

Pop, Goes the Euro

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Pair	Bias	Objective/Comments	Key Resistance	Key Support
EUR/USD	↓	Higher on short-covering, lack of sellers after downgrades	1.3200	1.3090
USD/JPY	↓	Rally into 200 day moving average sold	78.33	77.44
GPB/USD	↓	Technical picture still damaged after dipping below key support	1.5700	1.5600
AUD/USD	↓	1.0717 on deck to be tested	1.0717	1.0550
USD/CAD	↑	Testing parity, below would likely consolidate at 0.9909	1.0070	1.0000
USD/CHF	↑	USD weakness takes this pair lower	0.9205	0.9126

Headlines

- Fed blind-sides the market with “soft” QE, pledging extremely low rates for 2 more years
- EUR/USD stops around 1.31 done, 1.32 next
- Aussie rips through 1.05 resistance zone, 1.0717 on deck
- Raft of us data due out today, including durable goods, jobless claims, new home sales, and Kansas City Fed

Summary

We [warned readers](#) of a market that was ripe for a short-squeeze through 1.31, as fundamentals have been put on the back burner we’re compelled to look at the internals of the market to have an idea of what price may do (inordinate amount of short positions).

The real catalyst for the US Dollar selloff happened to be the Federal Reserve’s surprise announcement of keeping rates at near 0%. This can be considered as a sort of “soft” Quantitative Easing measure.

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Key Economic Events

- 08:30 – US Durable Goods, **3%** vs. 2% cons.
- 08:30 – US Jobless Claims, **377K** vs. 370K cons.
- 10:00 – US New Home Sales, 321K cons.

We [warned readers](#) of a market that was ripe for a short-squeeze through 1.31, as fundamentals have been put on the back burner we're compelled to look at the internals of the market to have an idea of what price may do (inordinate amount of short positions). The important point here is not to mull what may happen in the future, but to prepare for it using the facts that are available.

The real catalyst for the US Dollar selloff happened to be the Federal Reserve's surprise announcement of keeping rates at near 0%. This can be considered as a sort of "soft" Quantitative Easing measure; one that is not an outright asset-purchasing program, but one that encourages investors back into markets nonetheless.

Saying that the US central bank will keep rates low until 2014, gives the market some assurance that all accommodative measures that are available will be employed until the economy returns to high employment and growth. But just because the Fed says low rates are here to stay, doesn't mean that an unforeseen situation, such as runaway inflation, will keep them from prematurely raising rates. This is something we will be paying close attention to for the longer term.

For now, we would point readers to the historical perspective of outright Quantitative Easing measures and their diminishing effect on markets since 2008 in Figure 1. Even an outright QE 3 program would likely not have a bigger effect on markets than it did in 2010.



Figure 1: Weekly S&P 500 chart and QE over the years. Any sort of QE 3 will probably have a fraction of the impact on asset prices.

Source: FX Club Research and Bloomberg

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