Euro sell-off taking a breather

On Friday, EUR/USD trading continued to developed in very nervous trading conditions. The pair set a new correction low below the 1.36 mark at the start of trading in Europe. However, later in the session the pressure on the single currency eased and the EUR/USD even staged quite a remarkable rebound. This move coincided with a 'sharp narrowing' in Irish government bond spreads. The EU leaders indicating that Ireland could use the current mechanisms in place apparently eased the pain on the peripheral bond markets. This was also the case for the euro. The EMU Q3 GDP data came out close to expectations and had no lasting impact on EUR/USD trading. Speculation/rumours that some kind of rescue deal for Ireland would be in the making continued to support the single currency. EUR/USD tested offers in the 1.3775 area early in US trading. The US Michigan consumer confidence improved from 67.7 to 69.3 (slightly better than expected). As, such we wouldn't give too much weight to this indicator. Later in US trading, EUR/USD turned south again but this move was probably more due to global uncertainty/risk aversion, rather than dollar strength in the wake of the US data release. Nevertheless, rising US bond yields might have been a USD supportive factor, too. EUR/USD closed the session at 1.3691, compared to 1.3667 on Thursday evening.

Today, The US calendar contains the US retail sales, the Empire State manufacturing confidence indicator and the business inventories. These data are interesting, in the wake of last week's rise in US bond yields. In this respect, Friday's rise in yields was especially remarkable as it occurred in a context of high global uncertainty. Is this an indication that at least some investors fear that QE-2 came at a point that the US economy isn't doing that bad. Economic data supporting this way of thinking (strong US data thus) might be USD supportive. Of course, the developments in the peripheral European bond markets will remain a key factor for EUR/USD trading, too. In this respect, we keep a very close eye at the meeting of the Euro area Finance Ministers that will start on Tuesday evening in Brussels (and will continue on Wednesday). We see a high chance of Ireland getting shelter from some kind of EU rescue package in the near future. The impact of/market reaction to such a rescue package remains highly uncertaint (e.g what will be the consequences for Portugal?). However, such a scenario has at least the advantage that it will bring some clarity and some rest to the (bond) market. Ireland trying to maintain its stand alone status is probably even more negative for the single currency as uncertainty will persist in such a scenario. Whatever the outcome, one can not but come to the conclusion that the euro is again hurt quite heavily by the recent developments. Those wounds won't be healed anytime soon. In this context, we have the impression that there won't be much room for a sustained comeback of the single currency in the near future. We assume that any more pronounced up-ticks in EUR/USD, if they would occur, will still be used to offload euro long exposure.