

Strategic Technical Themes

Monday, 05 August 2013

Weekly Outlook and Technical Highlights

2 Technical Analysis Commerzbank <small>Source: Euromoney FX Survey 2013</small> <small>2013</small>  EUROMONEY	2 FICC Technical Analysis Research Team – Best FX Research and Strategy Commerzbank <small>Source: Technical Analyst Magazine Awards 2013</small> <small>2013</small>  the technical analyst	1 Technical Analysis Banks Commerzbank <small>Source: Euromoney FX Poll 2012</small> <small>2012</small>  EUROMONEY	2 FICC Technical Analysis Research Team Best FX Research and Strategy Commerzbank <small>Source: The Technical Analyst Magazine Awards 2012</small> <small>2012</small> 
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For important disclosure information please see end of document

Summary

Foreign Exchange:

Time to tighten up stops/exit on short AUD positions. We have a number of 13 counts on AUD crosses on the 240 minute charts and divergences, all imply that a corrective rebound is imminent (AUD/USD, AUD/JPY/ AUD/CAD, EUR/AUD)

NZD/USD is also much weaker and is set to test the .7683 June low. Target longer term .7456/.7371

We look for EUR/USD to fail shortly. Market faces tough resistance at 1.3346/1.3417 = 2011-2013 downtrend, 200 week ma and the June high)

Fixed Income:

The bund, bobl and Schatz Initial have not sustained initial breaks below Fibo support - allow for consolidation ahead of further losses

The EU 10Y, 5Y and 2Y swaps look set to consolidate ahead of further gains.

The EU swap curves - maintain widening bias longer term, but short term allow for consolidation

The US T-Note - Looking for rebound to fail at the downtrend and 55 day ma at 126-19/127-18.

The US 2-10Y swap curve is likely to consolidate ahead of tackling resistance at 2.415/2.44.

Credit

The ITRAXX 5Y Europe, Crossover and Senior Financial indices continue to weigh on support, with rebounds fairly tepid, credit remain overall bid

Bullish and bearish trending signals

Bullish (ADX>20, MACD>0 and +DI>-DI)

Long Name	C1	C2	C3	C4
EUR SWAP ANNUAL 2 YR	✓	✓	✓	✓
Heating Oil Future (continuous)	✓	✓	✓	✓
BRAZILIAN REAL SPOT	✓	✓	✓	✓
USDMYR Spot Exchange Rate - Price of 1 USD in MYR	✓	✓	✓	✓
USDINR Spot Exchange Rate - Price of 1 USD in INR	✓	✓	✓	✓
S&P 500 INDEX	✓	✓	✓	✓
EUR-HUF X-RATE	✓	✓	✓	✓
USDIDR Spot Exchange Rate - Price of 1 USD in IDR	✓	✓	✓	✓
EUR-GBP X-RATE	✓	✓	✓	✓
EUR-AUD X-RATE	✓	✓	✓	✓
EUR-NZD X-RATE	✓	✓	✓	✓
EUR-RUB X-RATE	✓	✓	✓	✓
EUR-SEK X-RATE	✓	✓	✓	✓
EURO SPOT	✓	✓	✓	✓
EUR-CAD X-RATE	✓	✓	✓	✓
FTSE 100 INDEX	✓	✓	✓	✓
USD SWAP SEMI 30/360 10Y	✓	✓	✓	✓
USD SWAP SEMI 30/360 5YR	✓	✓	✓	✓
LME TIN 3MO (\$)	✓	✓	✓	✓

Bearish (ADX>20, MACD<0 and +DI<-DI)

Long Name	C1	C2	C3	C4
Natural Gas Future (continuous)	✓	✓	✓	✓
Generic 1st 'RX' Future	✓	✓	✓	✓
Generic 1st 'TY' Future	✓	✓	✓	✓
NEW ZEALAND DOLLAR SPOT	✓	✓	✓	✓
AUSTRALIAN DOLLAR SPOT	✓	✓	✓	✓
AUD-JPY X-RATE	✓	✓	✓	✓
Coffee 'C' Future (continuous)	✓	✓	✓	✓

NB: This is NOT a model and is intended for reference only. It is a basic system to determine if a market is trending or not. It cannot judge strength of support or resistance or whether various momentum oscillators have diverged. For this reason it is possible that the we will occasionally hold a different position to that indicated by the tables above.

Currency ranking vs the US Dollar for the past 5 days



Source Bloomberg 6.25AM

Technical Trade Ideas

Date	Instrument	Trade Idea	Stop	Take Profit	Outcome	P&L
08.07.2013	bund	Sell 143.60, add 143.98	Lower stop from 144.65 to 144.40	140	Short at 143.79,	
01.08.2013	EUR/USD	Sell 1.3265, add 1.3370	Stop 1.3420	1.3000	Short 1.3265	



Foreign Exchange:

AUD/USD break below .9000 is viewed as critical

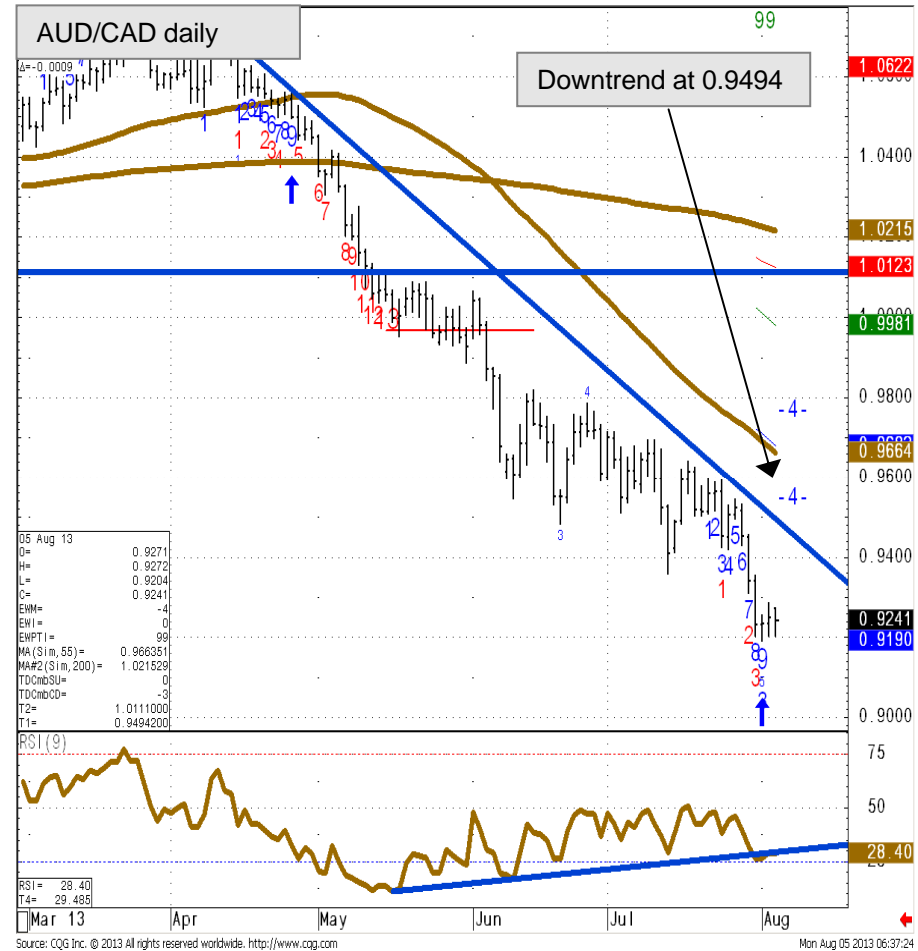
Next downside target is .8550 – the 50% retracement of the move from 2008.

AUD/USD has a fairly dreadful week last week, it has traded below and seen a weekly close below the psychological support at .9000. Our downside target remains .8550, the 50% retracement of the move up from 2008. Our longer term downside target measured from the top is 0.7700.

We note the 13 count on the 240 minute chart and the 240 minute RSI has yet to confirm the new low – both imply some consolidation ahead of further losses. While capped by key resistance at .9388/.9405, a downside bias will persist. These are the 2011 low and highs from 2009 and 2010. The 24th July high at .9318 should also act as strong resistance.



AUD/CAD close to downside measured target of .9127 – tighten stops on shorts.



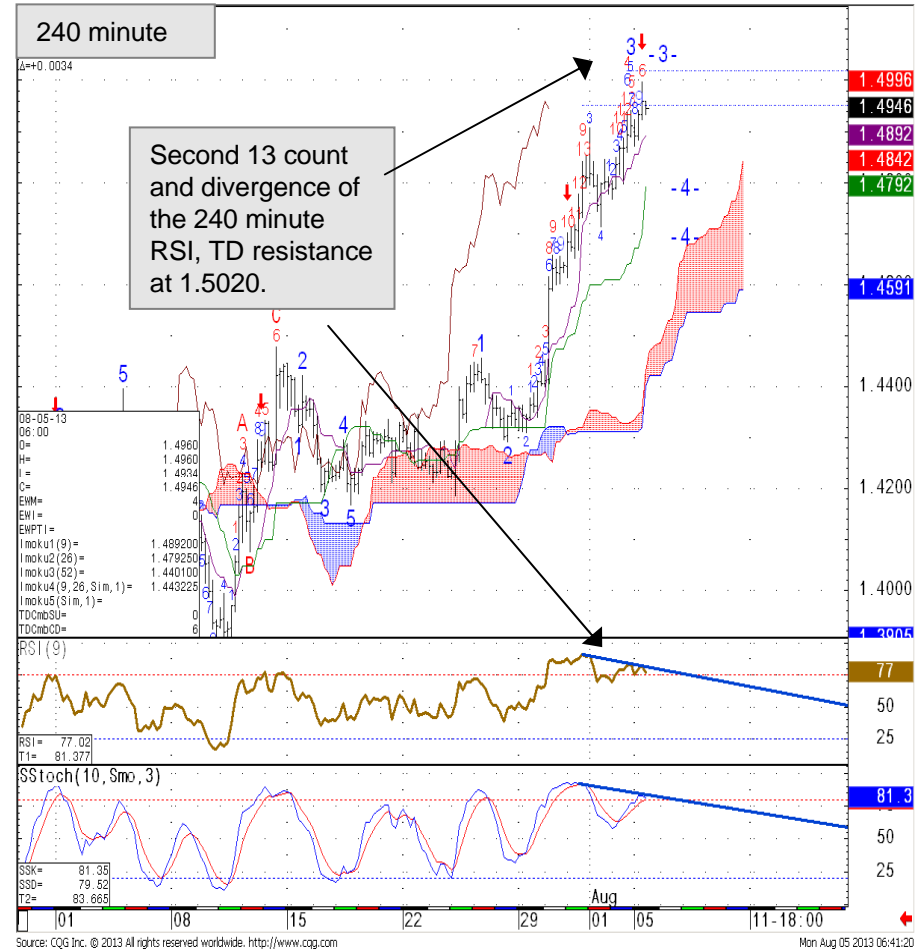
AUD/JPY sharp move lower over-extended

13 count on daily and TD perfected set up on weekly – time to exit shorts



EUR/AUD - we note the TD perfected set up on the daily chart

Time to tighten up stops on longs



NZD/USD

Set to test the .7683 June low. Target longer term .7456/.7371

- › NZD/USD saw 3 failures at .8107 last week and sold off aggressively towards 0.7683, the June low. It is possible that this will hold the initial test, but intraday rallies are likely to find interim resistance at .7850/.7900 and remain capped by the .8127 downtrend and .8139 June peak.
- › Our medium term downside target zone is made up of the .7456/.7371 May 2012 low and November 2011 low. These remain our downside targets for the months to come.
- › Very near term the market 55 day ma at 0.7925, offers additional resistance.

NZD/USD Daily Chart

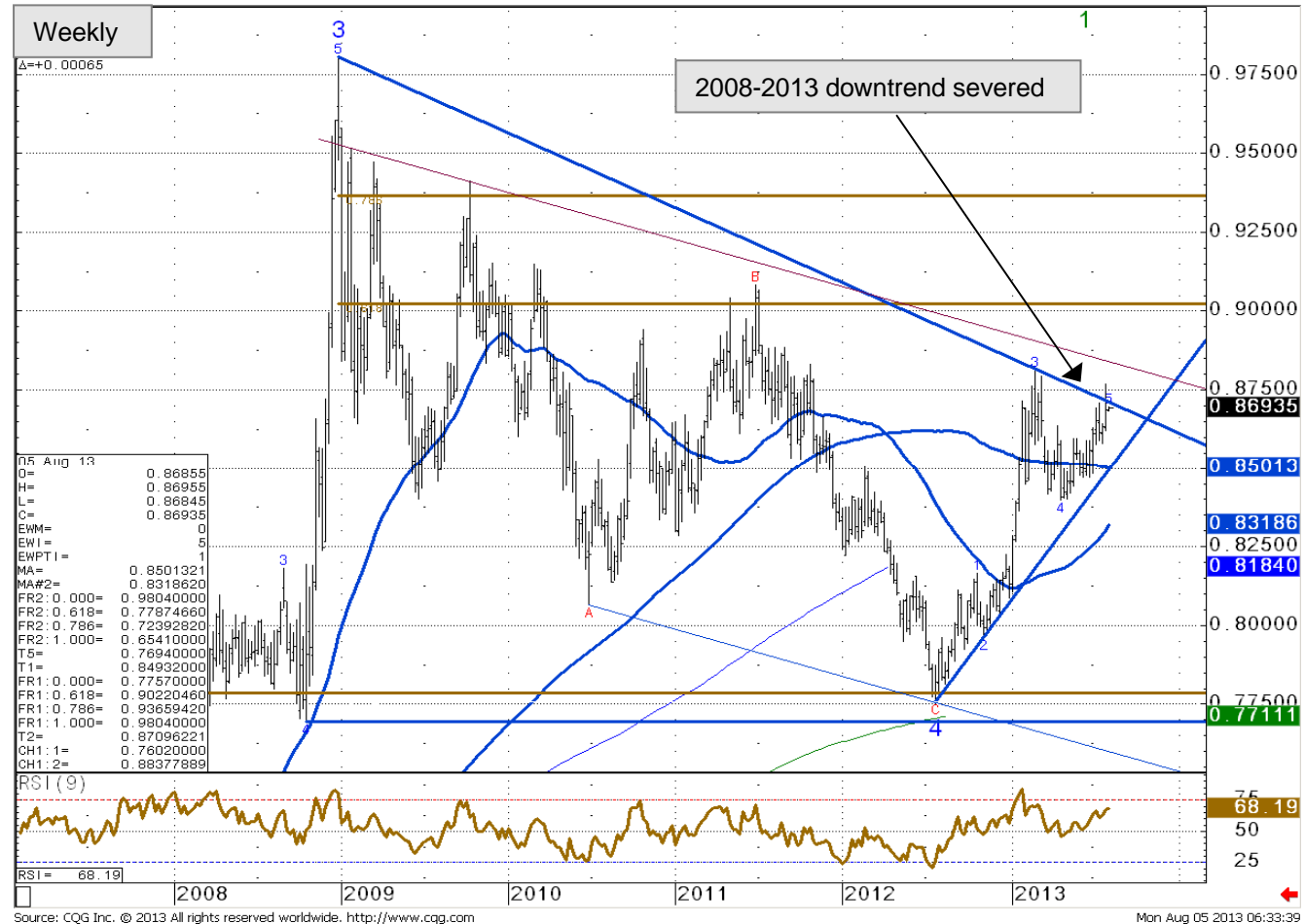


Sterling weakness is evident

EUR/GBP has severed its 2008-2013 downtrend (but we have not seen a weekly close above here)

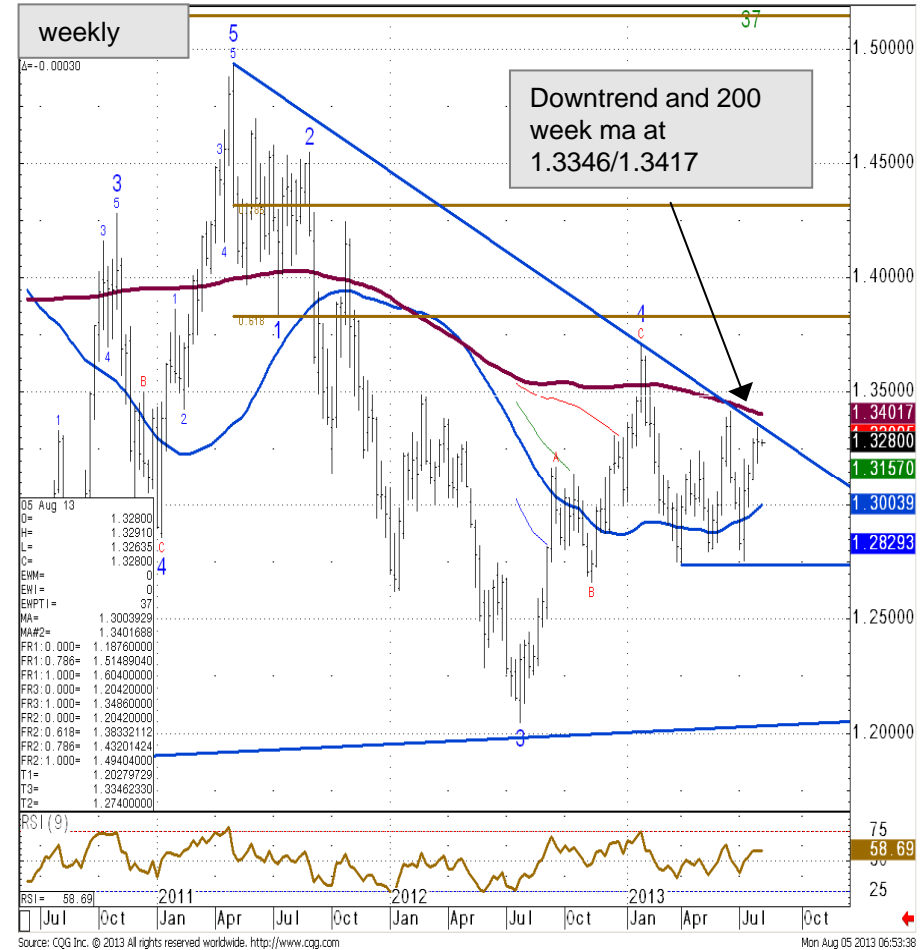
EUR/GBP consolidated above the 23.6% retracement of the move up from May. This together with the short term support line at .8635 maintains immediate attention on the topside. Last week the market exploded higher through the .8710/14 resistance (recent high and also the 2008-2013 resistance line), ideally we would have likely to see a weekly close above here but for now will just go with it and look for a test of .8793/.8814 highs seen earlier in the year.

These are also now vulnerable and above here targets the psychological resistance at .9000 and the 2011 high at .9082.



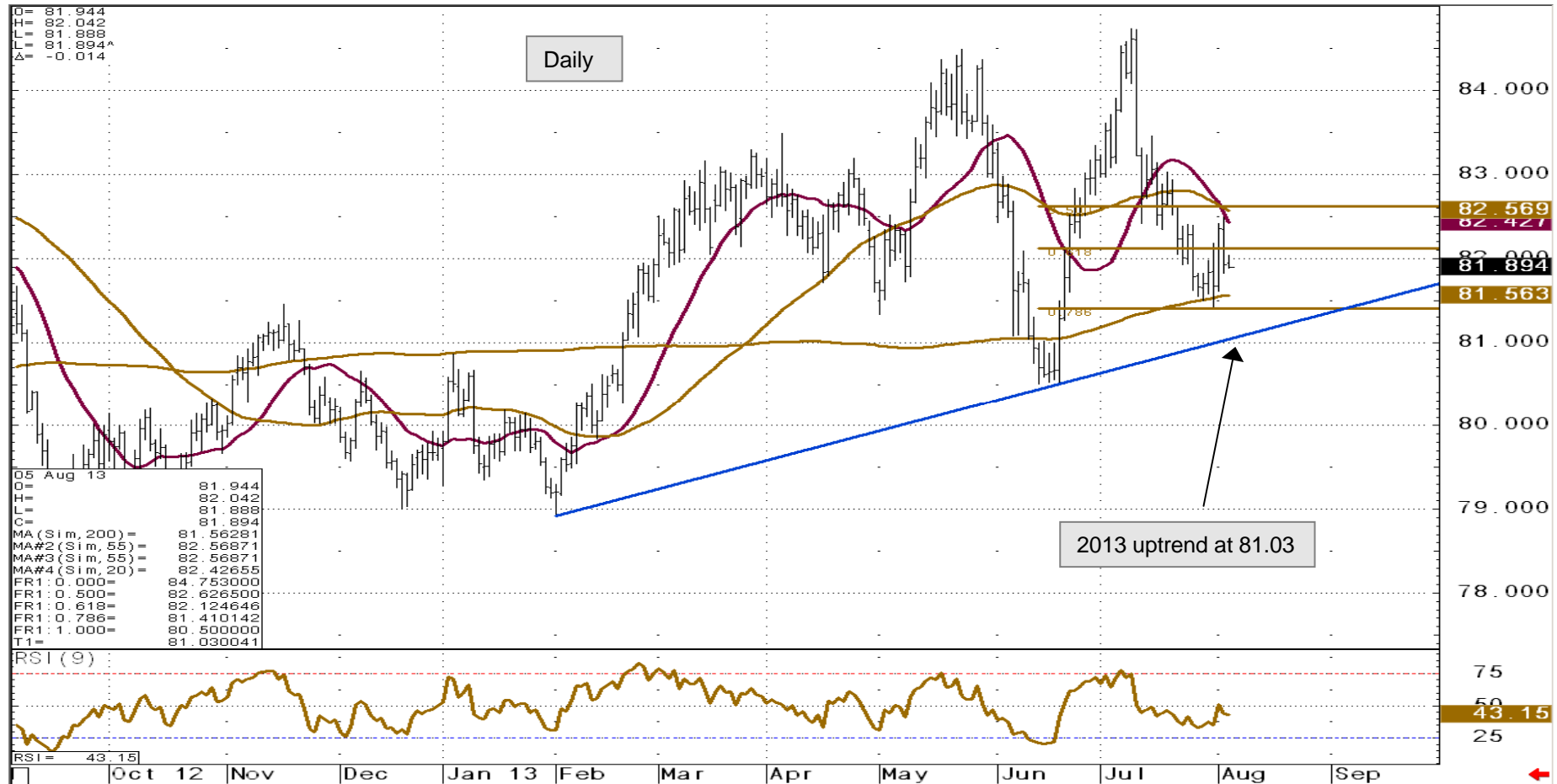
We look for EUR/USD to fail here

Market faces tough resistance at 1.3346/1.3417 = 2011-2013 downtrend, 200 week ma and the June high)



US Dollar Index - short term likely to remain choppy between converging moving averages

But longer term remains underpinned by the 2011-2013 uptrend at 80.88





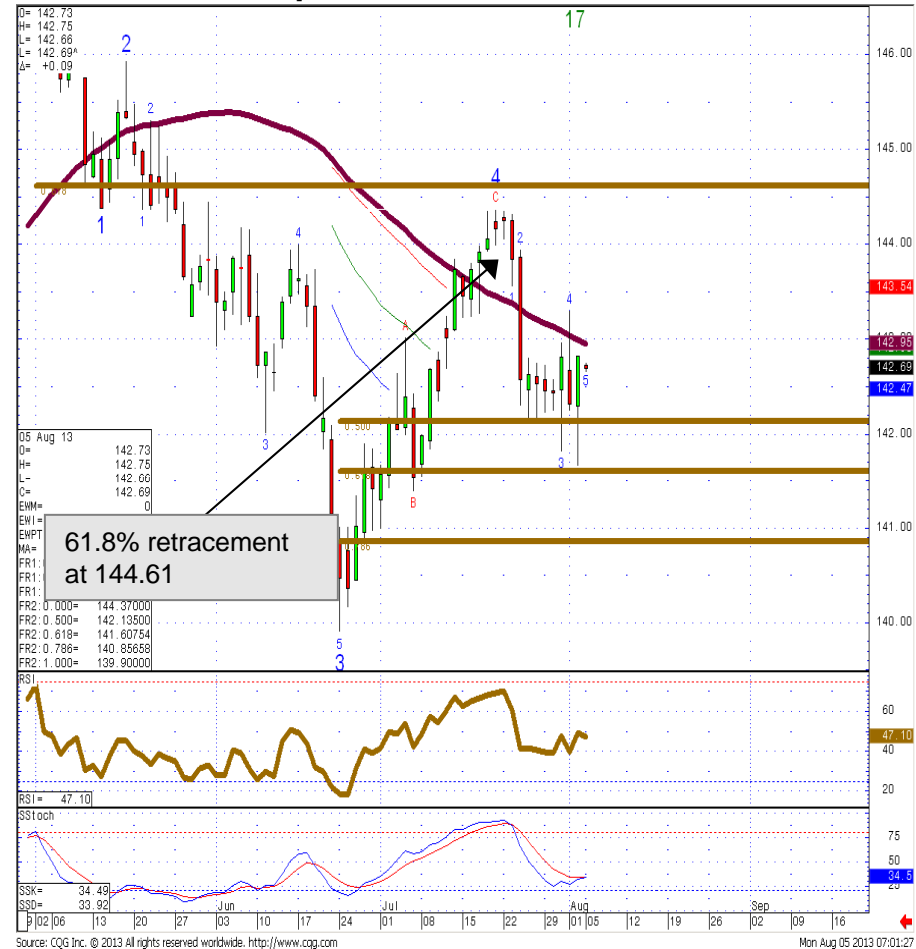
Fixed Income:

Bund Futures - Daily Chart

Initial break below Fibo support not sustained allow for consolidation ahead of further losses

- September Bund futures have sold off to, traded through but not sustained a break below the 142.13 50% retracement. We suspect this rebound can carry further, but is not expected to extend beyond the 61.8% retracement at 144.62. We continue to view this as the end of the corrective wave 4 and the that the market is ready to resume its down move. We have some support at 141.39, the 5th July low but look for losses to extend to the 139.90 June low.
- Below 139.90 we look for losses towards 138.41, the September 2012 low. This would be considered to be only the initial downside target. Longer term we look for losses to 132.99/82, the lows from the end of 2011 and the 50% retracement of the 2011-2013 move.
- Resistance above 144.62 is layered but forms in pockets around 145.90 and at 147.20/53, if reached (not our preferred scenario) we will again look for failure.
- We remain of the opinion that the market has topped from a longer term stance and this view will remain entrenched while below the 147.20/53 high (high from continuation and September charts).
- The divergence of the weekly and monthly RSI, indicate that the market has in fact topped longer term and the medium term risks remain on the downside.

Bund Futures September Chart



EU 10Y Yield

Rally has faltered at the 61.8% retracement at 1.72, dips expected to remain shallow, maintain a positive bias above 1.50.

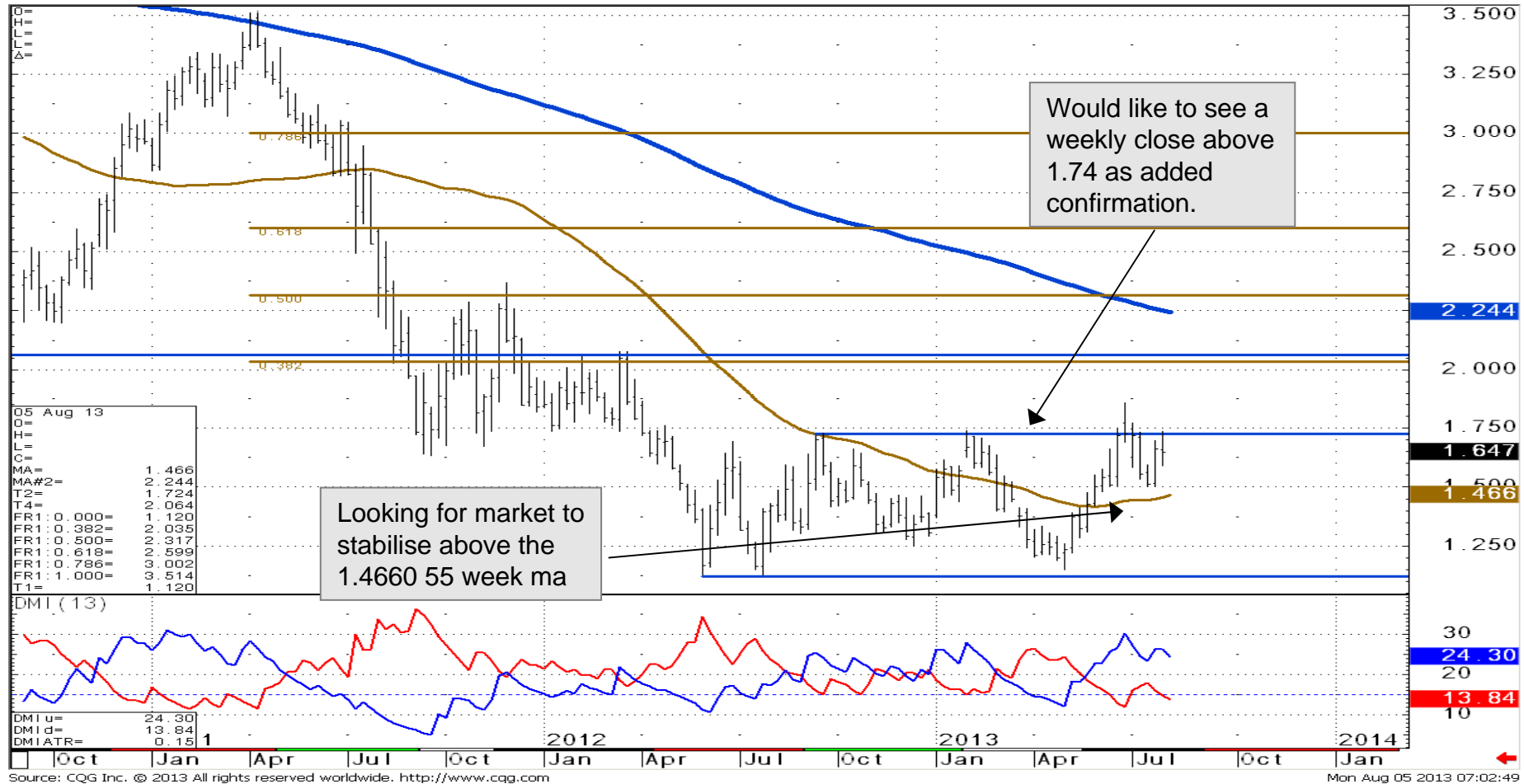
- › The EU 10Y yield has rallied to and failed at the 61.8% retracement at 1.72. The set back from here has been sharp, but so far has not eroded any support of note – directly below lies the 55 day ma and uptrend at 1.59/1.56. Key support remains the 1.50 recent low and Fibonacci retracement and also the 1.468 200 day moving average.
- › We look for this zone to continue to under pin. The market recently registered a daily close above the major resistance at 1.74 but has yet to register a weekly close above here. We await a WEEKLY close above 1.74 as added confirmation the market has based but this is expected to be seen shortly.
- › Provided that the 1.4680/1.4660 support holds, these represent the 200 day and the 55 week moving averages, then the base remains viable together with its 2.36 upside measured target.
- › We continue to believe that the low is in at 1.12 from an intermediate perspective (see weekly chart on the next slide).

EU 10Y Yield Daily Chart



EU 10Y yield weekly

Looking for the 1.4660/55 week ma to under pin



Bobl Futures

Remains vulnerable to further losses.

- September Bobl futures have sold off towards the 125.33 Fibo level and this has held the initial test. Beyond a small rebound, the market remains vulnerable on the downside.
- We look for rallies to remain capped by 126.72/90 area. This is the recent high and the 78.6% retracement.
- The market needs a close below 125.33 in order to trigger further downside weakness currently and signal a slide back to 125.00 and then 124.54, which is regarded to be the last defence for 123.80 and the 123.40 January low on the equalised chart. Below here we target 122.42 the 2012 low and the 121.79 200 week ma.
- Longer term the 118.20/23.6% retracement of the 2008-2013 up move is our longer term target.
- The price action is negative and we view the pattern as having topped. Rallies are highly likely to remain capped by 126.72/90 although key resistance remains the top of the 2012-13 resistance line at 127.54 – a longer term bearish bias will remain entrenched while we trade below here.

Bobl Futures Daily Continuation Chart



EU 5Y Swap – Daily Chart

Market challenging the 1.24 January high

- › The EU 5Y Swap has challenged, but has yet to close above the 1.24 January high. Failure here may see some slippage back towards the 1.0626 uptrend and 1.099 55 day ma. Key support is regarded as the 1.02/0.96 band – this is the location of the recent low, the 200 day ma and the 61.8% retracement. This band of support is expected to continue to underpin the market and while above here we will maintain an upside bias.
- › The January high at 1.24 is expected to offer some resistance en route to the recent 1.46 June high.
- › The market has recently registered a weekly close above 1.24 and this has confirmed the longer term base. This offers an upside measured target to 1.77 longer term. Just ahead of here lies the 2008-2013 resistance line at 1.49/50 and 1.69, the 2010 low.
- › Below 0.96 would merely cause us to neutralise for a while, we continue to view the 0.685 April low as the interim low in place for the market.

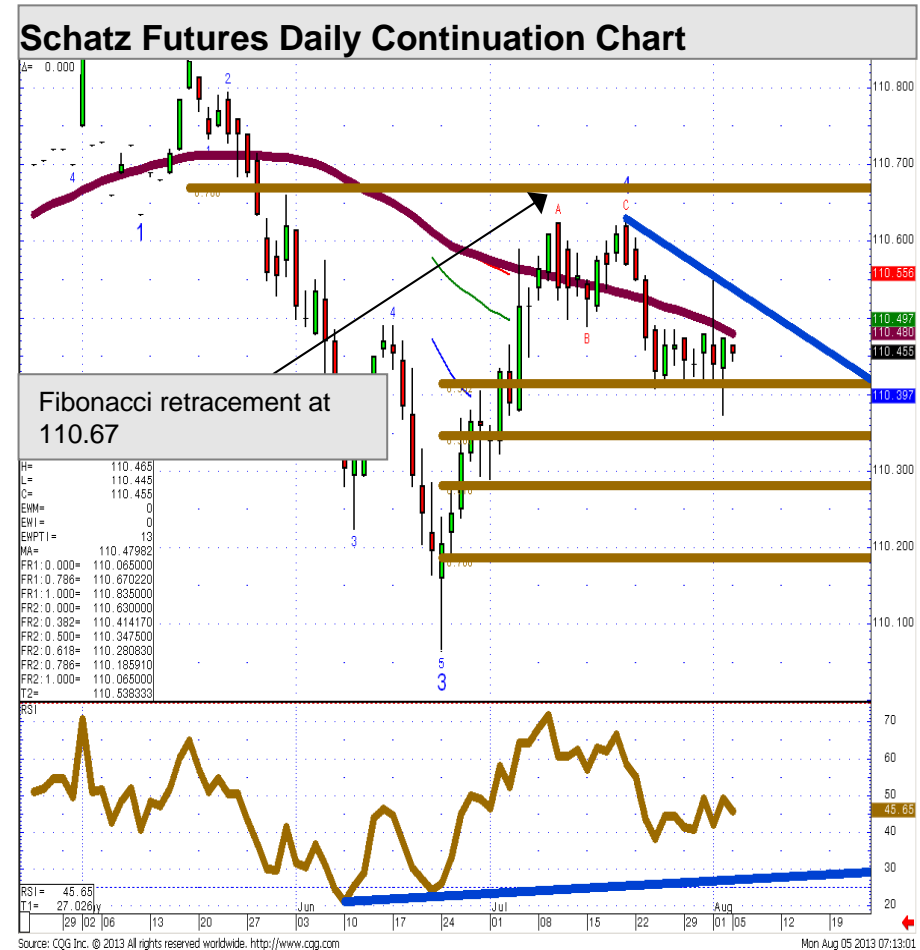
EU 5Y Swap Daily Chart



Schatz Futures

Market has repeatedly held the 110.41 Fibo, on a closing basis, allow for a tepid near term recovery

- September Schatz futures have repeatedly tested the 110.41/38.2% retracement – this level has held 8 times on a closing basis and there is a clear reluctance to break down further at present. While this has delayed our bearish outlook it has not negated it. It is possible that the market will retest the 110.67/78.6% retracement of the move down from May and the 55 week ma at 110.68 and we look for this to hold the topside.
- On a close below 110.41 we look for losses to 110.35/28 then the 110.02/109.98 region, which is the location of the 23.6% retracement of the 2011-2012 up move and the 2012 low. Beyond 109.98 we look for a further drop to extend towards 109.50/27, the 200 week moving average and the October 2011 low.
- Above the 110.68 resistance (not favoured), would imply a retest of 110.92 2012-2013 downtrend, if seen this is again expected to hold and provoke failure.



EU 2-10Y Swap Curve

Maintain widening bias longer term, but short term allow for consolidation

- › The EU 2-10Y swap curve **after the wild moves of the past couple of weeks we suspect that the market will simply consolidate between the 1.30 and 1.505 limits.** The 55 day ma at 1.35 will offer some additional support and as suspected 1.45/1.46 has acted as interim resistance.
- › We continue to look for the 1.2740 200 day moving average to under pin.
- › Slightly longer term, the broken trend channel at 1.2485, is expected to act as support on pullbacks. While above here an immediate widening bias will be maintained. Below here would merely neutralise the chart and allow for slippage towards the 1.20 region.
- › The move above 1.40 has seen a longer term upside target of 1.98 engage.
- › Interim targets are the 1.5050/61.8% retracement of the move down from 2010 and then the 1.73 high from the end of 2010.

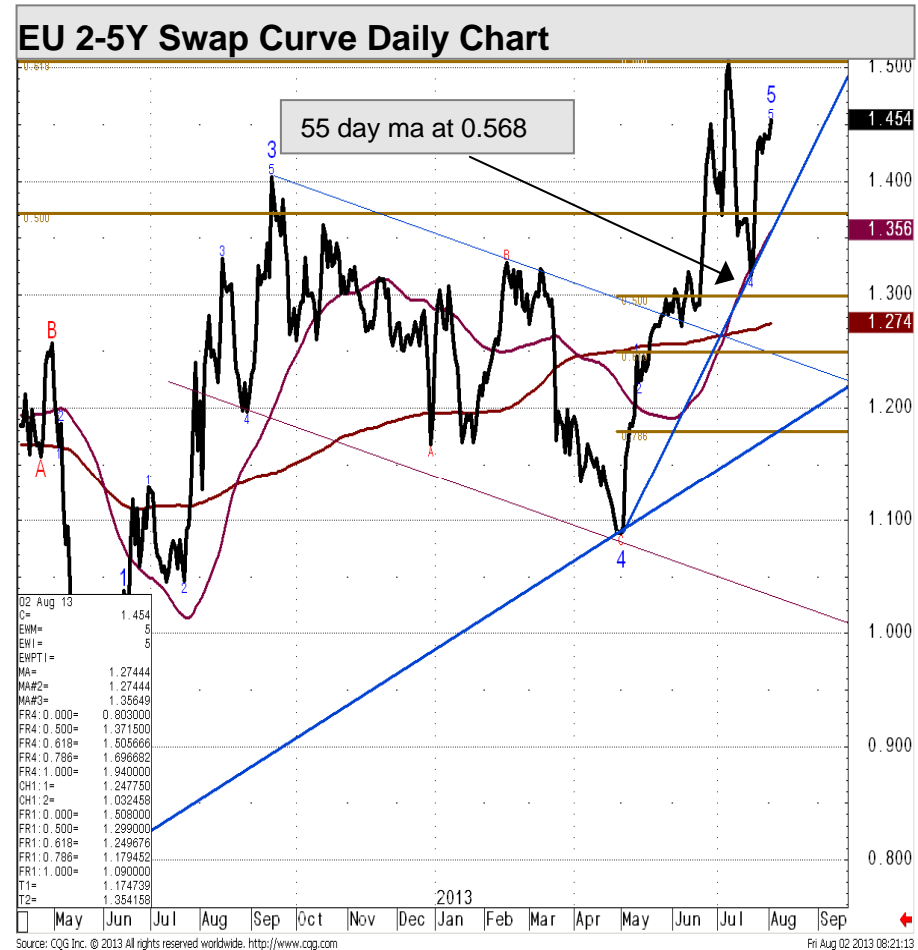
EU 2-10Y Swap Curve Daily Chart



EU 2-5Y Swap Curve

Allow for some consolidation short term ahead of further widening

- › The EU 2-5Y swap curve has seen a robust bounce from the 55 day ma at 0.563 but we suspect that we will see the market consolidate its recent sharp swings between the recent low at 0.53 and 0.6815, the 61.8% retracement of the move down from 2011.
- › We maintain a longer term widening bias – recent weakness was viewed as a ‘return to point of break out’ from the base and we maintain an overall widening bias.
- › The market has recently seen a huge upside acceleration, which not only has eroded the 2009-2013 downtrend but also completed a base 0.569-0.29. This offers a longer term target to 0.85. This target is achievable by June 2014.
- › Only below 0.525, the 50% retracement, would neutralise the chart once more and signal a slide to the 200 day ma at 0.484 currently (not favoured).



EU-US 10Y Swap Spread

Upside correction approaching -0.7520, the 2010 low. Attention remains on the -1.0375 14 year uptrend

The EU-US swap spread's correction higher is expected to falter ahead of the -0.7520 2010 low. We suspect that it will then widen back to the -1.000/-1.0375 support.

The -1.00/-1.0375 represent a 14 year uptrend (see weekly chart on next slide)

While capped by the 55 day ma at -0.6912 we will maintain an overall widening bias.

EU-US 10Y Swap Spread Daily Chart



EU-US 10Y Swap Spread Weekly Chart

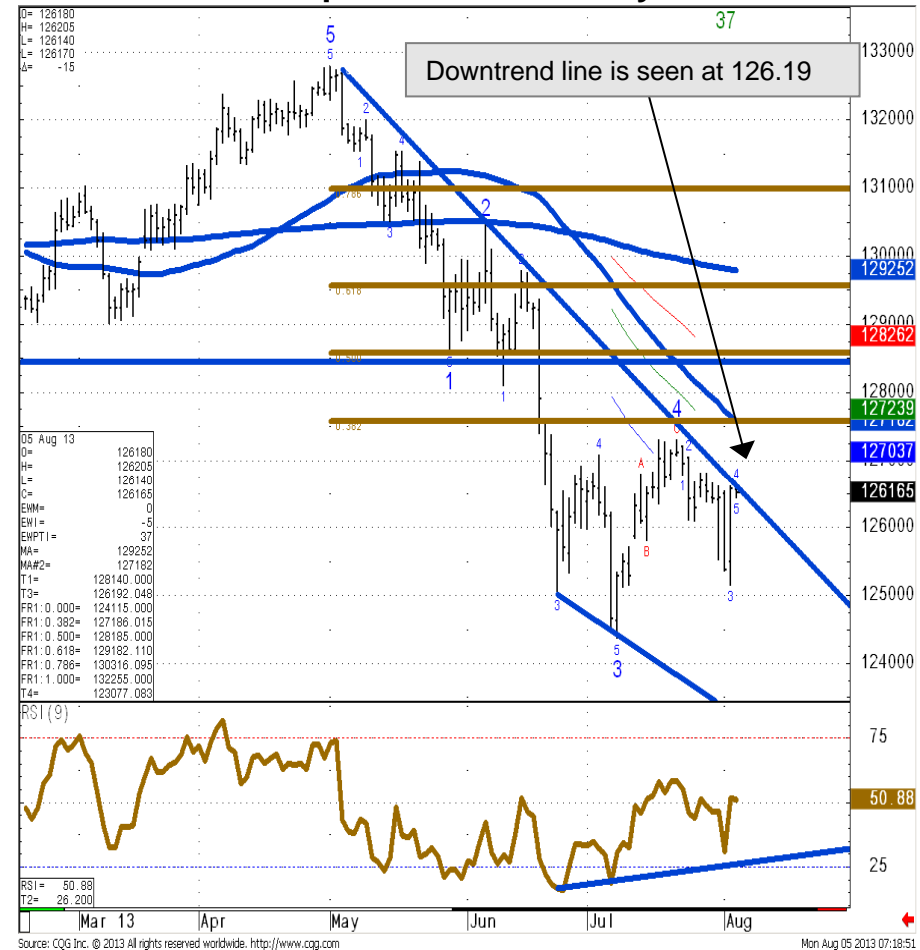


US 10Y T-Notes - Daily Chart

Looking for rebound to fail at the downtrend and 55 day ma at 126-19/127-18

- › September 10Y T-Notes face daunting overhead resistance – the downtrend at 126-19, the recent high at 127-10, the 38.2% retracement at 127-19 and the 55 day ma at 127-18, we look for this to hold and provoke failure.
- › We maintain a negative stance – We look for a retest of 124-115 then the May 2012 low at 123-005 en route to the October 2011 low at 121-16.
- › We continue to believe that a major long term top has been formed over the past year or so and that we won't revisit the 132-255 May peak.
- › Selling any rallies should be the strategy for the years to come since the 2007-13 uptrend line has been breached.
- › Resistance at 126-19/127-19 is likely to cap. Significant resistance can be seen between the 128-14 August 2012 low and the 128-195 May 2013 low. We will retain our bearish forecast while the futures contract remains below the 130-15 June high on a daily closing basis.

US 10Y T-Notes Equalized Active Daily Chart

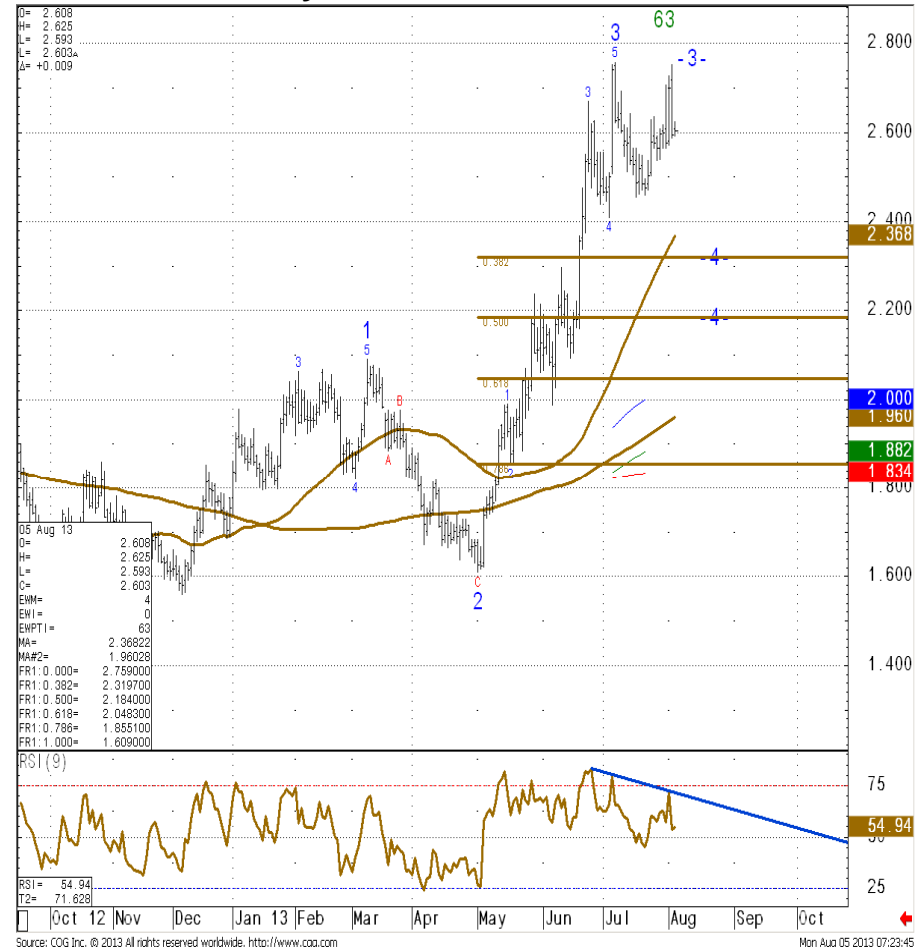


US 10Y Yield - Daily Chart

Stalling at 2.76, allow for consolidation

- › The US 10Y yield has again stalled at the 2.76 July high and currently the near term risk remains for a sell off to the 2.41 current July. We note the Elliott wave count on the daily implies a 2.32 and possibly 2.1840 decline ahead of recovery. This is not our preferred scenario, however.
- › Once through the recent high at 2.76 (on a closing basis), the September 2010 high and the 61.8% Fibonacci retracement of the 2011-12 decline at 2.85/855 will be back on the map, together with the 2.89 38.2% retracement (of the move down from the 2007 peak) and then psychological resistance at 3.00.
- › We will retain our long-term bullish views while the yield stays above the June low at 1.99.
- › Support above this level but below the 2.30 mid-June high comes in at the 2.24 May peak and also between the 55 day moving average at 2.357 and the March high at 2.09.

US 10Y Yield Daily Chart



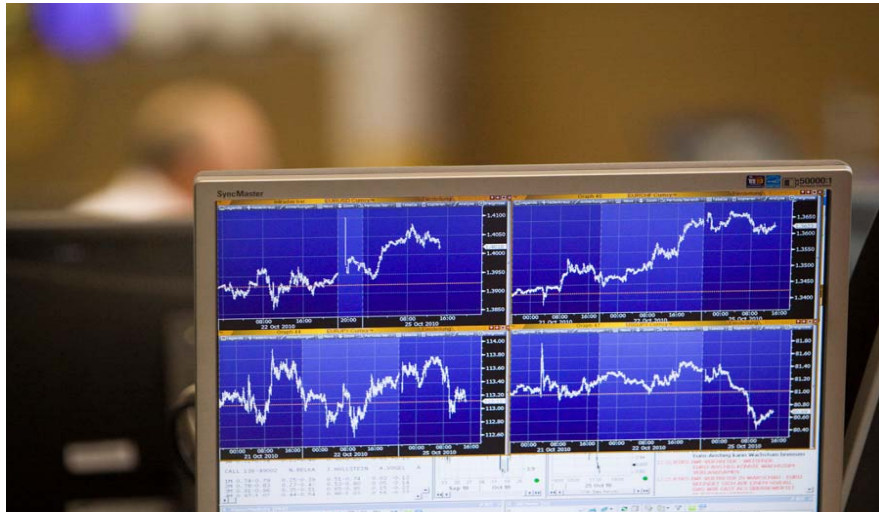
US 2-10Y Swap Curve - Daily Chart

Likely to consolidate ahead of tackling resistance at 2.415/2.44.

- › The US 2-10Y swap curve has seen a strong rebound from 2.20/2.14 minor support area, made up of a minor psychological level, the late June low and the 61.8% Fibonacci retracement of the 2012 descent. But directly overhead lies the 2.415/2.44 recent high and Fibonacci resistance and we suspect some consolidation will be seen
- › It is possible that this will again hold – any breach of the 2.14 support would allow for a slip back towards the psychological 2.00 mark before renewed widening is seen. Key support is the 1.93/1.915 pivot.
- › Above 244 lurks the 2.55 March 2011 low and the 2.59 June 2011 high.

US 2-10Y Swap Curve Daily Chart





Credit

ITRAXX 5Y Europe Index - Daily Chart

Holding at the 78.6% retracement at 96.64, rebound has been tepid so far

- › The ITRAXX 5Y Europe index rebound from the 78.6% retracement at 96.64 and the 96.21 mid-May high has been tepid at best and has yet to tackle even initial resistance offered by the 200 day ma at 111.66.
- › While 96.21 underpins, the risk of the 132.52 June high being exceeded, remains in place.
- › Such a move would make us adopt a bullish index stance (negative on credit) and lead us to target the 150 region and above. At present this is not on the cards, however.
- › Loss of 96.21 however will trigger a slide back to the 86.54 May low.

ITRAXX 5Y Europe Index Daily Chart



ITRAXX 5Y Crossover Index - Daily Chart

Weighing on support (credit strength)

- › The ITRAXX 5Y Crossover index has attempted to stabilise at 392. Rallies have been tepid and have yet to tackle the 55 and 200 day moving averages at 433/449..
- › Currently there is a risk that we will see the 367 recent low retested. However we suspect that this will again hold the downside.
- › Above 449 would trigger a retest of the 2011-2013 downtrend at 518.
- › Breach of the 367 low will target the 352.66 2011 low

ITRAXX 5Y Crossover Index Daily Chart



ITRAXX 5Y Senior Financial Index - Daily Chart

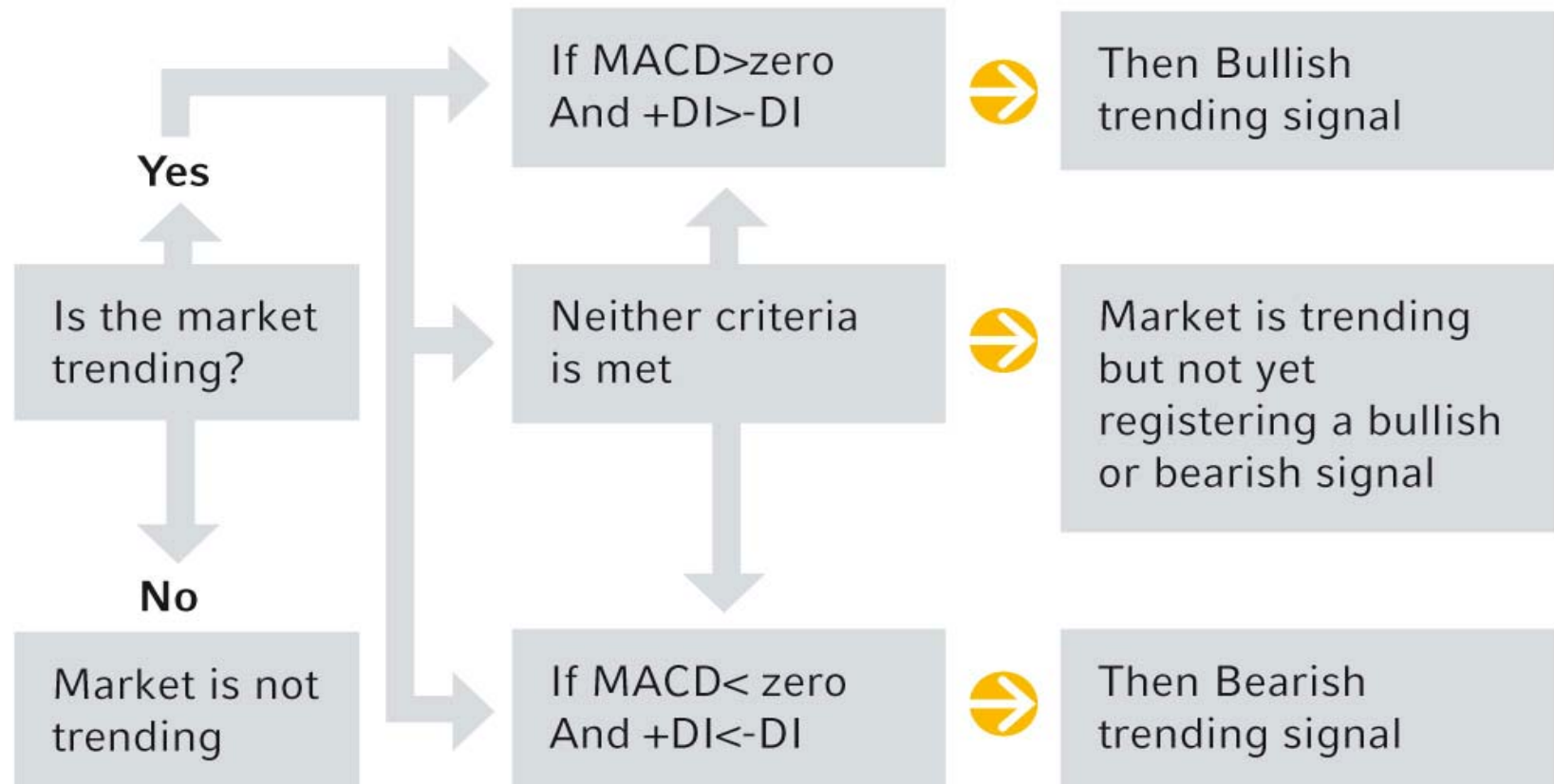
Weighing on support should find some nearby support at 138/129

- › The ITRAXX 5Y Senior Financial index continues to sell off from its 190.19 June high and looks set to react back to the 138.98/46 March low, where it is likely to stabilise near term.
- › While above here, the risk of another spike higher being seen before year end, remains in place.
- › A rise above the June high at 190.19 will push the March high at 201.42 and probably also the 38.2% Fibonacci retracement of the 2012-13 descent at 211.52 to the fore.
- › Major support is seen at 122.64/121, made up of the January low and the 2011 low.

ITRAXX 5Y Senior Financial Index Daily Chart



Trending Filter



Glossary

ADX

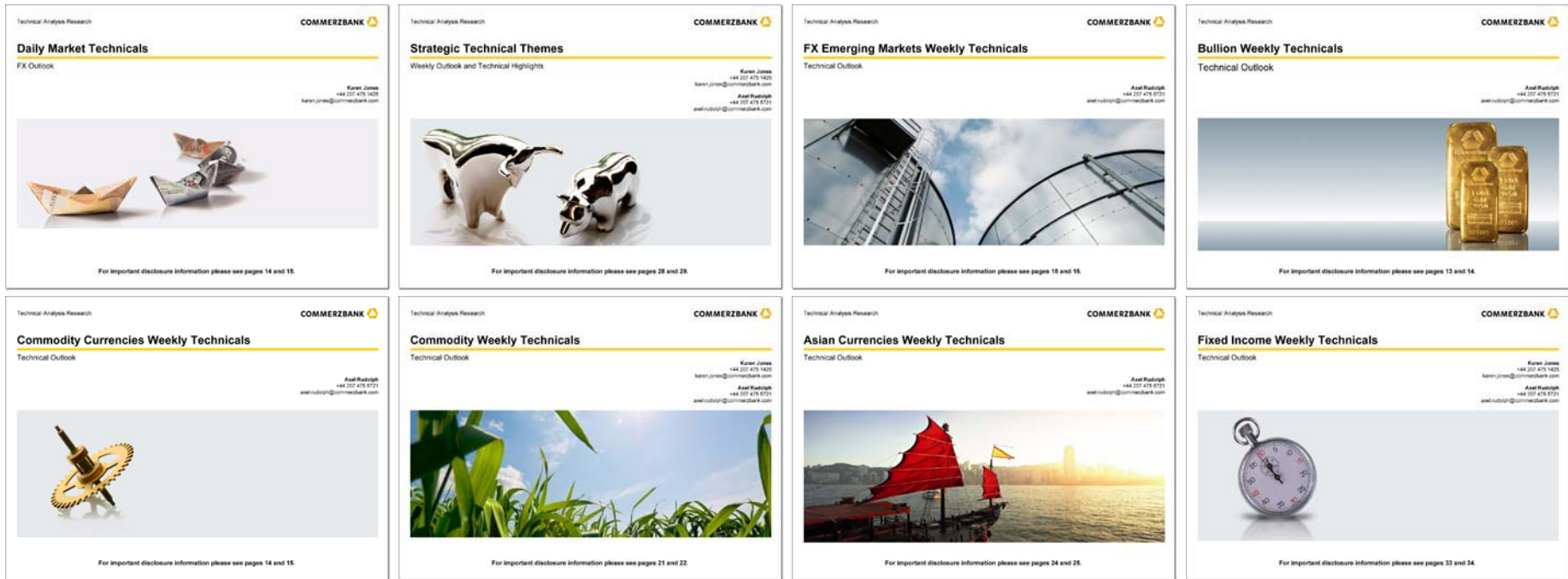
J. Welles Wilder developed the Average Directional Index (**ADX**) to evaluate the strength of a current trend. The ADX is an oscillator that fluctuates between 0 and 100. Even though the scale is from 0 to 100, readings above 60 are relatively rare. Low readings, below 20, indicate that the market is not trending and high readings, above 40, indicate a strong trend. It does not determine if the trend is bullish or bearish BUT just establishes whether a trending situation exists.

DI+ = positive directional indicator, DI- = negative directional indicator. Buy and sell signals are generated when DI+ and DI – crossover.

Moving Average Convergence/Divergence (**MACD**),

MACD uses moving averages, which are lagging indicators, to include some trend-following characteristics. These lagging indicators are turned into a momentum oscillator by subtracting the longer moving average from the shorter moving average. The resulting plot forms a line that oscillates above and below zero, without any upper or lower limits. There are many ways to use this indicator but the simplest is that when above zero is denotes market strength and when below zero denotes market weakness.

NB: This is NOT a model and is intended for reference only – it a basic system to determine if a market is trending or not, it cannot judge strength of supports or resistance or whether various momentum oscillators have diverged. For this reason it is possible that the we will occasionally hold a different position to that indicated by the tables.



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- Monday:** Daily Market Technicals (FX), FX Emerging Markets Technicals;
- Tuesday:** Daily Market Technicals (FX), Bullion Weekly Technicals;
- Wednesday:** Daily Market Technicals (FX), Commodity Weekly, Commodity Currencies Weekly Technicals;
- Thursday:** Daily Market Technicals (FX), Asian Currencies Weekly Technicals, FX Strategy;
- Friday:** Daily Market Technicals (FX), Fixed Income Weekly Technicals.

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