






Trade Idea + Strategic Technical Theme Update


Wednesday, 30 October 2013

Outlook and Technical Highlights

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| <p>2 Technical Analysis Commerzbank</p> <p>Source: Euromoney FX Survey 2013</p> <p>2013  EUROMONEY</p> | <p>2 FICC Technical Analysis Research Team – Best FX Research and Strategy Commerzbank</p> <p>Source: Technical Analyst Magazine Awards 2013</p> <p>2013  the technical analyst</p> |
| <p>1 Technical Analysis Banks Commerzbank</p> <p>Source: Euromoney FX Poll 2012</p> <p>2012  EUROMONEY</p> | <p>2 FICC Technical Analysis Research Team Best FX Research and Strategy Commerzbank</p> <p>Source: The Technical Analyst Magazine Awards 2012</p> <p>2012  the technical analyst</p> |



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Summary

Key Points:

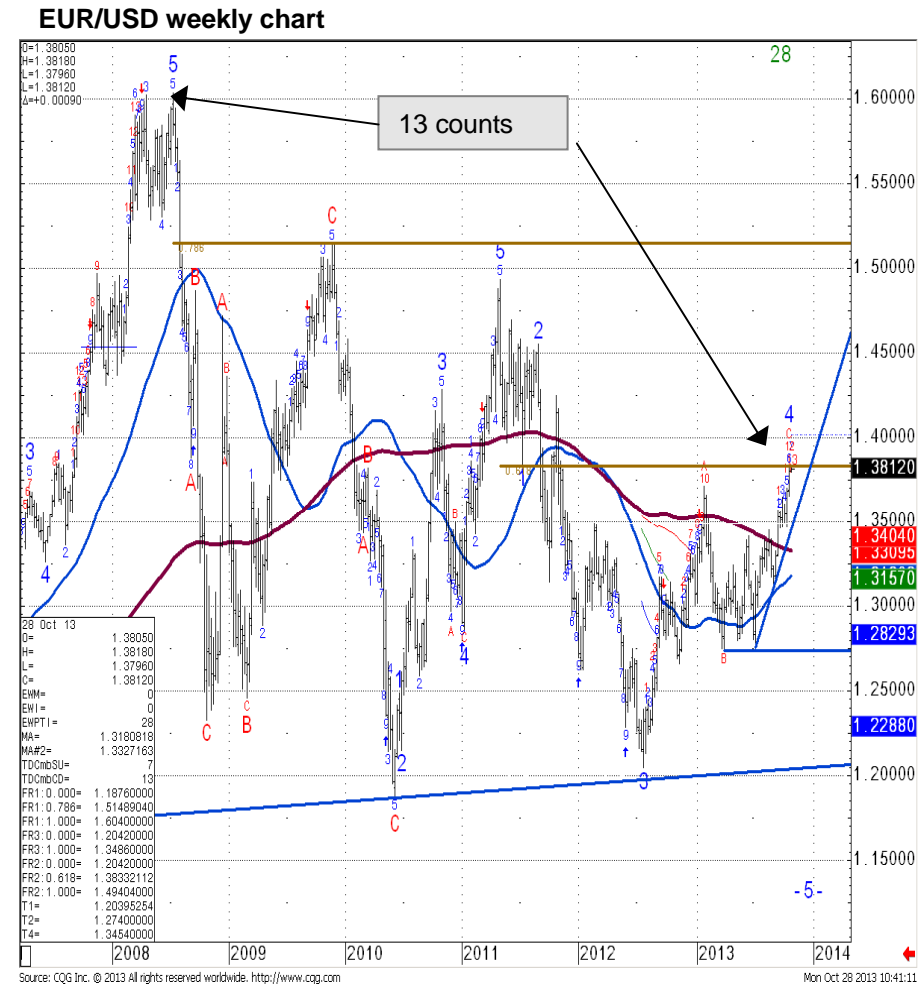
1. EUR/USD - signals suggest risk of failure ahead of 1.40 is high
2. GBP/USD – starting to erode the 3 month uptrend, short term risk is on the downside
3. We exited the long AUD/NZD trade idea at 1.1577, profit +2%
4. One of our strategic themes from a few weeks ago was to maintain a positive bias on USD/CAD – we would recommend now raising stops to the 1.0240 one year uptrend
5. Long Italy 10Y short Spain 10Y trend in place above -10/-9.85 2013 March high.
6. Italy VS Germany 10Y spread continues to hold its 2009-2013 uptrend at 231
7. 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

Technical Trade Ideas

| Date | Instrument | Trade Idea | Stop | Take Profit | Outcome | P&L |
|------------|------------|----------------------------------|----------------------------------|-------------|---------------------------------|-----|
| 02.10.2013 | AUD/NZD | Buy 1.1350 | Raise stop from 1.1210 to 1.1295 | 1.1650 | Long 1.1350, Took profit 1.1577 | +2% |
| 30.10.2013 | GBP/USD | Sell at market, add 1.6150 | Stop 1.6270 | 1.5705 | | |
| 30.10.2013 | Bund | Sell at market, add 142.60, stop | stop 144.40 | 137.00 | | |

EUR/USD - signals suggest risk of failure ahead of 1.40 is high

- EUR/USD has seen a sharp move higher over the past 3 months; it has risen from a low of 1.2755 to a high last week of 1.3833, a rally of approximately 8.5%. It has now reached the 61.8% retracement of the move down from the 2011 peak, this is located at 1.3833.
- We would also highlight that we have a 13 count on the weekly chart, which is something we have not seen since 2008. Directly overhead lies the 2008-2013 resistance line at 1.4002 and the 1.3958/50% retracement of the move down from the 2008 peak.
- With such a dense band of resistance, 13 counts on the daily and weekly charts and the weekly Elliot wave count, which also indicates that this is likely to be the end of a wave 4 move, the risk of failure here has increased.
- We have a short term support zone circa 1.3646/1.3577 (October high), but to confirm that the market has topped we would like to see failure at and a close below the 3 month up channel at 1.3405. This should be enough to signal a slide back to the 1.3104 September low and eventually back to the 1.2755 July low.



GBP/USD – starting to erode the 3 month uptrend, short term risk is on the downside

We have been neutral to negative on GBP/USD since the 25th September (see tracking key themes at the back of this publication).

We have been looking for the market to fail at the 1.6259 early October high and the 1.6302/69 2012 highs and 2009-13 resistance line tough overhead resistance. We are alert to failure at this critical zone and note the 13 count on the daily chart from the TD combo indicator (TD resistance lies at 1.6335) and the large divergence of the daily RSI.

It is now eroding its short term uptrend – this should trigger losses to the recent low and initial Fibo support at 1.5896/1.5915. Failure there will target the 38.2% Fibonacci retracement of the July-to-October advance at 1.5705 and possibly 1.5535, the 50% retracement.

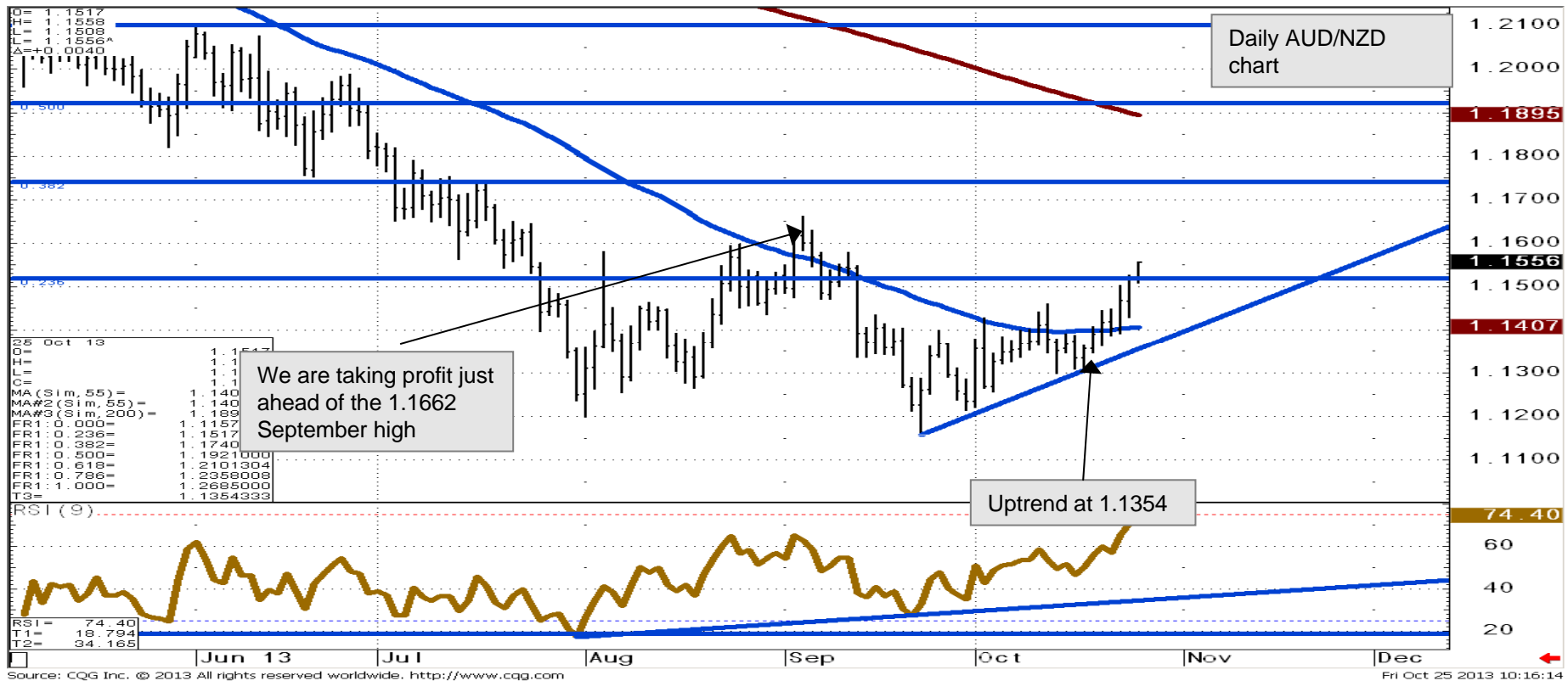
We have been holding shorts in our daily publication for a while but now wish to add further tactical shorts. We would sell at market, add 1.6150, stop 1.6270. Take profit 1.5705.

Daily GBP/USD Chart

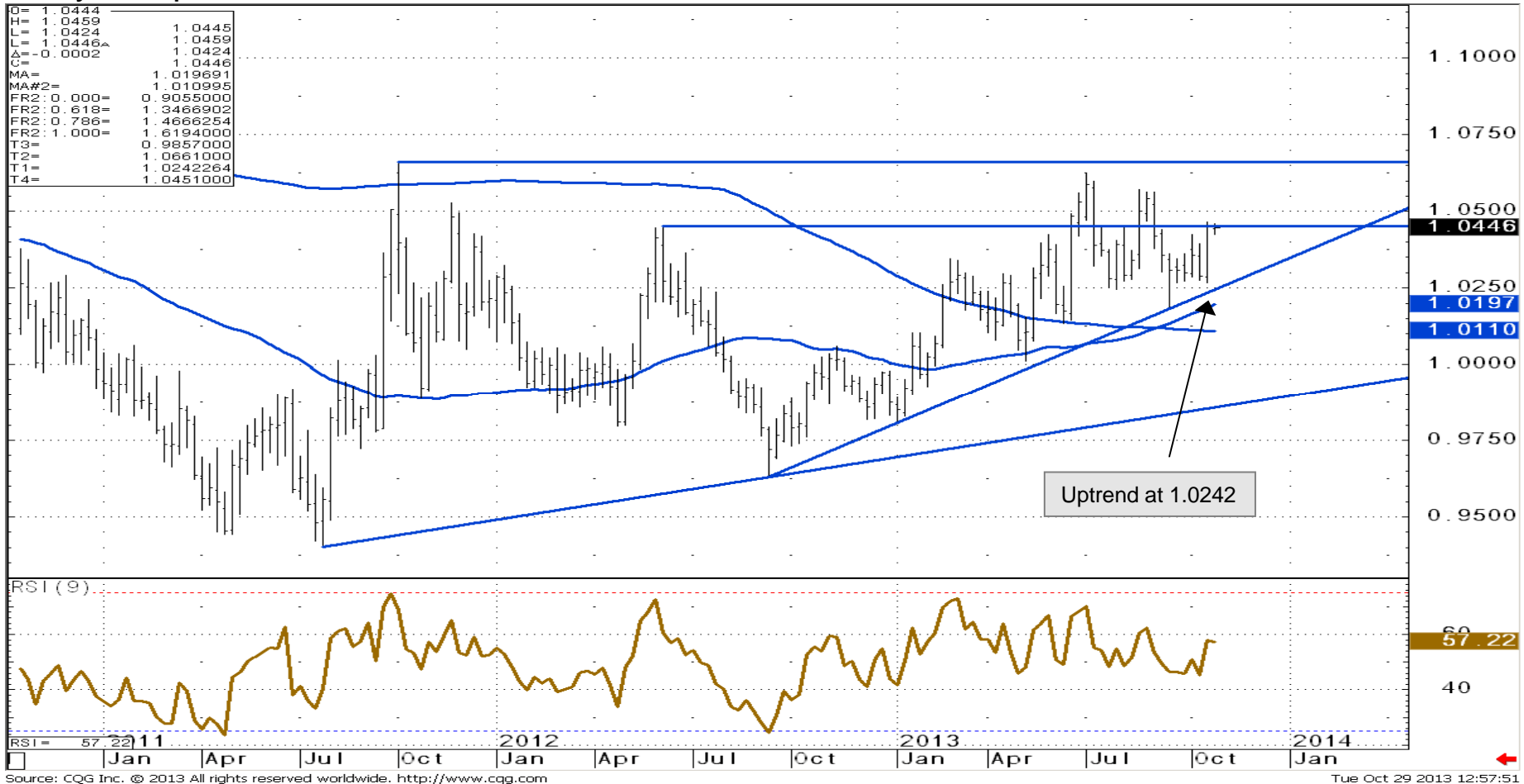


We exited the long AUD/NZD trade idea at 1.1577

We originally entered this trade on the 2nd October after we highlighted the daily and weekly divergence of the RSI and also the 13 count on the weekly chart. Our original take profit target was at 1.1650, but having seen an acceleration higher last week we locked in some profit at 2%.

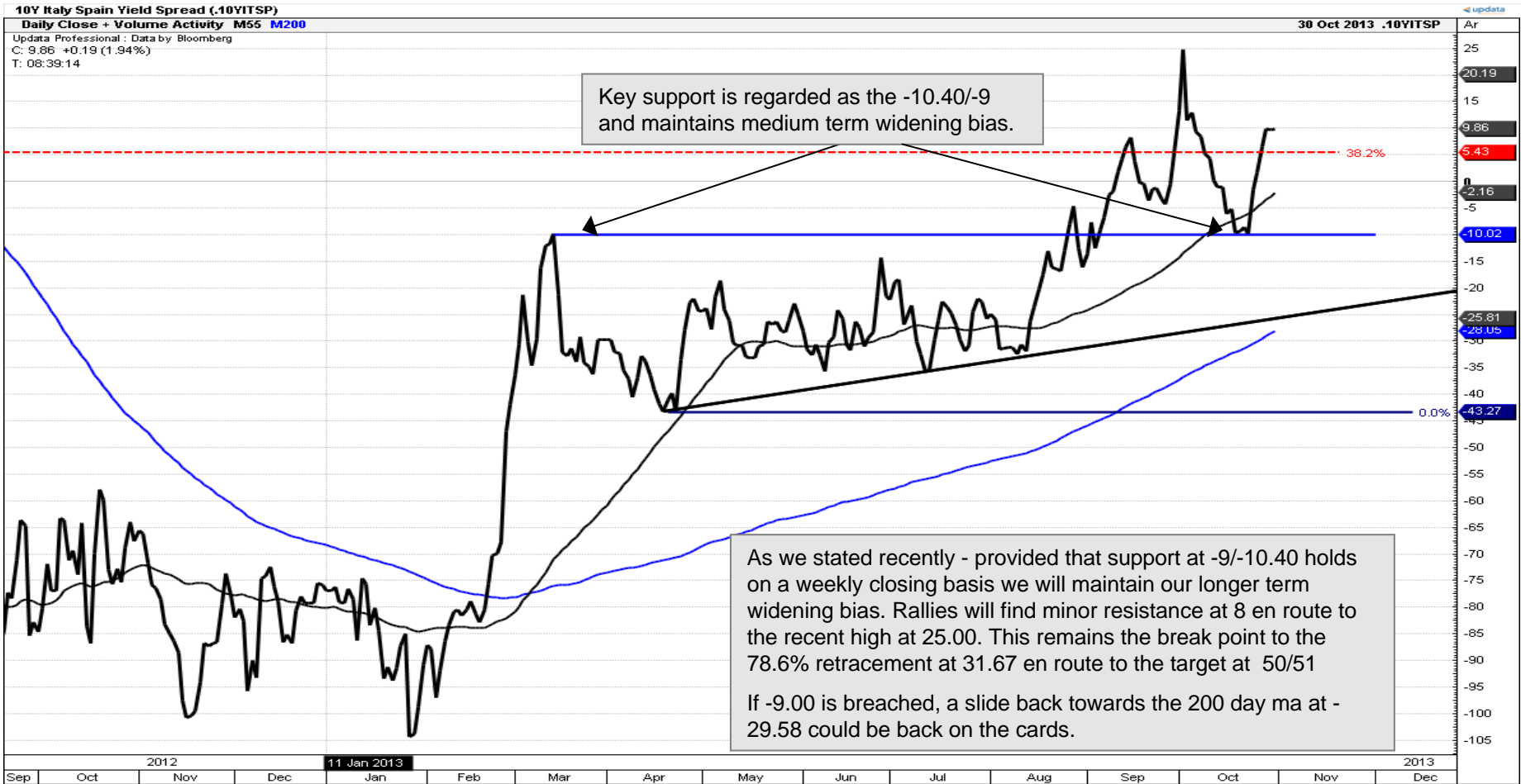


One of our strategic themes from a few weeks ago was to maintain a **positive bias on USD/CAD** – we would recommend now raising stops to the 1.0240 one year uptrend



Italy VS Spain 10Y spread

Long Italy 10Y short Spain 10Y trend in place above -10/-9.85 2013 March high








Italy VS Germany 10Y spread continues to hold its 2009-2013 uptrend at 231




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







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 1.6370, lower stop to 1.6270 | 1.5705 |  |
| 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% |  |
| 09.10.2013 | USD/CAD positive above 1.0210 | Target 1.0600 | 25.10.2013 Raise stop to 1.0230. |  |
| 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. | |  |
| 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 |  |






Tracking Key Technical Themes - FX

| 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 |  |
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Tracking key Technical Themes - Fixed Income

| Date | Theme | Stop on view/Target | Additional Comment | Outcome |
|------------|---|---|--|--|
| 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 | Negative longer term since end of May (price circa 144/145) |  |
| 06.09.2013 | Sovereign spreads – Italy 10Y VS Spain 10Y. Target is 0.50/0.52 and the initial resistance at 0.31. | Target 0.50. Stop -11.50. Take profit at 25 | Call made when price circa -7. Currently corrective (narrowing). |  |
| 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). | Stop 228, target 274.40 (200 day m.a.) | Call made circa 240 |  |
| 16.09.2013 | US 2-10 swap curve. Short term narrowing should halt in the 2.21 region. | Market has reached this support | Needs to regain the 55 day ma at 2.37 to confirm widening |  |

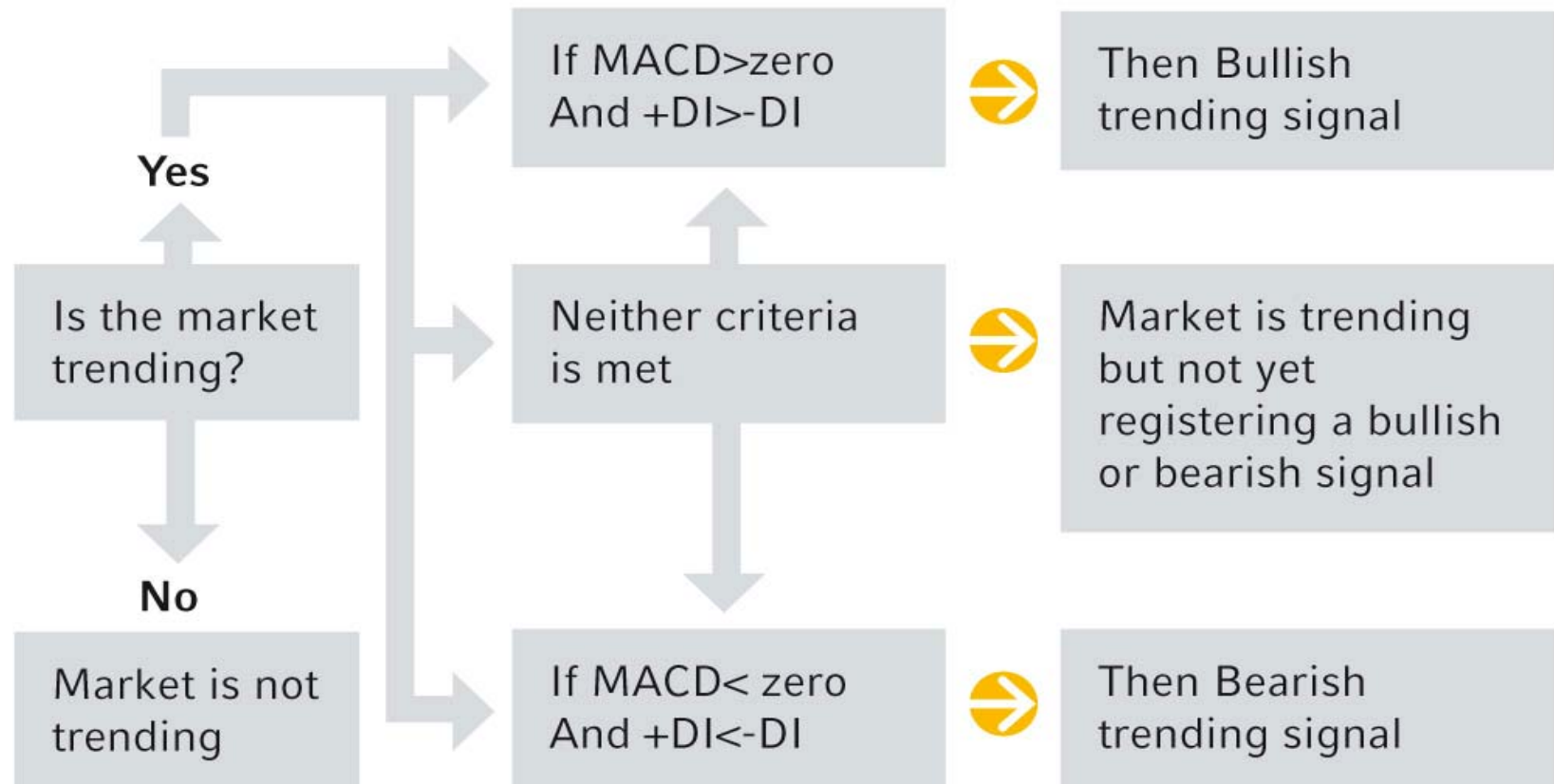
Historical Key themes

| 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 |  |
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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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FX Outlook




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Strategic Technical Themes
Weekly Outlook and Technical Highlights



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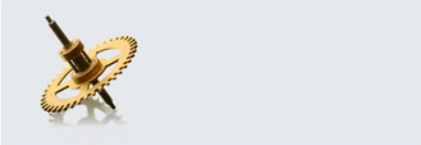


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