

FOREX WEEK AHEAD: Extending Euro's Gains Depends On No Surprises

11 Jun 2010, 22:24

By Bradley Davis

OF DOW JONES NEWSWIRE

NEW YORK (Dow Jones)--After the euro's rebound above \$1.20 this week, investors are now honing in on \$1.2150, a key level that may determine whether it moves even higher, or falls back toward recent lows.

A solid move above \$1.2150 could see the euro extend to \$1.2230 and perhaps to \$1.25, said Brown Brothers Harri man analysts.

A move higher in the euro could force investors with anti-euro bets to close those positions, further adding to the common currency's gains. Bets against the euro brushed against all-time highs this week, according to data released Friday.

The euro sank June 7 to \$1.1876, its lowest level since May 2006, before marching back above its 10-year moving average at \$1.20 to trade Friday afternoon at \$1.2081, down from \$1.2138 late Thursday. The common currency has lost more than 15.5% against the dollar since the start of 2010.

The euro's next step depends on whether smoldering issues of euro-zone sovereign debt once again flare into the headlines.

"Market sentiment remains quite fragile, and the list of upcoming potentially unsettling news is long enough," said UniCredit analysts in Milan.

A host of other events could unsettle the common currency, analysts said. A bad euro-zone government debt auction, a ratings agency downgrade or renewed stress in the European banking sector all could contribute to another downtrend in the euro, the analysts said.

The euro's rebound from multiyear lows came along with more signs of stability in European government bond markets. Spain successfully launched a new bond despite a recent ratings-agency downgrade. In the coming week, Portugal and Ireland will issue government debt and investors will closely watch bond auctions of euro-zone countries for signals about confidence in the common currency.

"Barring any additional bad news, we could see a fair amount of follow-through" for the euro, said Dan Cook, senior market analyst at IG Markets in Chicago.

Near-record amounts of anti-euro bets also make the common currency poised for possible further gains. Net speculative short bets against the euro were at 111,945 contracts in the week ended Tuesday, compared to the record high of 113,890 set on May 11, according to a BBH analysis of the weekly Commitments of Traders report released by the Commodity Futures Trading Commission.

The euro in the short term should trade between \$1.1875 and \$1.23, according to BNY Mellon technical analysts.

The euro's drop earlier this week to its lowest-ever level against the Swiss franc put investors on alert for Swiss National Bank intervention. The SNB has been suspected of intervening in currency markets over the past year to temper strength franc. Investors have turned to the franc in search of safety as the Swiss economy improves, but a strong franc makes Swiss exports less competitive.

2010-06-11_FOREX WEEK AHEAD (Clôture 23)

The SNB meets Thursday to discuss monetary policy, and investors will listen for any clues on the bank's tolerance for franc strength. Analysts are eyeing CHF1.37 as a possible threshold. The euro dropped this week as far as CHF1.3735, but was trading close to CHF1.39 Friday afternoon. Analysts said they saw no sign of the SNB in markets.

Meanwhile, the Bank of Japan is expected to stand pat on ultralow rates when its two-day policy meeting concludes Tuesday. The BOJ is seen as lagging the Federal Reserve and other global central banks on embarking on a path to tighten monetary policy. This will keep the yen under pressure, Morgan Stanley analysts said.

The dollar should trade between Y90.90 and Y95, analysts said. Friday afternoon, the dollar was at Y91.71 from Y91.30 late Thursday, according to EBS via CQG. The euro was at \$1.2092 from \$1.2138.

(END) Dow Jones Newswires
June 11, 2010 16:24 ET (20:24 GMT)