

Strategic Technical Themes – Weekly Outlook

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Outlook and Technical Highlights

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Summary

Key Points:

1. GBP/USD potential top will complete on a close below 1.5895. EUR/USD – stay bearish, we believe that there is more scope on the downside, initial target 1.3165
2. Both USD/SEK and USD/NOK need to go back on the radar. USD/NOK is approaching the 6.265 50% retracement and while this is likely to hold the initial test, it also represents a fairly monster break up point. USD/SEK - Do not think 6.7550/6.80 will break on this attempt but this is a MAJOR base developing longer term.
3. Emerging currencies are weaker - USD/ZAR is approaching the 10.5058 2013 high, we note the TD perfected setback – tighten stops on longs. The risk remains for gains to 10.69/73.
4. Bund has failed at its 200 day ma – attention is on trendline and 55 day ma at 140.47, 139.90.
5. US T-Notes – maintain a negative stance. High at 128-02 viewed as an interim peak. Target the 120-04 200 week ma.
6. VSTOXX - volatility very low. But does look like a base, suggesting we should see an increase in Vol. EUR/USD 3 month implied vol – the 2011-2013 downtrend at 7.85 is viewed as exposed.

Technical Trade Ideas

Date	Instrument	Trade Idea	Stop	Take Profit	Outcome	P&L
30.10.2013	GBP/USD	Sell at market, add 1.6150	Lower stop from 1.6270 to 1.6120	1.5705	Short 1.6060	
30.10.2013	Bund	Sell at market, add 141.90 (13.11.2013)	Lower stop from 144.40 to 142.60	137.00	Short 141.50	

GBP/USD potential top will complete on a close below 1.5895

- › We believe the pattern developing on the GBP/USD chart is a potential top. The market has failed twice recently at the 1.6255/60 region. The rally last week stopped dead at the 1.6122 61.8% retracement of the recent move down and focus this week is on the 1.5895 mid October low. A close below here is required in order to complete the potential top and offer a downside measured target to 1.5533.
- › This is a minimum downside target, however given the close proximity of the 200 day ma at 1.5495 this is likely to provoke some profit taking.
- › In addition to the potential top, the market has also recently backed away from its 2009-2013 downtrend, this is located at 1.6308 and reinforces overhead resistance. Our longer term bias is therefore negative and this suggests that longer term we should in fact see a slide sub 1.50 once more.



EUR/USD – stay bearish

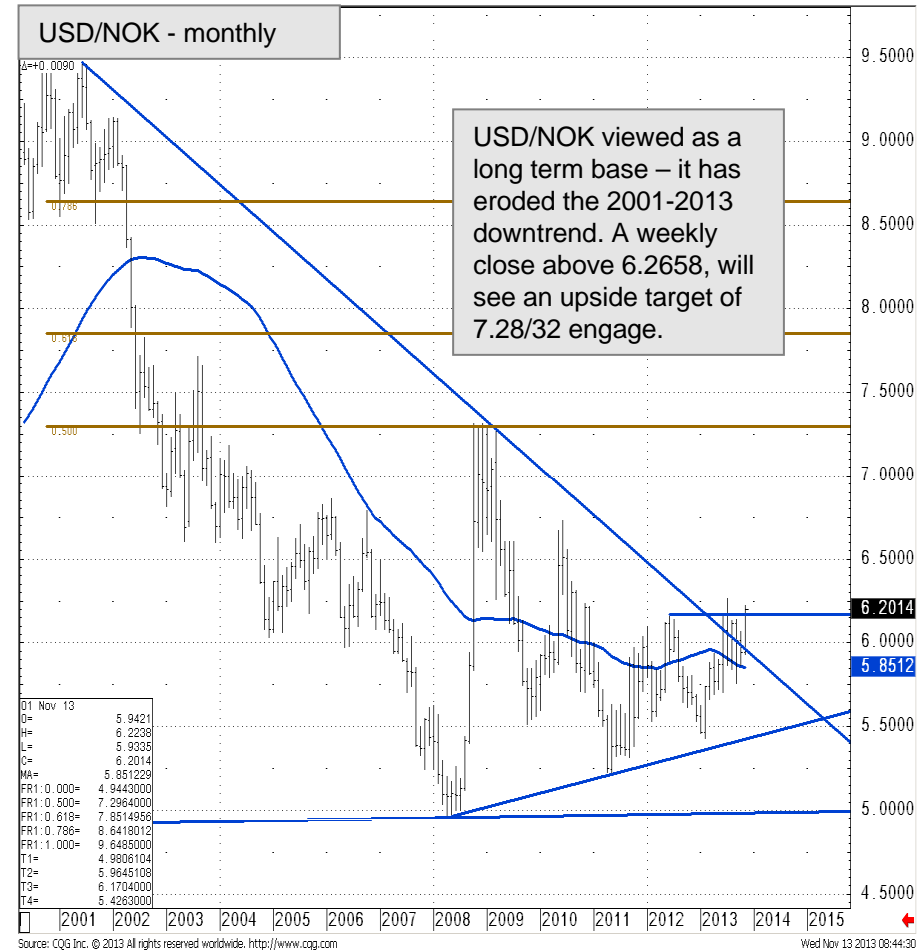
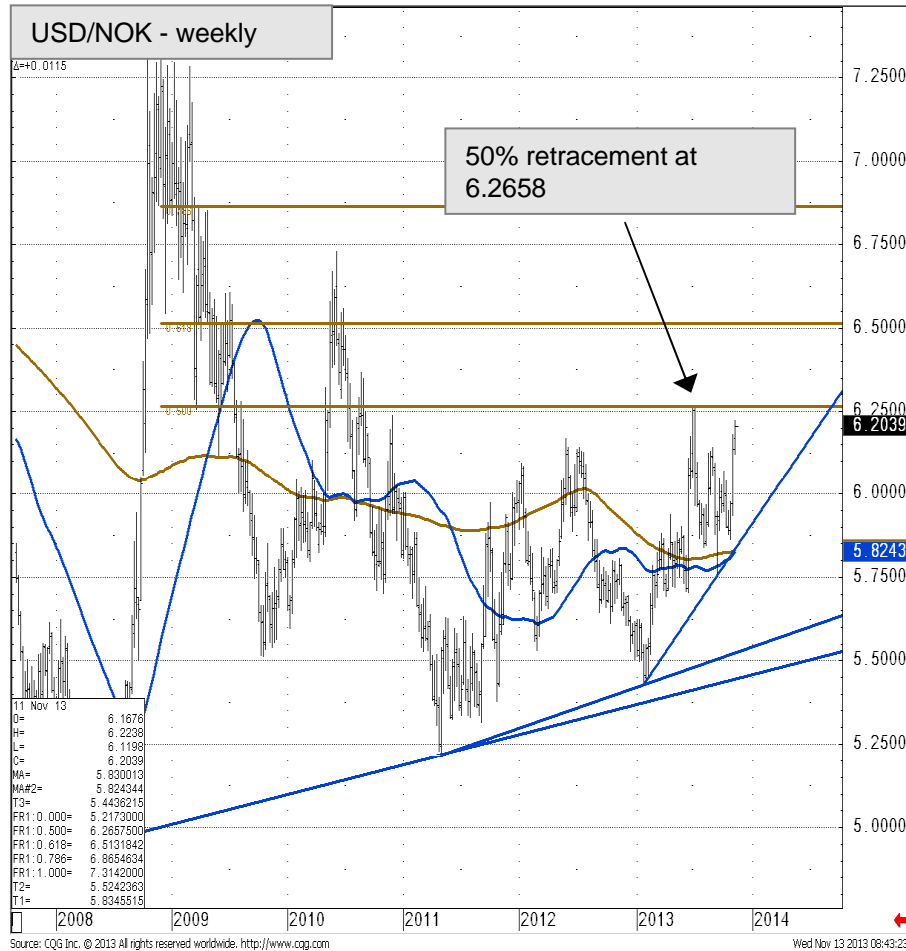
- › The market last week closed below its 4 month uptrend and in doing so adds weight to the idea that the 1.3833 recent high was an intermediate turning point.
- › The market has recently seen emphatic rejection from the 61.8% retracement of the move down from 2011. This implies that the entire move higher from the 1.2042 July 2012 low was nothing more than a correction. The Elliott wave count on the weekly chart denotes 1.3833 as the end of the 4th wave. We have also seen a complex divergence of the weekly RSI, price action represents a bearish weekly engulfing pattern and on the monthly chart we have an inverted hammer.
- › Also recently the market has failed just ahead of the 1.3958/1.4002 key resistance – this represents the 50% retracement of the move down from the 2008 peak and also the 2008-2013 resistance line.
- › Lastly we have a 13 count on the daily and on the weekly charts, we have not seen a 13 count on the weekly chart since 2008.
- › As a consequence we remain bearish and we look for losses initially to the 200 day ma at 1.3216, the 61.8% retracement at 1.3165 then the 1.3104 September low.
- › Longer term we would expect to see the market drop towards its 200 MONTH moving average at 1.2082 by end of 2014.

EUR/USD daily chart



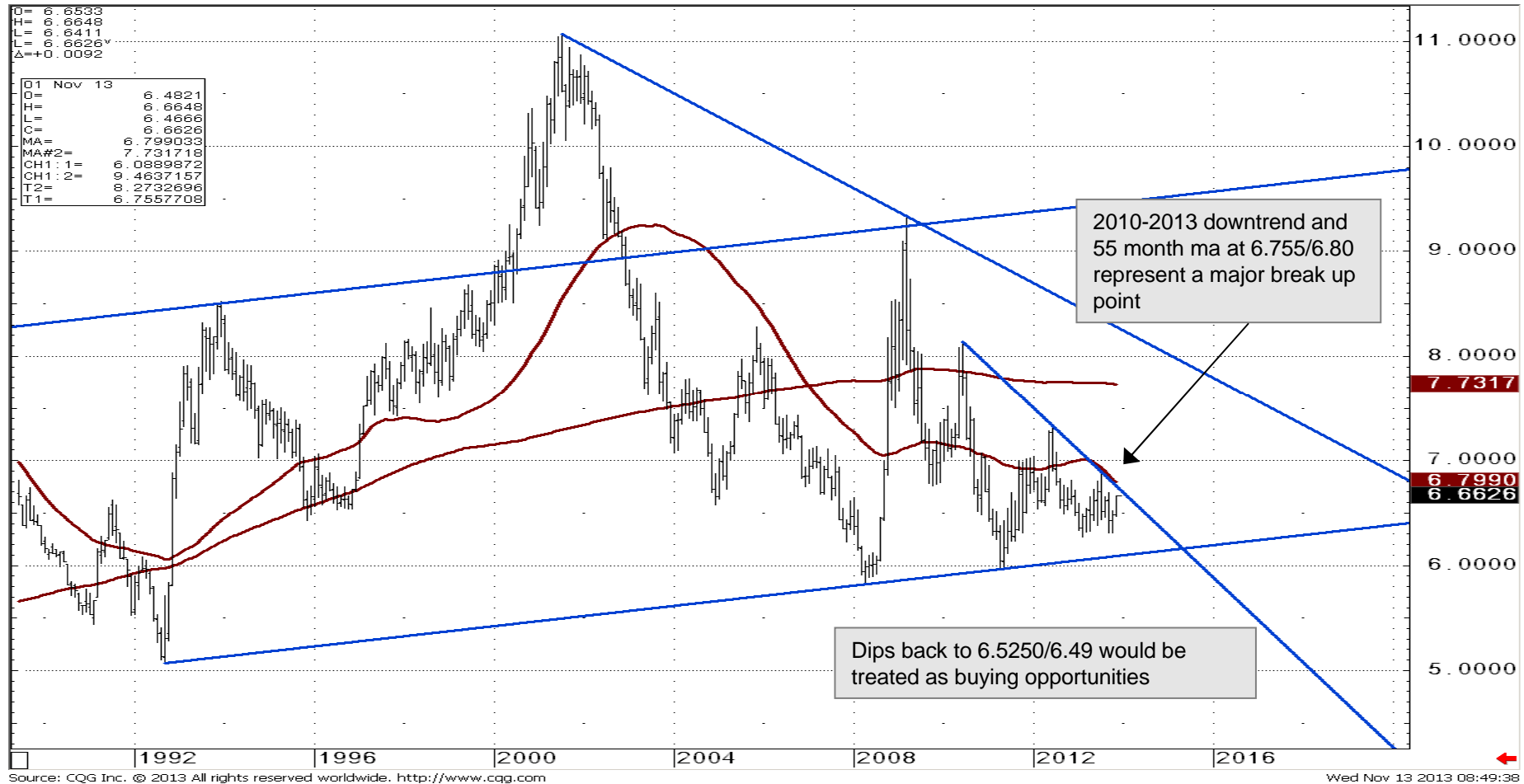
NOK - notably weak

USD/NOK needs to go on the radar - it is approaching the 6.265 50% retracement



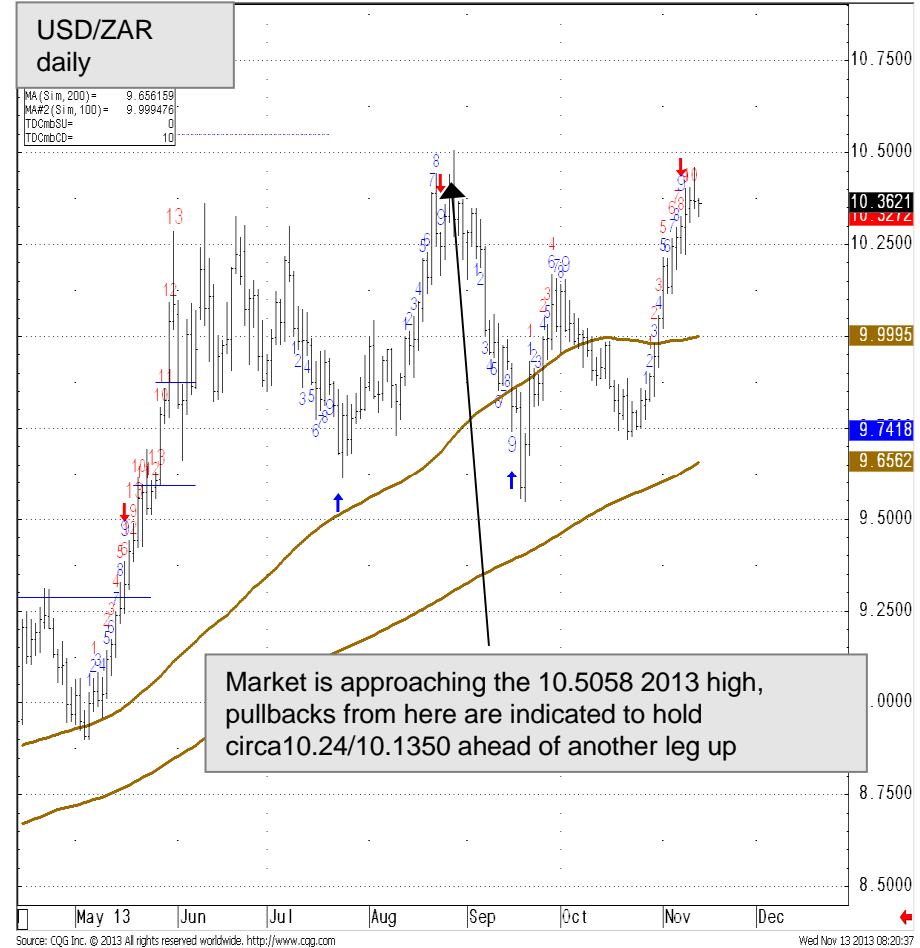
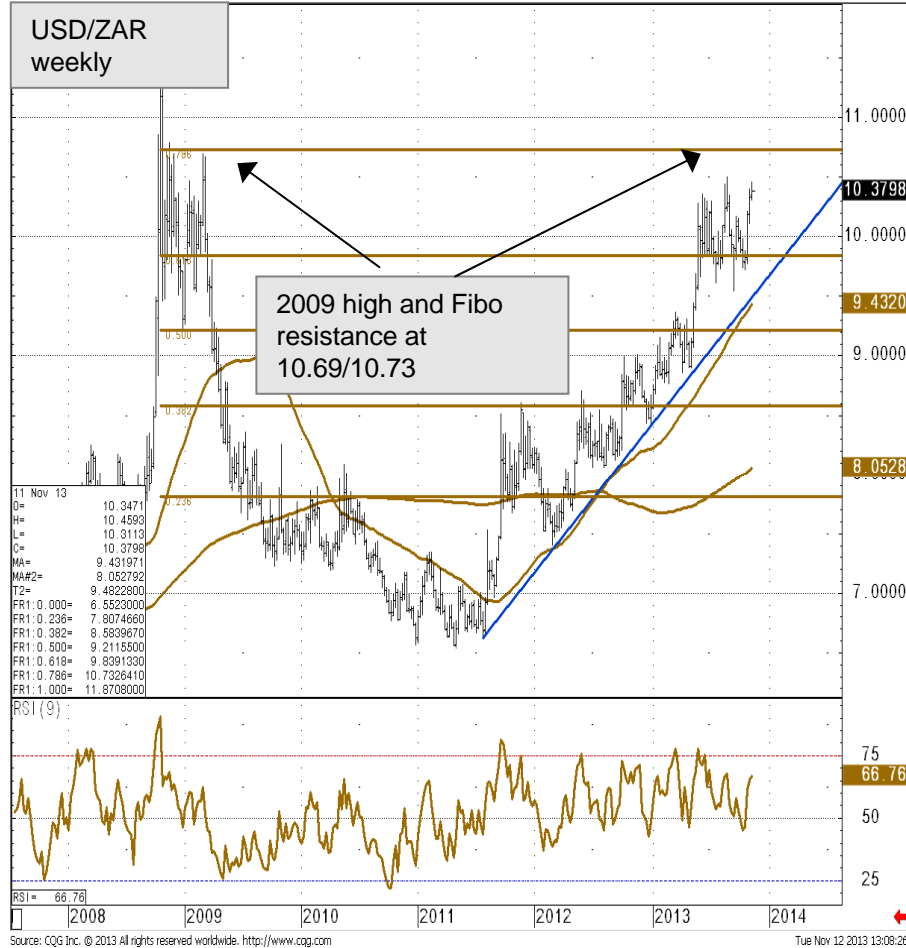
USD/SEK also needs to go back on the radar

Do not think 6.7550/6.80 will break on this attempt but this is a MAJOR base developing longer term



Emerging Currencies are weaker

USD/ZAR is approaching the 10.5058 2013 high, we note the TD perfected setback – tighten stops on longs. The risk remains for gains to 10.69/73



Bund has failed at its 200 day ma – attention is on trendline and 55 day ma at 140.47, 139.90

- › The bund has failed ahead of the 200 day moving average at 142.57 and the 55 week ma at 142.79. We remain neutral to negative bias while capped by the 55 week ma. We note the TD perfected set up on the daily chart and attention is on the support line at 140.47 and the 55 day ma at 139.90. Failure here is needed to confirm that the market has topped and focus attention on to the 138.79 mid October low than the 136.65, the September low.
- › Longer term we favour the downside and continue to look for a decline to support at 135.88, which is the June 2012 low on the weekly continuation chart. We view this as a top and the market is now expected to head lower longer term to 130.65/57, 23.6% retracement of the move up from the 2008 low and the 38.2% retracement of the move up from the 2011 low.
- › Beyond the 55 week ma lies 144.93/78.6% retracement, this is regarded as the last defence for the 147.20 May high.



US T-Notes - maintain negative stance

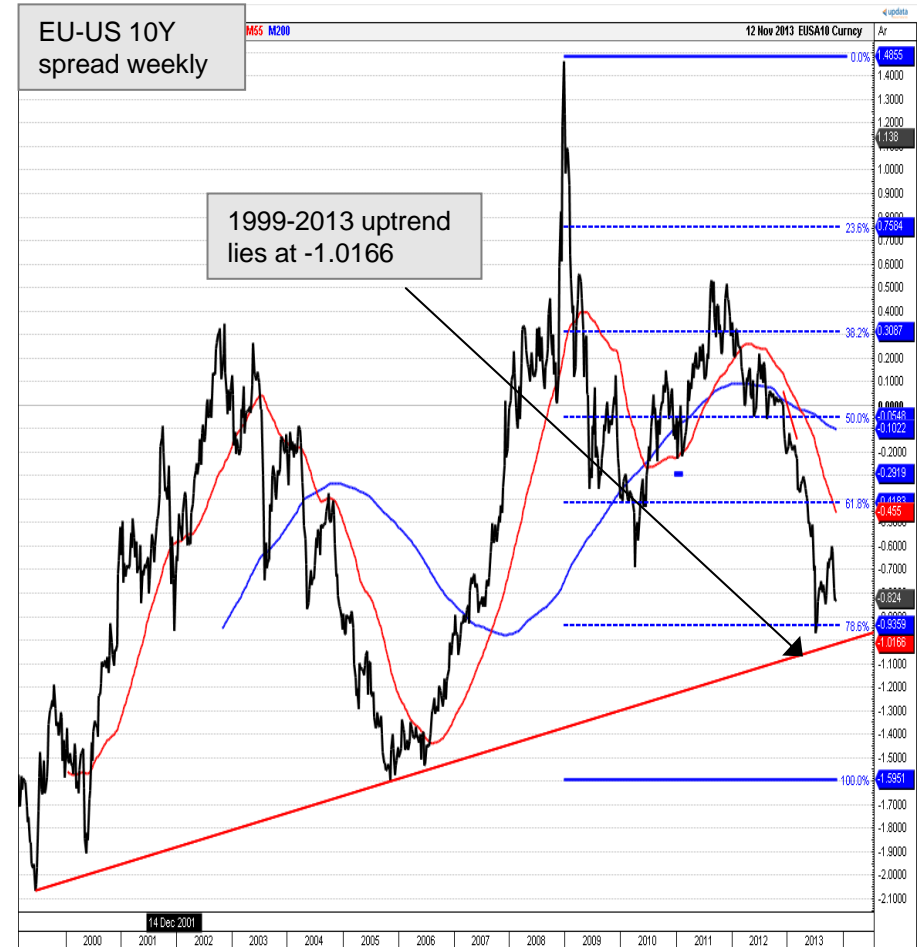
High at 128-02 viewed as an interim peak. Target the 120-04 200 week ma

- › The December 10Y T-Notes' sell-off from the 61.8% Fibonacci retracement of the May-to-September decline at 128-01 is regarded as a key turning point.
- › The market has sold off to the 55 day ma and October low at 125-22/165. It is probable that this will hold the initial test. A close below here will trigger losses to the 122-07/13 2013 low and the 2011-2013 support line.
- › We will keep our negative outlook while US 10Y T-Notes remain below their 128-02 October high. Should 128-02 be bettered, though, the 128-20 mid-June high will be back in the picture as will the closure of the daily continuation chart gap seen between 127-20 and 129-07.



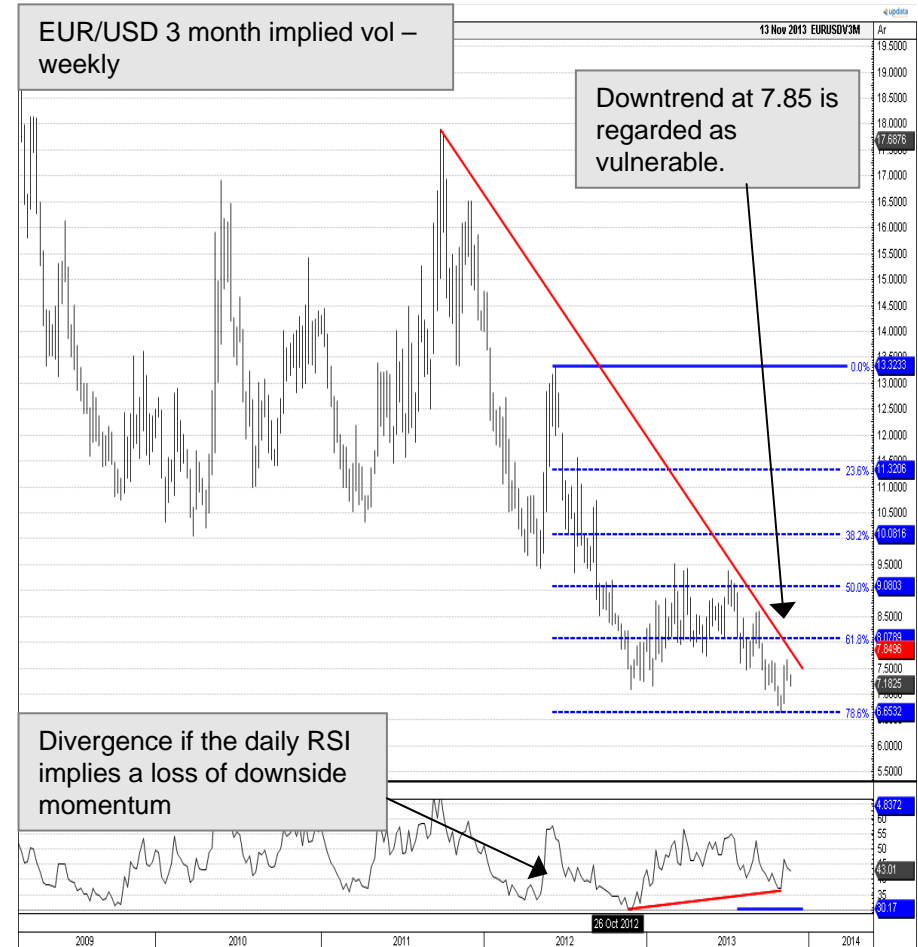
EU 10Y Vs US 10Y widening. US T- Notes continue to under perform

Initial target is $-0.88/-0.89$ = August low and the 61.8% retracement







VSTOXX - volatility very low. But does look like a base





Suggests a retest of the 23.50 Oct 20132 high








Tracking Key Technical Themes - FX

Date	Theme	Stop on view/Target	Additional Comment	Outcome
25.09.2013	GBP/USD approaching its 2009-2013 downtrend at 1.6321. We would allow for initial failure.	Stop 1.6270, lower stop to 1.6120 . Target 1.5705		
06.10.2013	Potential rising wedge on EUR/JPY will complete on a close below 132.01 and introduce scope to 122.80.	Never got the close to complete the pattern, but pattern remains viable		
06.10.2013	EUR/USD – the technical evidence is overwhelmingly bearish	Target 1.3165		
06.10.2013	US Dollar holds MAJOR support and is expected to rise further	Initial target 55 week ma at 81.39 already met		






Tracking key Technical Themes - Fixed Income

Date	Theme	Stop on view/Target	Additional Comment	Outcome
30.10.2013	Bund - bid near term BUT strength is still indicated to be corrective and it should fail ahead of 141.90, but we are going to give it some room and allow for a test of the 55 week ma at 142.78	Lower stop from 144.40 to 142.60.	Bund stalling ahead of the 200 day ma, allow for a slide back to the 140.05/139.80 region	
06.09.2013	Italy 10Y Vs German 10Y - Seeing reversal ahead of the 2009-2013 uptrend at 228. Look for a break above the 200 day ma at 275 to confirm upside intent to 286 (55 week ma).	Raise the stop from 228 to 230, target 273.47 (200 day m.a.)	Call made circa 240	
06.11.2013	US T-Notes have failed at the 61.8% retracement at 128-01, maintain a negative bias	Target 200 week ma (120-04 currently)		
06.11.2013	EU 10Y swap under performing the US 10Y swap.	Target approx -0.88, the mid August low		







Historical Key themes

Date	Theme	Stop on view/Target	Additional Comment	Outcome
25.09.2013	US Dollar approaching key support. Sell off by the US Dollar Index is at key support at 79.835/59 but should soon head higher again.	Stop 79.20	Make or break time for the dollar. Take profit 80.50. Profit target met.	
April 2013	Gold we neutralise this bearish call date 09.10.2013 and recommend exiting shorts		Major bearish call was made at the beginning of April 2013 when gold was trading at 1560	
09.10.2013	Neutralise the longer term view on USD/JPY as we are concerned regarding the longer term impact of the Nikkei on price			
25.09.2013	EUR/USD we are looking for failure ahead of the 1.3670/1.3711 long term pivot.	Stop 1.3715	Stopped on view – strength looks set to extend further to 1.3833, potentially 1.3958/1.4002.	
02.10.2013	Maintain a negative bias to EUR/GBP longer term.	Long term stop on view .8738. Target .7750. Short term stop is .8500	Maintain negative bias below .8500, just stopped, but view remains still longer term negative	


Historical Key themes

Date	Theme	Stop on view/Target	Additional Comment	Outcome
16.09.2013	EUR/AUD - An interim top was made at 1.4562 in late September; targets the 1.3959 level and then 1.3864	Target 1.3959, stop 1.4410	23.10.2013 – take profit on short EUR/AUD positions (the market has rallied since)	
25.09.2013	US T-Notes - Looking for failure 126-30/127-08.	200 day ma (127-12), eroded, short term outlook neutralised	Negative longer term since end of May (price circa 129-00)	
02.10.2013	Credit charts are looking perkier i.e. ITRAXX 5Y above 400 again, suggests some credit market weakness.	Stop on view 360. TP circa the 200 day ma (426)	Stopped – fallen to new 5 year lows	
02.10.2013	AUD/NZD 2 year down move is reversing	Positive bias above 1.1150	Trade update 25.10.2013 Long 1.1350, raise profit stop to 1.1425. TP 1.1577= +2%	
23.10.2013	EUR/USD is in new .23 month highs and the next key resistance zones at 1.3833 and then 1.3958/1.4003 – currently we have little to suggest this latter level will be taken out.	Stop 1.4050, lower stop to 1.3850, take profit 1.3650.	Take profit hit	

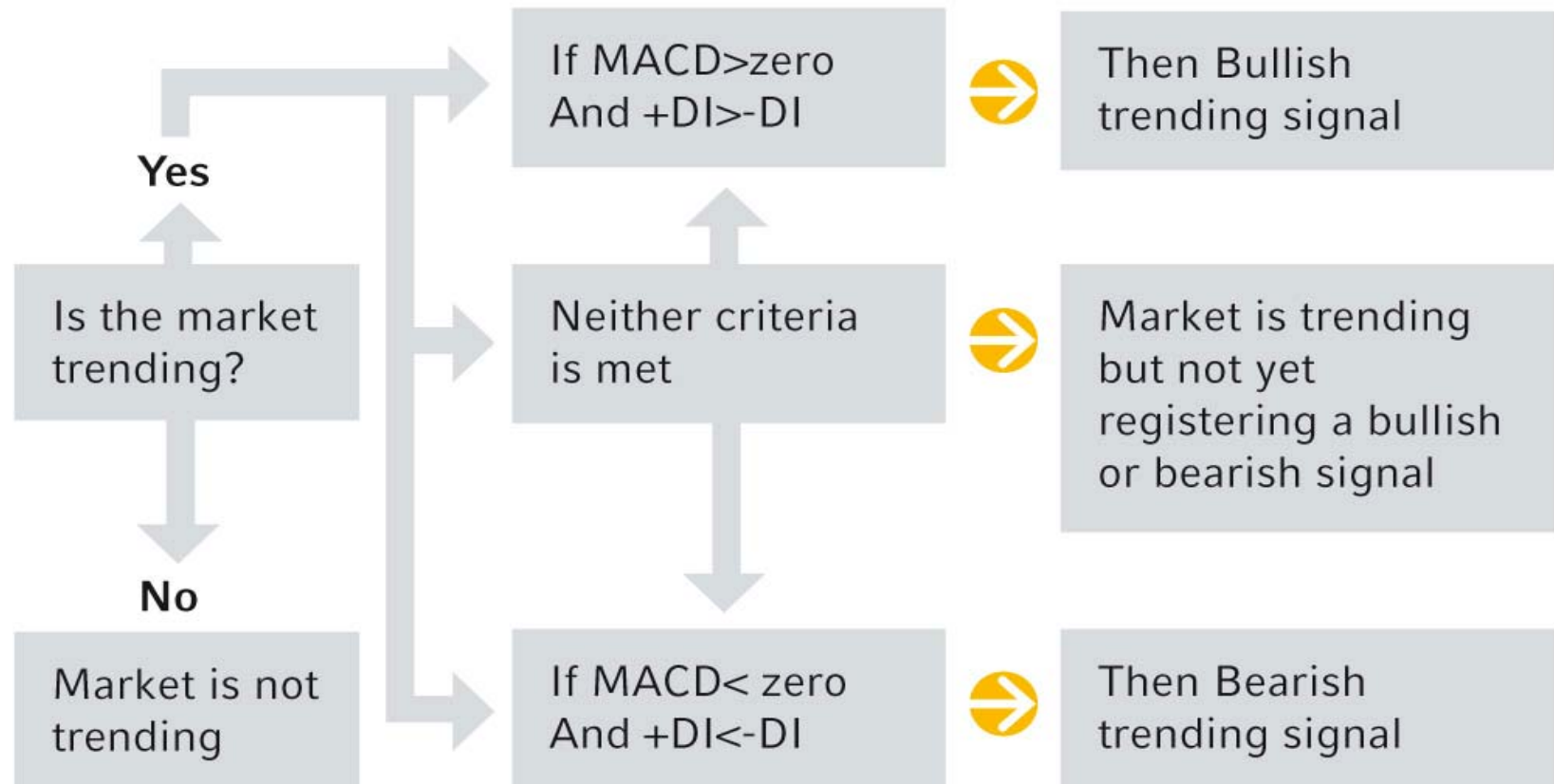
Historical Key themes

Date	Theme	Stop on view/Target	Additional Comment	Outcome
23.10.2013	NZD/USD daily RSI has diverged and together with a 13 count on the daily chart we are recommending that remain longs are exited.		NZD/USD failed and has eroded its uptrend	
23.10.2013	AUD/USD has reached its 200 day ma and we would allow for some profit taking here		AUD did fail at its 200 dma as suggested	
02.10.2013	Bund is failing ahead of the 140.95 end of August high and should remain capped by 141.00/90 (downtrend and Fibo).	Lower stop from 142 to 141.90. Stop hit	Negative longer term since end of May (price circa 144/145)	
30.10.2013	EUR/USD - signals suggest risk of failure ahead of 1.40 is high		EUR/USD failed at 1.3833 and sold off sharply	
06.09.2013	Sovereign spreads – Italy 10Y VS Spain 10Y. Target is 0.50/0.52 and the initial resistance at 0.31.	Exit at market as upside momentum appears to be waning (06.11.2013)	Call made when price circa -7.	
09.10.2013	USD/CAD positive above 1.0210	(06/11/2013) - Has not managed to clear 1.0500 and looks likely to consolidate, exit longs,		

Historical Key themes

Date	Theme	Stop on view/Target	Additional Comment	Outcome
16.09.2013	US 2-10 swap curve. Short term narrowing should halt in the 2.21 region.	Market has reached this support (rebound from 2.2060 low. Take profit at market (06.11.2013)	Needs to regain the 55 day ma at 2.37 to confirm widening	

Trending Filter



Glossary

ADX

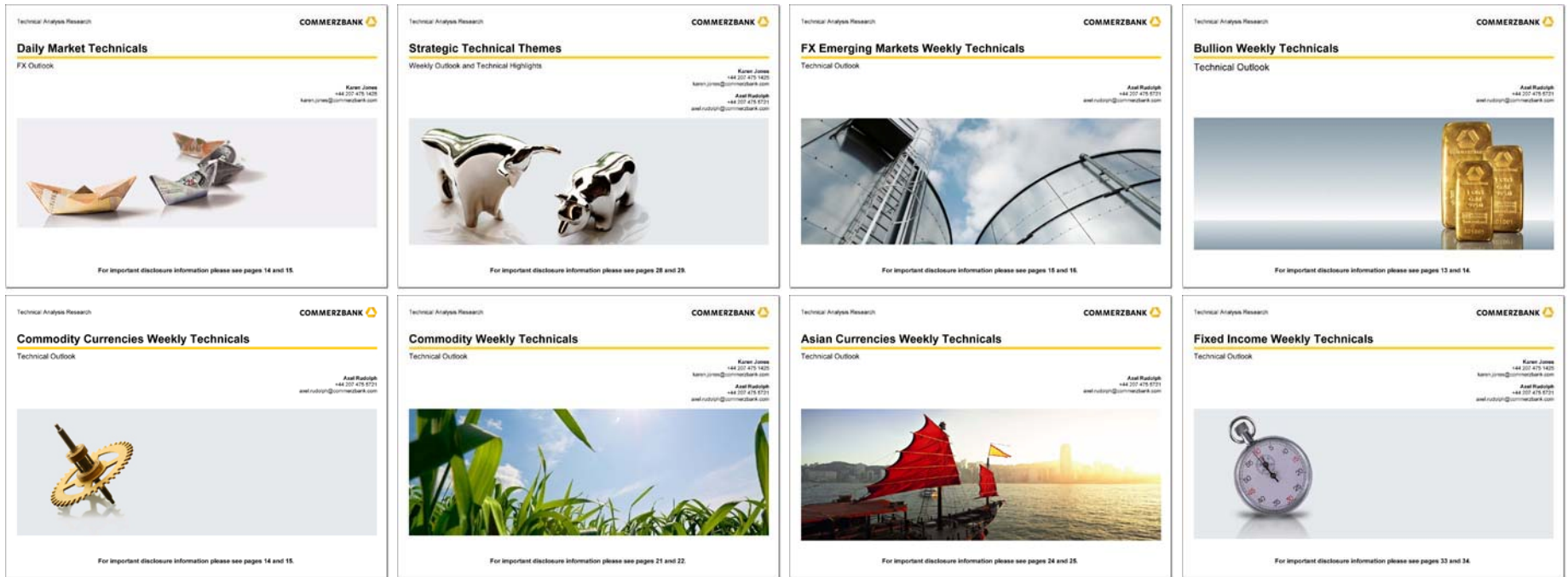
J. Welles Wilder developed the Average Directional Index (**ADX**) to evaluate the strength of a current trend. The ADX is an oscillator that fluctuates between 0 and 100. Even though the scale is from 0 to 100, readings above 60 are relatively rare. Low readings, below 20, indicate that the market is 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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