

WORLD FOREX: Dollar Climbs; Weak German Data Hit Euro

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- Dollar recovers from Asian pressure in European trading hours
- Euro comes under pressure after weak German manufacturing orders data
- Egyptian pound hits fresh six-year low against the dollar

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LONDON (Dow Jones)--The dollar recovered some ground in European trading hours Monday while sentiment towards the euro soured rapidly after weak German manufacturing orders data.

The euro hit a fresh two-week low against the dollar and was under pressure against the pound after German manufacturing orders fell 3.4% in December, a worse-than-expected drop, driven by a shortage of large orders and low demand for new vehicles, the economics ministry said Monday.

Moreover, the fact that European Union leaders failed to make any progress in talks Friday over a German-led plan to boost the competitiveness of weaker euro-zone economies, may also be weighing on sentiment towards the 17-country currency, market participants said.

"The EU summit failed to deliver any real progress, in fact it was actually quite negative," said Ian Stannard, a currency strategist at BNP Paribas in London. "The differences of opinion were very much exposed by the summit," he added.

A large majority of European Union leaders rebuffed a Franco-German plan for reforming the euro-zone economy outlined at Friday's summit.

"The fact that the European Union competitiveness pact seems to be failing to gain any interest elsewhere is going to hold up negotiations on the European Financial Stability Facility," said BNP's Stannard.

To a large extent, market participants were expecting an agreement to increase the EFSF's lending capacity at the end of March.

Looking to the session ahead Monday, with no major data due for release, European Central Bank President Jean-Claude Trichet's appearance before the European Parliament Committee at 1400 GMT will be closely watched.

Elsewhere, the under-pressure Egyptian pound took a fresh dive in European trading hours Monday as banks shut down by political unrest reopened over the weekend, allowing more investors to ditch Egyptian assets and pull funds out of the country.

The dollar traded as high as EGP5.9561, the lowest level for the Egyptian currency since January 2005 and marking a 1.7% drop in the pound since late Friday--a large shift over such a short period. The dollar was trading around EGP5.80 Jan. 26, a day before anti-government protests erupted.

But while the Egyptian pound has suffered from turmoil-driven outflows, the tentative signs of normality have improved market sentiment elsewhere. Other regional currencies such as the Turkish lira, which had been used as a proxy trade for the pound at the height of the turmoil, have consequently strengthened against the dollar in European trading. At 1147 GMT, the Turkish lira was

2011-02-07\_13h36\_WORLD FOREX - Dollar Climbs; Weak German Data Hit Euro trading at TRY1.5805 against the dollar compared with TRY1.5859 at the start of the session.

Meanwhile, the dollar recovered some ground across the board in European trading hours Monday after coming under pressure in Asia. The dollar was higher against the yen and the commodity-linked currencies of Australia and Canada.

The other key focal point of the session was the U.K. pound which gained ground against the euro ahead of the Bank of England's interest rate decision Thursday.

Economists broadly expect the central bank to keep rates on hold, but a report over the weekend showing that a group of economists known as the 'shadow monetary policy committee' voted for an interest rate hike for the first time since the onset of the global financial crisis initially boosted sterling against the dollar before a recovery in the buck reversed the gains. At 1148 GMT, the pound was trading at \$1.6106 against the dollar, compared with \$1.6104 late Friday in New York.

Looking ahead, the U.K. pound is expected to remain well supported even if the BOE keeps interest rates unchanged at 0.5% Thursday, market participants say.

"We doubt that this will stop the sterling rally in its tracks as we would expect the prospect of more rate hikes in coming months to keep the pound supported," said Valentin Marinov, a currency strategist at Citigroup in London.

In the region's emerging markets, the Czech koruna was under pressure against the euro after strong industrial output data was somewhat overshadowed by a fall in retail sales data. The South African rand was also under pressure against the dollar after figures showed South Africa's foreign exchange reserves increased significantly in January, confirming that the Reserve Bank had intervened to stem gains in the currency after it scaled a three-year peak at the end of last year.

At 1150 GMT the euro was trading at \$1.3545 against the dollar, compared with \$1.3582 late Friday in New York, according to trading system EBS. The dollar was at Y82.38 against the yen, compared with Y82.20, while the euro was at Y111.62 compared with Y111.67. Meanwhile, the pound was trading at \$1.6173 against the dollar, compared with \$1.6104 late Friday in New York.

The ICE Dollar Index, which tracks the greenback against a trade-weighted basket of currencies, was at 78.197 compared with 78.031 late Friday in New York.

A summary of key levels for chart-watching technical strategists is below:

Forex spot:	EUR/USD	USD/JPY	GBP/USD	USD/CHF
Spot 1141 GMT	1.3557	82.37	1.6105	0.9595
3 Day Trend	Bearish	Bullish	Bullish	Bullish
Weekly Trend	Bearish	Bearish	Bullish	Bullish
200 day ma	1.3368	85.04	1.5670	1.0021
3rd Resistance	1.3702	83.22	1.6277	0.9686
2nd Resistance	1.3680	82.85	1.6217	0.9617
1st Resistance	1.3627	82.48	1.6185	0.9600
Pivot*	1.3602	81.92	1.6104	0.9532
1st Support	1.3510	82.16	1.6037	0.9525
2nd Support	1.3479	81.85	1.6015	0.9490
3rd Support	1.3410	81.64	1.5990	0.9461

\* The pivot is the sum of the high, low and close divided by 3.

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