut to 1.75%.



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Today's Key Issues (time in GMT):

08:00 EUR April Euro-zone RBS/NTC Services PMI 52 vs 51.6

08:00 EUR April Euro-zone RBS/NTC Composite PMI 51.9 vs 51.8

08:30 GBP April CIPS/NTC Services PMI 51.6 vs 52.1

09:00 EUR March Euro-zone Producer Prices 0.7% vs 0.6% (MoM)

09:00 EUR March Euro-zone Producer Prices 5.6% vs 5.3% (YoY)

12:30 CAD March Building permits 1.4% vs -1.0%

14:00 CAD April Ivey PMI 54.5 vs 59

21:00 USD weekly ABC/Wash Post Index -41 vs -41

The Risk Today:

EURUSD Euro has been weaker for the last two weeks and recently broke 1.5528 former support. Medium term trading range is still set between 1.5400 – 1.5800. Psychological 1.5000 key level marks strong support before 1.4500 pivot point. Pivot point hold 1.6000 resistance ahead of key resistance 1.6200 market target. Initial resistance hold 1.5528 former support.

GBPUSD Cable is trading below 1.9800 consolidation level following Friday 1.9705 low. Further pressure may open the way down to 1.9337 January low and 1.9105 (50% retracement of 1.7049 – 2.1162 advance). Renewed strength over 1.9800 may reopen the way toward 2.0000 psychological level. Actual trading range is 1.9600 – 2.0000.

USDJPY Recent 1 ½-month uptrend open the way over 105 on Friday. This could bring further advance till 110.10 strong (Trendline) resistance and mid January double top ahead of 111.92 early January high. Profit taking or return below 105 might lead the way down to 100 – 103 consolidation trading range. Minor support holds 102.95 early April high.

USDCHF Market broke up 1.0500 last Friday, hitting 1.0609 last two-month high. A return below 1.0500 may reopen the way down 1.0200 and toward 0.9639 17th March low. Current uptrend looks set up over 1.0200 former resistance. Early January double top 1.1191 marks strong resistance.

Resistance and Support:

EURUSD	GBPUSD	USDJPY	USDCHF
1.6200 T	2.0577 T	111.92 K	1.1191 S
1.6000 K	2.0447 S	110.10 T	1.0609 M
1.5528 M	2.0100 P	105.70 M	1.0560 M
1.5465	1.9695	104.95	1.0545
1.5400 T	1.9650 S	105.00 P	1.0500 P
1.5000 K	1.9337 S	102.95 M	1.0200 S
1.4500 P	1.9105 K	100.00 P	0.9637 K
S: Strong, M: Minor, T: Trendline, K: Keylevel, P: Pivot			

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