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Dollar bulls take a breather after rally

Bank of America Treasury Division

THE dollar ended the week broadly lower against the yen and deutchemark in a holiday shortened week.

Dollar bulls took a breather after a rally in Japanese stocks and a climb in interest rates fueled yen buying, lowering dollar/yen to 125 levels from a previous day high of 126.80.

Sparking a further slide in the greenback to 122 yen was a remark from senior Japanese Ministry of Finance official Eisuke Sakakibara that the US dollar had scope to go as low as 103 yen.

The dollar fell against the mark after Bundesbank council member Ernst Welteke said that he is against a further rise in the dollar.

It traded at 1.72 levels before nose diving 2 pfenings amid concerns over central bank intervention.

Sterling hogged the limelight after new UK finance minister Gordon Brown announced the rate rise of 0.25 b.p. from 6 per cent to 6.25 per cent and a greater independence for Bank of England, causing the pound to soar to new heights against the dollar and the mark.

Cable rallied to a high of 1.64 before being sold off against the dollar and the mark after an unidentified Labour Pary source said that the pound should rejoin the ERM at 2.50 marks. This was later denied by the new treasury team.

Bearish signals indicate that we are likely to see a lower dollar against the yen and mark next week.

Dollar/yen has broken below the trendline support of 123.35 and further weakness is seen with immediate target of 121.30, below which the 120 psychological level could be seen.

The dollar/mark looks bearish below support of 1.7080 and should dip towards 1.69 this week.

The local currency dipped as the dollar rallied to a high of 2.5135 ringgit this week in interbank buying.

News of Mahathir's 2 month leave sparked numerous rumours behind his move but failed to move the market. The ringgit recovered to 2.5070 as dollar/majors came off sharply.

A dull ringgit market at the end of the week saw dollar/ringgit trade in a tight 2.5060 range. The ringgit should see gains against the dollar this week.

It was unable to breach the key 2.5160 level last week and should test 2.50 and possibly pressure 2.4950 support this week.

We expect the Singapore dollar/ringgit to trade between 1.7320 and 1.7470 the yen/ringgit between 2.0300 and 2.0700 for the coming week. (While every effort has been taken to ensure accuracy no liability is assumed on our part for error of facts and opinions).

(END)