

April Gold Trading Lower Despite A Stronger Dollar

Thursday, 25 February 2010

Today, Fed Chairman Bernanke will continue his testimony before the House Financial Services Committee. Yesterday he said the U.S. economic recovery has been "nascent" and requires low interest rates to help it sustain growth. He also said that low employment and subdued inflation allow the FOMC to keep downside pressure on interest rates.

Today's January Durable Goods Report came out better than expected, but that wasn't enough to help the equities. Stock indices are down on the news that initial claims rose by 22,000 to 496,000. Traders had been looking for a decrease.

U.S. stock markets are under pressure overnight because of another shift in risk sentiment. Sovereign debt issues in Greece are putting fear into traders triggering liquidation of risky asset position. It's highly doubtful that Bernanke will say anything today which can turn this market around so traders should look for downside pressure throughout the day. A break through 1090.00 in the March E-mini S&P 500 could trigger a further decline to 1084.50.

March Treasury Bonds and March Treasury Notes soared to the upside overnight as traders sought protection in lower yielding assets. The strong rally in the March T-Bonds is reversing yesterday's lower close, putting the market in a position to take out Wednesday's high at 118'09 and a .618 retracement level at 118'05. The charts indicate there is room to the upside to at least 119'00.

April Gold is trading lower but still holding a key 50% level at \$1088.00 despite a stronger Dollar. A failure to hold this level could trigger a further decline to \$1077.75. The news out of Greece this morning could actually turn out to be bullish if traders decide there is too much risk in holding paper currency. This could lead to higher closes in both gold and the Dollar.

April Crude Oil is trading lower because of the stronger Dollar and weaker Euro. Like gold, crude oil may take out the characteristics of a means of exchange and actually rally if traders decide the situation in Greece triggers demand for hard assets rather than paper currency.

The U.S. Dollar is trading higher this morning against most major currencies except the Japanese Yen as global sovereign debt and economic issues drive up demand for lower yielding assets.

The March British Pound is trading sharply lower as the trend accelerated to the downside following a break of recent minor support at 1.5352. The heavy selling pressure took the Cable down to a major 50% price at 1.5272 where it has found temporary support. The poor outlook for the U.K. economy was reinforced overnight when it was reported that Fourth Quarter Investments unexpectedly weakened.

The bad news overnight reinforced bearish investor sentiment that the U.K. economy risks a protracted recovery. Furthermore, talk earlier this week that the Bank of England is considering expanding and extending its quantitative easing program continued to feed the bear market.

Following this initial move to the downside, traders may take a break as they await tomorrow's final Fourth Quarter GDP Report.

The March Euro is down sharply overnight as Greek sovereign debt issues once again threaten to spread throughout Europe. It's been reported that the S&P Corp. is considering another cut in Greece's debt rating. Fear is spreading that Greece may not be the only country facing a debt rating cut. The overnight weakness is threatening to take out last week's swing bottom at 1.3443.

Risk aversion is helping to drive up demand for the Japanese Yen. Traders have been selling the U.S. Dollar overnight while taking protection in the lower yielding Yen. Last night's upside action stopped at a 50% price at 1.1230, triggering a technical bounce, but traders most likely don't expect this level to hold as resistance.

Problems with the Euro are helping to pressure the March Swiss Franc. The weaker the Euro gets, the greater the chance the Swiss National Bank will intervene to protect its currency. Look for the Swiss Franc to take out its most recent bottom at .9176 if the Euro takes out its bottom at 1.3443.

The stronger Dollar is putting pressure on Gold and Crude Oil which is helping to pressure the March Canadian Dollar. Both precious metals and energy account for a large percentage of the Canadian economy. Holding below .9459 could drive this market lower to the next retracement level at .9415.

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