

CHARTING EUROPE: EUR/USD To Extend Lower To 1.2605, 1.2500

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LONDON (Dow Jones)--The dominant bear trend in the euro against the U.S. dollar is back with a purpose after last week's failure to hold 1.3000, and further weakness is likely to 1.2605, and possibly 1.2500 this week.

Last week's setback off 1.3334 on August 6 marked the peak of a two-month corrective recovery off the June 7 four-year low at 1.1876.

Support crumbled fairly easily at 1.3000 where significant bull interest was expected, and the downmove has since reached 1.2734 during Monday's current session before staging a corrective rally.

And although there is immediate scope for a return to the 1.3000 area, the dominant threat is for renewed bear pressure on the 1.2734 low. For details, see the EUR/USD daily chart.

<http://www.dowjoneswebservices.com/chart/view/4426>

From this chart, the daily momentum indicator has comfortably broken back below the zero line, and a completed bear divergence against the July 20 high at 1.3029 and the August 6 peak at 1.3334 can clearly be seen, as the higher highs were not confirmed.

A break below 1.2734 and the July 21 higher reaction low at 1.2732 would prompt fresh one-month lows, creating room for weakness towards congested support at 1.2605.

This level is the 50% retracement of the 1.1876/1.3334 recovery, and coincides with projected support from the top of the Ichimoku cloud on the daily chart - a combination that is likely to provide at least a short-term bounce to 1.3000.

However, the more significant support area that closely-skirts the 1.2500 level will need to be tested, as the long-term bear trend off the November 2009 reaction high at 1.5145 still dominates the tone.

Whilst the recovery off 1.2734 remains intact, a sustained break above 1.3035 is required to question the bearish outlook.

At 0855 GMT, the EUR/USD was at 1.2795.

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For more technical analysis see: Dow Jones Newswires, N/DJTA; Bloomberg, NI DJTA; and Reuters key word search "INSI-DJN"

To watch a series of short videos explaining the basics of technical analysis, click on this link: <http://link.brightcove.com/services/player/bcpid44283734001>

Data provided by CQG International Ltd.

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