

Strategic Technical Themes

Monday, 22 July 2013

Weekly 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  thetechnicalanalyst</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 </p> |
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For important disclosure information please see end of document

Summary

Foreign Exchange:

US Dollar is a mixed bag but AUD/USD just holding sideways - maintain overall negative stance. AUD/CAD - Correction higher appears to be already over. AUD/JPY still indicated to struggle at the 200 day ma and Feb low at 92.97/93.21.

Corrective rebound on NZD/USD should terminate between here .8000/.8092 and we look for failure shortly.

EUR/USD - near term strength is expected to terminate circa 1.3275 . EUR/AUD - divergence of the weekly RSI, the TD perfection set up and 13 count on the weekly chart all point to a corrective set back

Fixed Income:

The bund, bobl and Schatz are all approaching Fibonacci retracement/resistance, which is expected to hold and provoke failure. Recent strength although extensive is viewed as corrective only.

The EU 10Y, 5Y and 2Y swaps have all mean reverted to their 200 day moving averages and are expected to stabilise and recover.

The bounce off the 124-115 current July low in US 10Y T-Notes is about to encounter resistance at 127-165/128-14.

Although we remain long term bullish on US 10Y and 5Y swaps, we are seeing further consolidation following recent sharp moves higher.

Recent short term narrowing in the US 2-10Y and US 2-5Y swap curves should soon diminish and give way to renewed widening.

Credit

The ITRAXX 5Y Europe, Crossover and Senior Financial indices have all come off further from their June highs but should see some consolidation at current supports.

Bullish and bearish trending signals

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

| Long Name | C1 | C2 | C3 | C4 |
|---|----|----|----|----|
| Generic 1st 'RX' Future | ✓ | ✓ | ✓ | ✓ |
| Heating Oil Future (continuous) | ✓ | ✓ | ✓ | ✓ |
| PLATINUM SPOT \$/OZ | ✓ | ✓ | ✓ | ✓ |
| Generic 1st 'JB' Future | ✓ | ✓ | ✓ | ✓ |
| Generic 1st 'DU' Future | ✓ | ✓ | ✓ | ✓ |
| 10YR MINI JGB FUT Jun13 | ✓ | ✓ | ✓ | ✓ |
| S&P 500 INDEX | ✓ | ✓ | ✓ | ✓ |
| CAD-JPY X-RATE | ✓ | ✓ | ✓ | ✓ |
| USDIDR Spot Exchange Rate - Price of 1 USD in IDR | ✓ | ✓ | ✓ | ✓ |
| PALLADIUM SPOT \$/OZ | ✓ | ✓ | ✓ | ✓ |
| GBP-JPY X-RATE | ✓ | ✓ | ✓ | ✓ |
| EURO SPOT | ✓ | ✓ | ✓ | ✓ |
| FTSE 100 INDEX | ✓ | ✓ | ✓ | ✓ |

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

| Long Name | C1 | C2 | C3 | C4 |
|---|----|----|----|----|
| USDPLN Spot Exchange Rate - Price of 1 USD in PLN | ✓ | ✓ | ✓ | ✓ |
| USDKRW Spot Exchange Rate - Price of 1 USD in KRW | ✓ | ✓ | ✓ | ✓ |
| EUR SWAP ANNUAL 5 YR | ✓ | ✓ | ✓ | ✓ |
| SWEDISH KRONA SPOT | ✓ | ✓ | ✓ | ✓ |
| EUR-PLN X-RATE | ✓ | ✓ | ✓ | ✓ |
| PALLADIUM SPOT \$/OZ | ✓ | ✓ | ✓ | ✓ |
| EUR SWAP ANNUAL 10 YR | ✓ | ✓ | ✓ | ✓ |

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 11:05AM

Technical Trade Ideas

| Date | Instrument | Trade Idea | Stop | Take Profit | Outcome | P&L |
|------------|------------|----------------------------|--------|-------------|-----------------|-----|
| 08.07.2013 | bund | Sell 143.60, add 143.98 | 144.65 | 140 | Short at 143.79 | |
| | | | | | | |



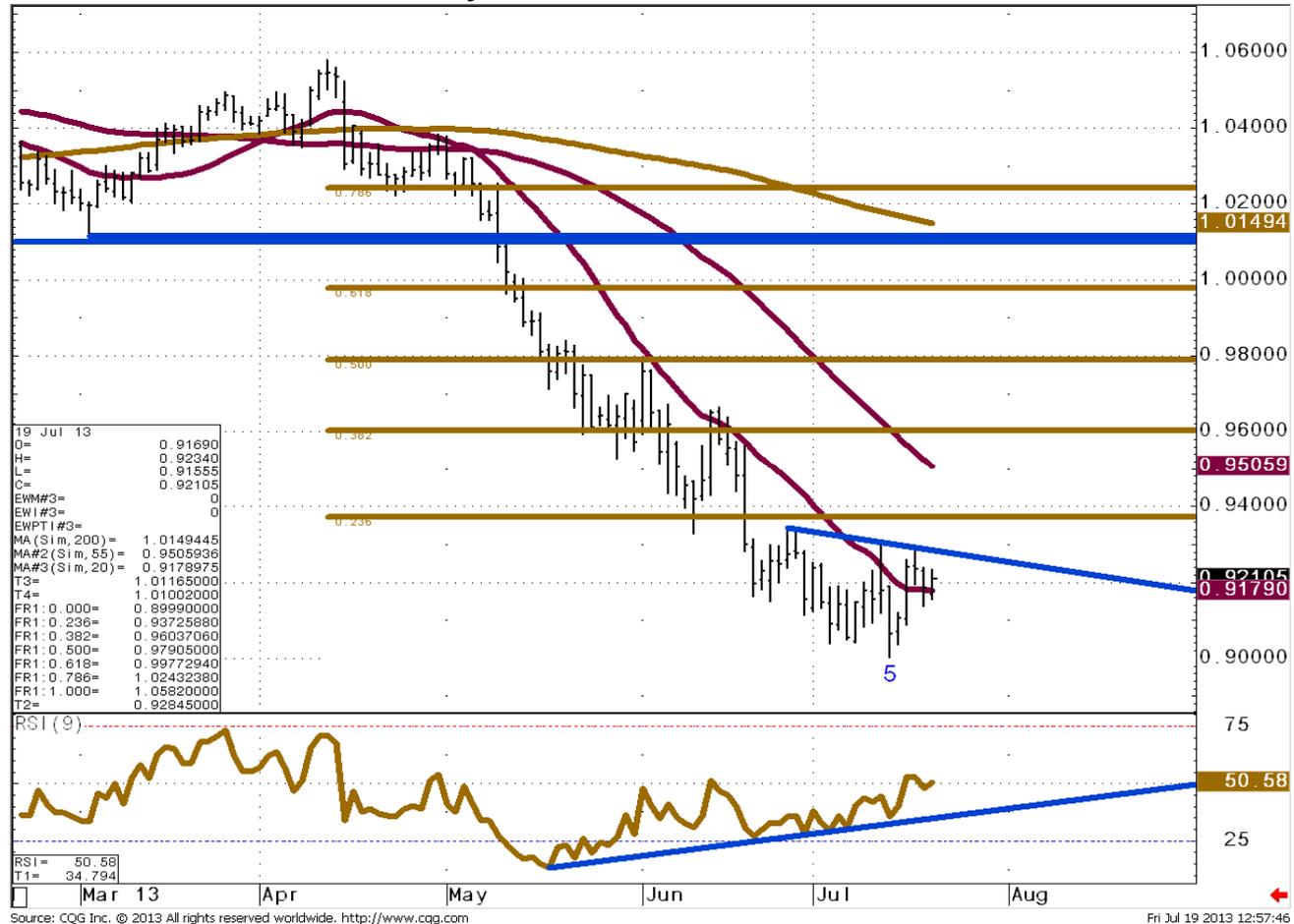
Foreign Exchange:

US Dollar a mixed bag but AUD/USD just holding sideways - maintain a longer term negative stance

AUD/USD has held broadly sideways for over one month – this serves the purpose of neutralising the momentum indicators and giving time for the market to absorb its losses. While capped by key resistance at .9388/.9404 (the 2011 low and highs from 2009 and 2010) and while capped here our negative bias is entrenched. To trigger another leg lower we suspect that the market will need to sustain a break back below .9000.

Short term we note that the intraday charts are suggesting that the current correction will extend to the .9400 region, but should then struggle. Longer term the close below .9147 which has been seen recently is bearish and we consider that the next target of .8550 is engaged.

Daily AUD/USD Chart



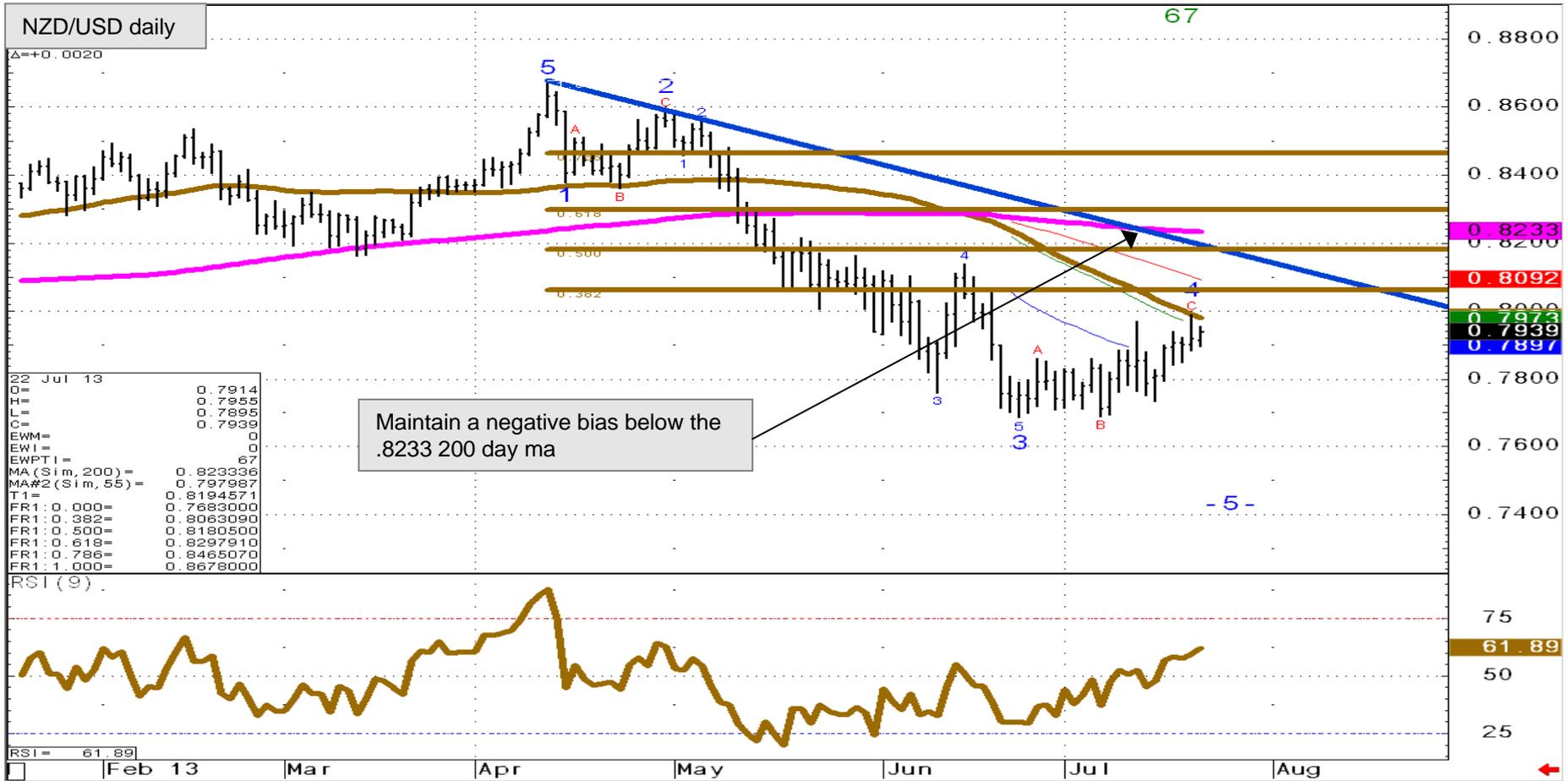
AUD/CAD - Correction higher has failed ahead of the 5 month downtrend at .9643



AUD/JPY still indicated to struggle at the 200 day ma and Feb low at 92.97/93.21



Corrective rebound on NZD/USD should terminate between here .8000/.8092

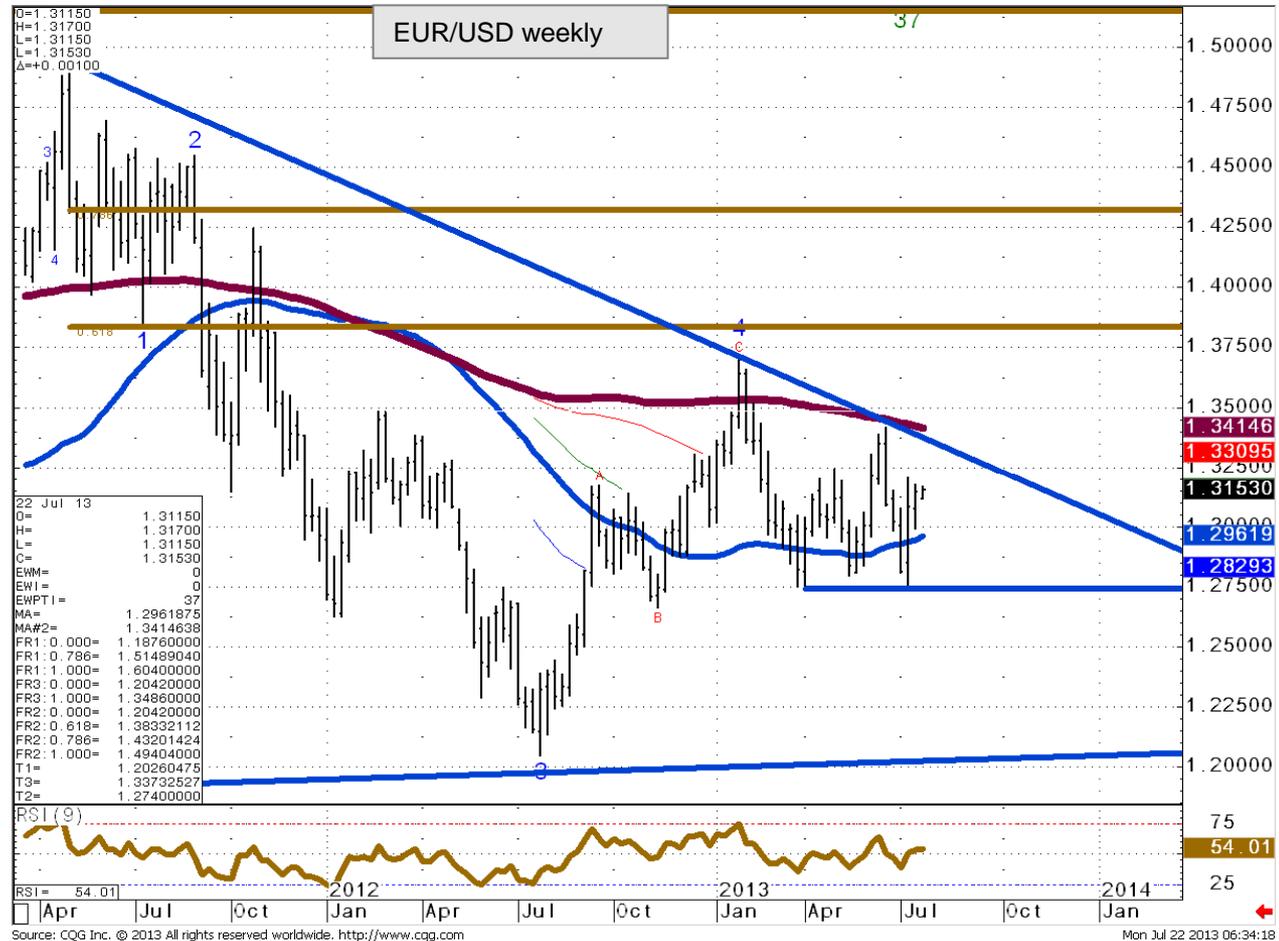


EUR/USD - near term strength is expected to terminate circa 1.3275

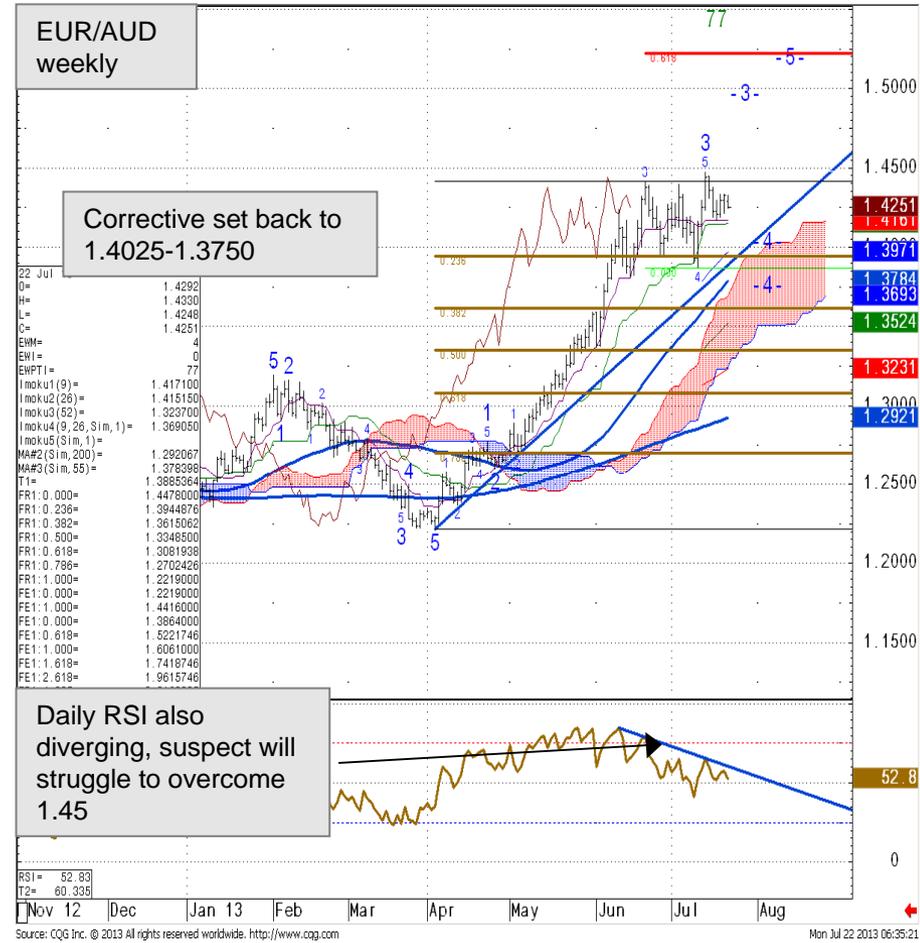
While capped by the 1.3415/55 week ma, our bias will remain negative

EUR/USD spent most of last week holding below the 1.3208 high charted on the 11th July. This leaves our outlook unchanged and the intraday charts continue to suggest that there is scope for a move towards the 1.3208 high (charted on the 11th July). Having said that, we should see failure ahead of the 78.6% Fibonacci retracement at 1.3275. Dips are currently indicated to hold very near term in the 1.2985/40 band. Loss of this zone is needed to re-target the 1.2755/40 recent low and April low.

While further chopping around within the 1.2940-1.3275 limits is likely we look for the more important resistance at 1.3373/1.3415 to hold. This is where the 2011-2013 downtrend, the 200 week ma and the June high meet. While capped here, an overall downside bias will persist.



EUR/AUD - divergence of the weekly RSI, the TD perfection set up and 13 count on the weekly chart all point to a corrective set back





Fixed Income:

Bund Futures - Daily Chart

Strength remains corrective only.

- September Bund futures bounce from the 139.90 level is continuing and despite the fact that the market has eroded its 55 day ma at 143.41, we continue to believe that we will see failure shortly. The Elliot wave count is indicating that this move is nothing more than an 'a-b-c' correction and the 61.8% retracement is looming at 144.62. We also note the TD perfected set up on the daily chart and another 13 count on the 240 minute chart continue to point to likely failure.
- Resistance above 143.62 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. 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.

Bund Futures September Chart



EU 10Y Yield

Corrective set back has reached the 1.50 Elliott target.

- › The EU 10Y yield rally is correcting lower near term and has reached the 1.50 Elliott wave count target. Between here and the 200 day ma at 1.46, we look for the yield to stabilise and recover.
- › It recently registered a daily close above the major resistance at 1.74 but has yet to register a weekly close above here. Currently the market is downside corrective and we await a WEEKLY close above 1.74 as added confirmation but this is merely likely to DELAY a concerted break higher at this stage.
- › Provided that the 1.46/1.4440, the 200 day and the 55 week moving averages are not disturbed the base remains viable together with its 2.36 upside 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



Source: CQG Inc. © 2013 All rights reserved worldwide. <http://www.cqg.com>

Fri Jul 19 2013 08:44:06

EU 10Y Swap

Looking for correction lower to be well supported 1.79/1.74 (50% retracement and the 200 day ma)

- › The EU 10Y swap's downside correction looks to be stabilising above the 1.79 50% retracement. Provided that we see the market rebound between here and the 200 day ma at 1.74, we will consider that the market remains well placed to resume its up move. In this vicinity we also find the 1.7550 55 week moving average.
- › The market recently cleared long term Fibonacci retracement and psychological resistance at 1.97/2.00 with ease and has also recently breached the June 2012 high at 2.09. The market has registered a weekly close above 1.94 and in doing so has confirmed that the base is in place. Longer term target is 2.32, the 38.2% retracement of the move down from 2011
- › Longer term we view the market as having based at 1.42. We would like to highlight the huge divergence on both the weekly and the monthly RSIs which are long term bullish signals.
- › Should the market not hold the 1.74 support (not favoured), this will simply neutralise the chart at this stage, triggering weakness to 1.70 then 1.5760.

EU 10Y Swap Daily Chart



Source: CQG Inc. © 2013 All rights reserved worldwide. <http://www.cqg.com>

Fri Jul 19 2013 08:55:16

Bobl Futures

Rebound is expected to terminate ahead of 126.90, the 78.6% retracement.

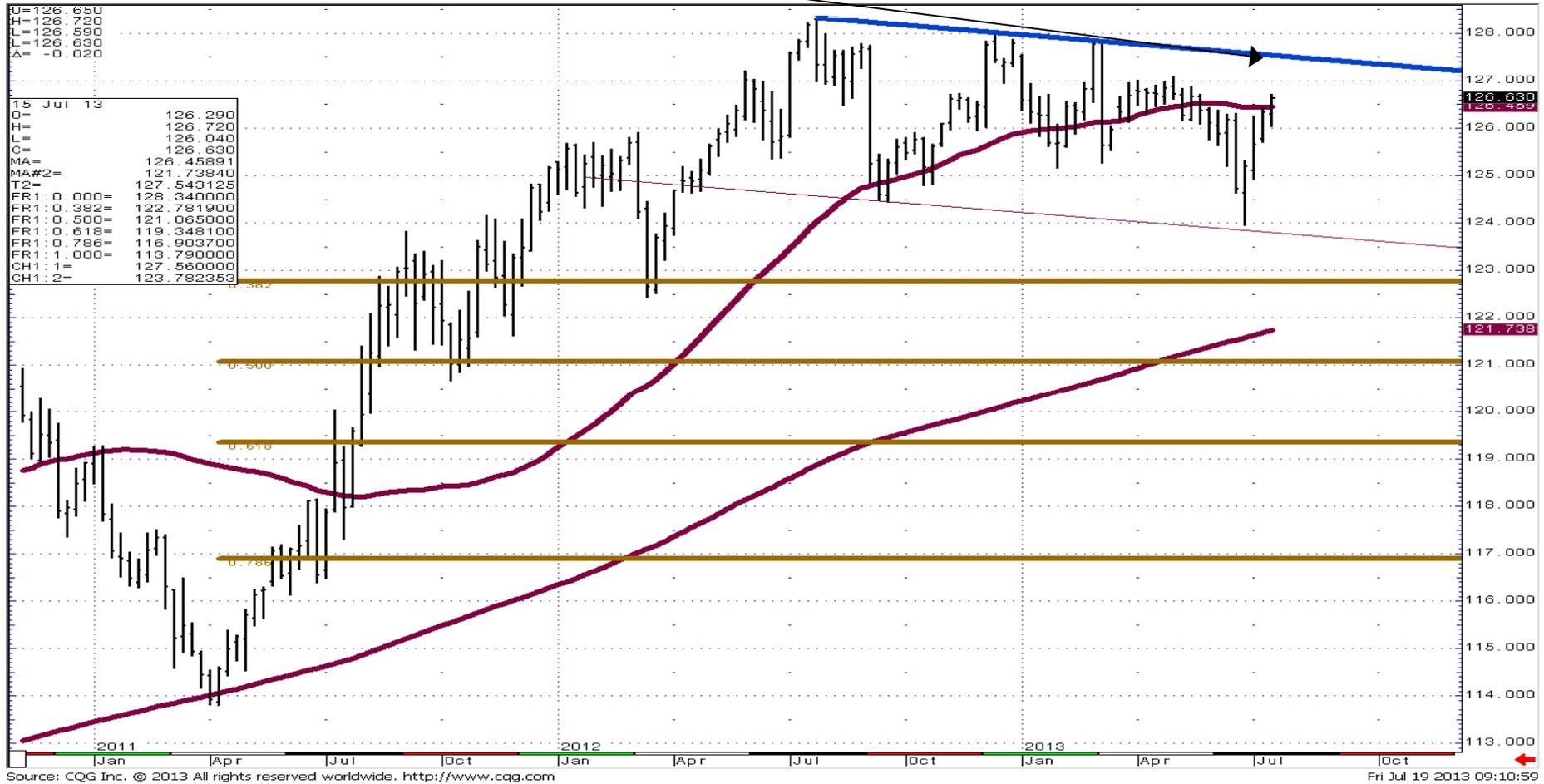
- September Bobl futures have continued to make gains and are now approaching the 126.90/78.6% retracement and we look for the market to fail here. Once this has been seen, a slide back towards the 124.00 region is favoured.
- Below the market lies the near term support line at 126.55 and a close below here will alleviate immediate upside pressure for a slide back to 125.33/125.00 and 124.54 and this guards 123.80 and the 123.40 January low on the equalised chart. Below here we target 122.42 the 2012 low and the 121.74 200 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. Key resistance is the top of the 2012-13 resistance line at 127.56 – a longer term bearish bias will remain entrenched while we trade below here.

Bobl Futures Daily Continuation Chart



Bobl Futures - Weekly

Resistance line at 127.55



Source: CQG Inc. © 2013 All rights reserved worldwide. <http://www.cqg.com>

Fri Jul 19 2013 09:10:59

EU 5Y Swap – Daily Chart

Retracement likely to terminate ahead of 1.02-0.98 look for signs of recovery.

- > The EU 5Y Swap has sold off to its 1.02-0.98 Elliott wave target and is expected to recover between here and the 200 day ma at 0.95.
- > Once the swap has stabilised, 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 base. This offers an upside measured target to 1.77. Just ahead of here lies the 2008-2013 resistance line at 1.55/56 and 1.69, the 2010 low. Initial resistance is the 1.46/1.50 psychological level.
- > The 55 week ma is also found at 0.967 and is reinforced by the 200 day moving average at 0.95.
- > While above here the market will remain well placed to break higher. Below here 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

Rally is expected to terminate ahead of the 110.67/68 55 week moving average and Fibonacci retracement.

- › September Schatz futures is approaching the 110.67/78.6% retracement of the move down from May. We also find the 55 week ma here at 110.68 and look for these to hold the topside and provoke failure. We note the key day reversal charted on Friday and this should help to push the market back to last weeks low of 110.49.
- › Loss of 110.49 (this weeks low) should be enough to signal losses to 110.35/28 then 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.

Schatz Futures Daily Continuation Chart

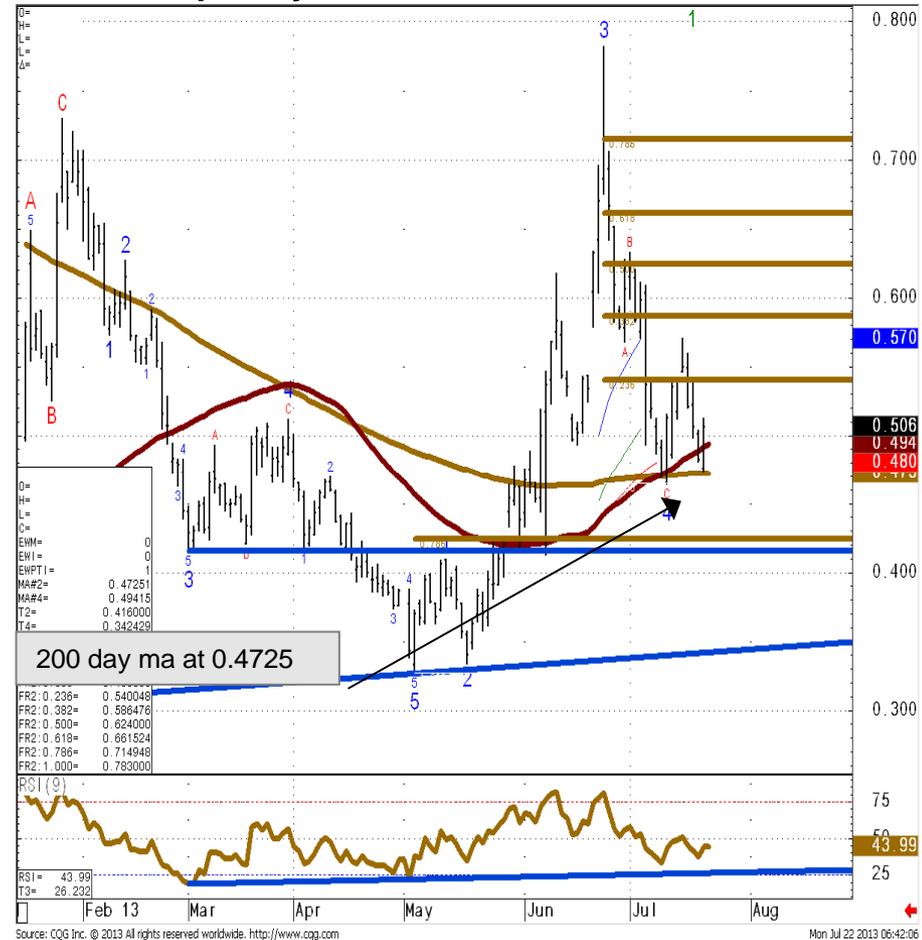


EU 2Y Swap

We look for the market to base 0.4725/0.42. Market has charted a key day reversal from its 200 day ma

- › The EU 2Y swap has again eased lower to retest the 200 day moving averages at 0.4725. We should see the market stabilise between here and the 0.42 pivot (February low). We note that the Elliott wave count is indicating that this is the end of this down move (wave 4) and we favour recovery from here.
- › A recovery above 0.57 (last weeks high will target 0.6250/0.6330 (July high) en route towards the 0.783 June high.
- › The market has recently failed to chart a weekly close above 0.73 and has seen a vicious retracement. The sell off is viewed as a correction only. The swap has recently based at .33 and the 2012 low at 0.30 is viewed as the major low/floor for the down move. The market has decent interim support at .42, the March low.
- › A weekly close above 0.73 would be viewed as significant and complete a sizeable base, which would offer an upside measured target to 1.16 (long term target).
- › We believe that we are at the end stage of the long term down move. Above 0.73 initial resistance lies at 0.82, the 23.6% retracement of the move down from 2011.

EU 2Y Swap Daily Chart



EU 2-10Y Swap Curve

Market has failed interim target of 1.5050 and is narrowing near term

- › The EU 2-10Y swap curve met its next interim target of 1.5050, the 61.8% retracement of the move down from 2010. The market has seen quite emphatic rejection from here and is still seeing a correction lower (narrowing) near term.
- › We would allow for a retracement back towards the 1.3240/1.2690 band – the location of the 55 and 200 day moving averages.
- › Slightly longer term, the broken trend channel at 1.2540, 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.

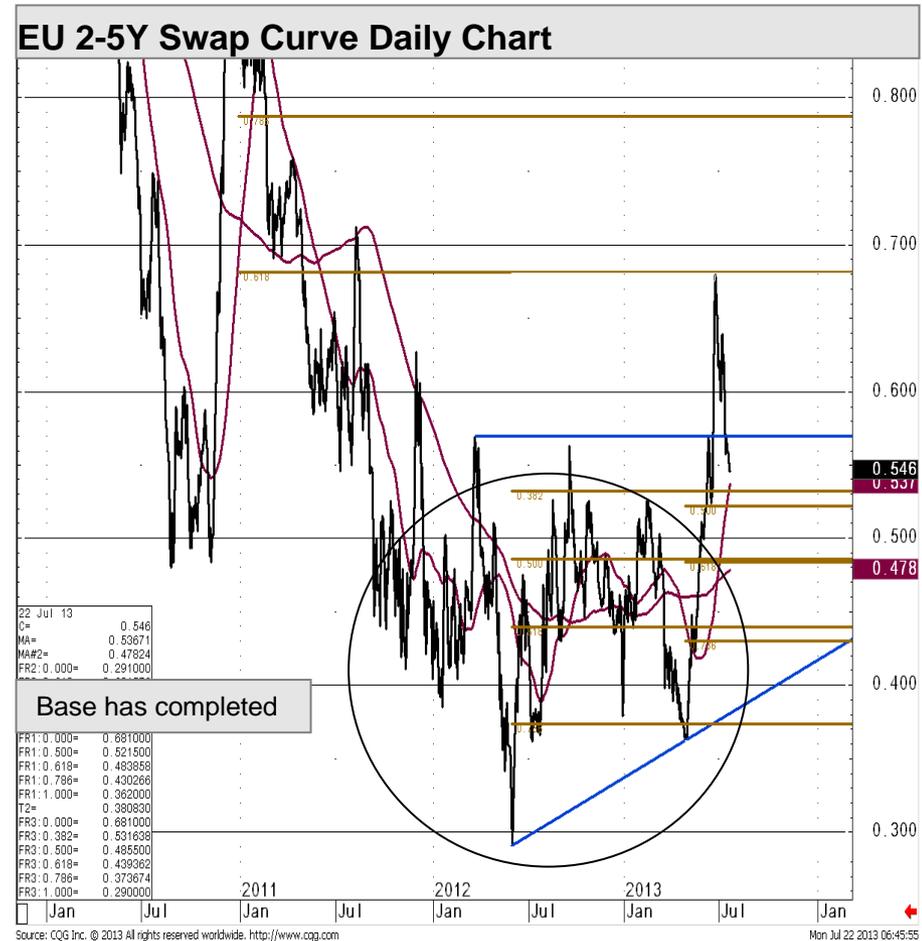
EU 2-10Y Swap Curve Daily Chart



EU 2-5Y Swap Curve

Correction lower remains in force

- › The EU 2-5Y swap curve continues to ease back from the 61.8% retracement of the move down from 2011 - this is located at 0.6815. This narrowing is viewed as corrective only but is expected to extend to the 55 day moving average at .5370 and possibly .4855/.4780. This is the 50% retracement of the move up from 2012 and the 200 day ma.
- › 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 0.4780, the 50% retracement, would neutralise the chart once more and signal a slide to 0.40.



EU-US 10Y Swap Spread

Market has reversed just ahead of -1.000

The EU-US swap spread has maintained downside pressure (widening) but appears to have reversed ahead of -1.000.

We would allow for a retracement towards the 0.7520 2010 low, where we suspect the rally will fail.

While rallies remain capped by the 55 day ma at -0.6116 the widening bias remains fully entrenched.

Longer term we look for losses back to 14 year uptrend at -1.0417

EU-US 10Y Swap Spread Daily Chart



EU-US 10Y Swap Spread - weekly

Longer term target is the -1.0417 14 year uptrend

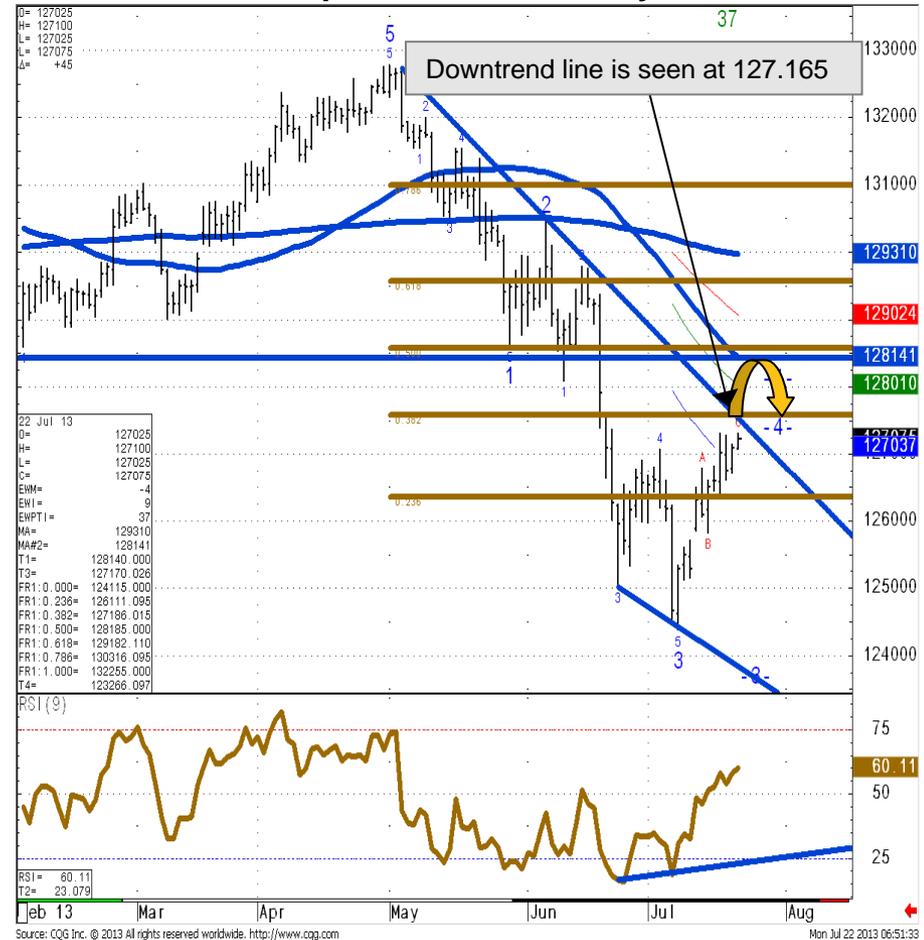


US 10Y T-Notes - Daily Chart

Bounce off the 124-115 current July low is about to encounter resistance at 127-165/128-14

- › September 10Y T-Notes continue to recover from their current July low at 124-115 and are fast approaching the two month downtrend line at 127-165. Between it and the 55 day moving average at 128-14 it is expected to struggle.
- › Once the decline resumes and a fall through 124-115 is being seen, the May 2012 low at 123-005 will be in focus as well as 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.
- › 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

Eroding the three month uptrend line and likely to reach the 2.41 area

- › The US 10Y yield continues to come off the current July high at 2.76, a level last seen in August 2011, and has eroded the three month uptrend line at 2.47. Failure leaves the 2.41 current July low in focus.
- › Should this level also be slipped through, the June 11 high at 2.30 will be back in the limelight. Once the rise resumes, 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.
- › 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 2.23 and the March high at 2.09.

US 10Y Yield Daily Chart

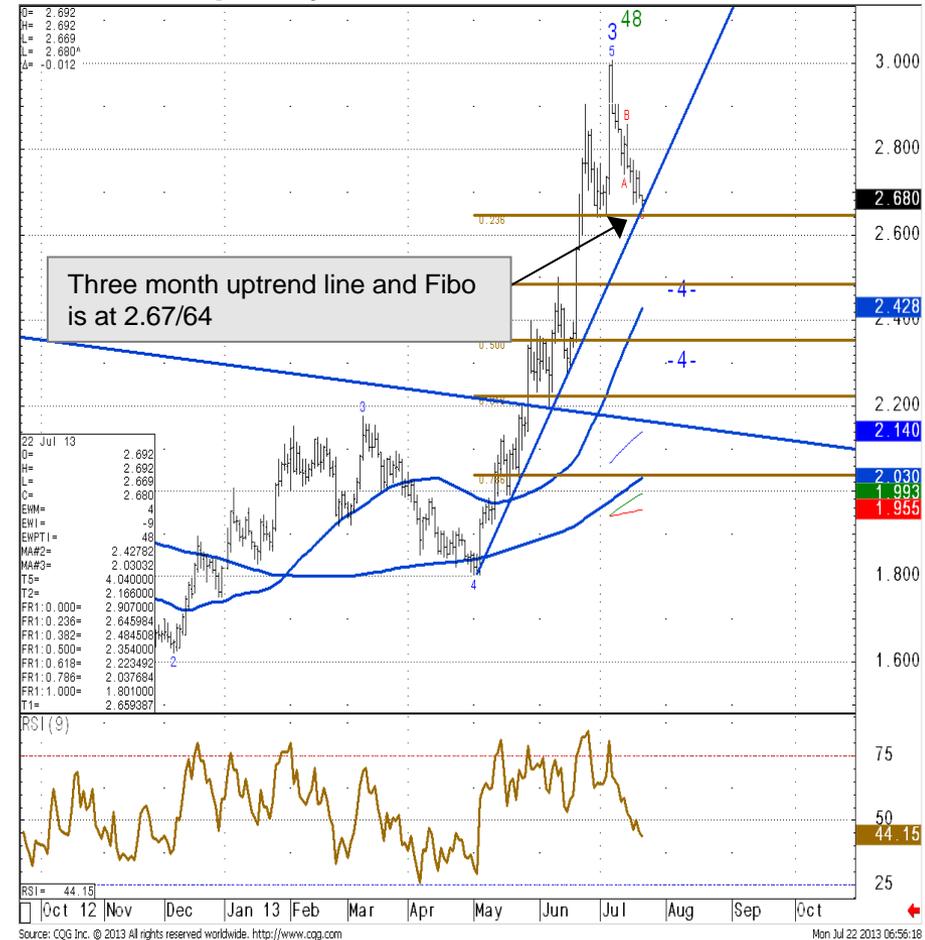


US 10Y Swap - Daily Chart

Slides back towards the three month uptrend line and late June low at 2.65/64

- > The US 10Y swap continues to come off its current July peak at 3.00 and nears the three month uptrend line at 2.67 and the 2.64 late June low. In this support area it is likely to level out.
- > Further support can be seen between the 38.2% Fibonacci retracement of the May-to-July rally at 2.55 and the 2.50 mid-June high.
- > Once the consolidation has run its course and the psychological 3.00 mark has been bettered, the 38.2% Fibonacci retracement of the 2007-12 downtrend at 3.22 and the September and November 2009 lows at 3.24/25 will be in focus.
- > These levels represent our longer term upside targets.
- > We will retain a bullish view while the swap stays above the 2.20 June low.

US 10Y Swap Daily Chart

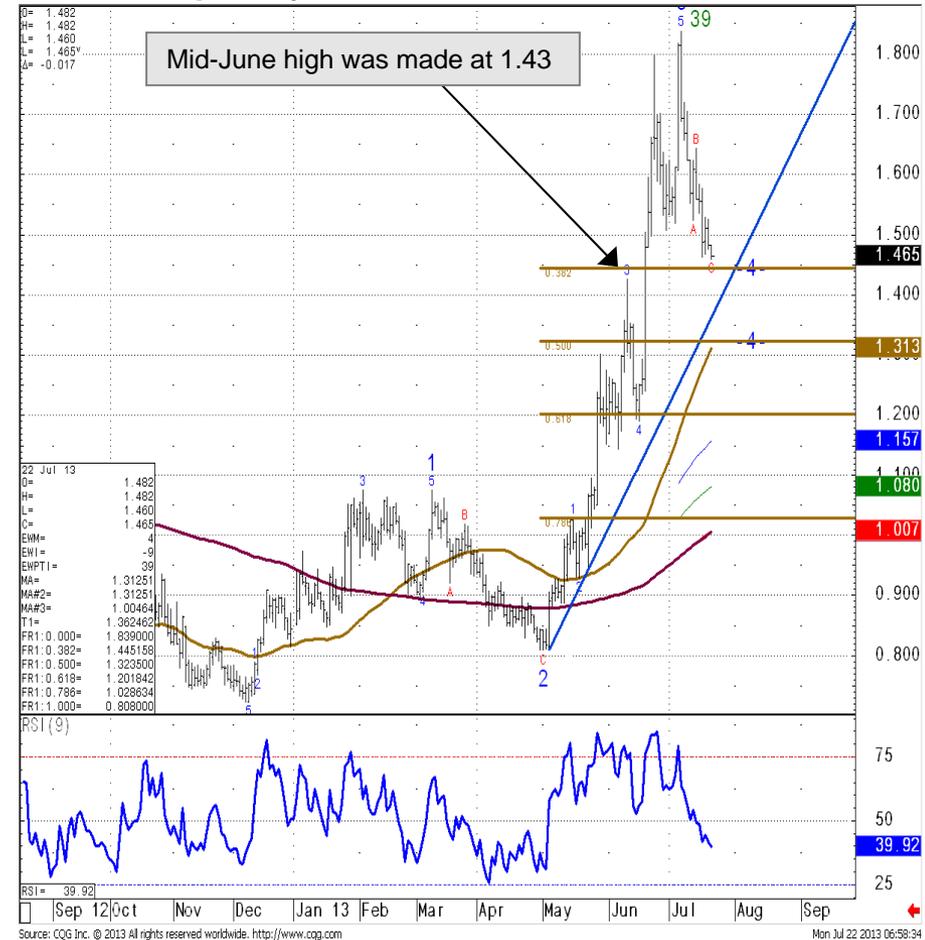


US 5Y Swap - Daily Chart

Is still retracing lower from its current July high at 1.84 and is to probe the 1.43 mid-June high

- > The US 5Y swap still comes off its current July high at 1.84 and is expected to touch the 1.43 mid-June high within the next few days.
- > It is likely to stabilise around this level.
- > Were this not to be the case, we would have to allow for a deeper retracement back to the three month support line at 1.36 to unfold before the new long term uptrend takes the upper hand again.
- > Further support comes in between the 1.19 mid-June low and the 1.145 June trough. While this support area underpins, medium term upside pressure should be maintained.
- > Once the 1.84 level has been bettered, the psychological 2.00 mark will be back in the picture.
- > We will keep our long term bullish forecast while the swap remains above the April low at .81.
- > Our long term (2014 onwards) upside target can be found in the 2.50/64 region where the 2011 highs were made.

US 5Y Swap Daily Chart

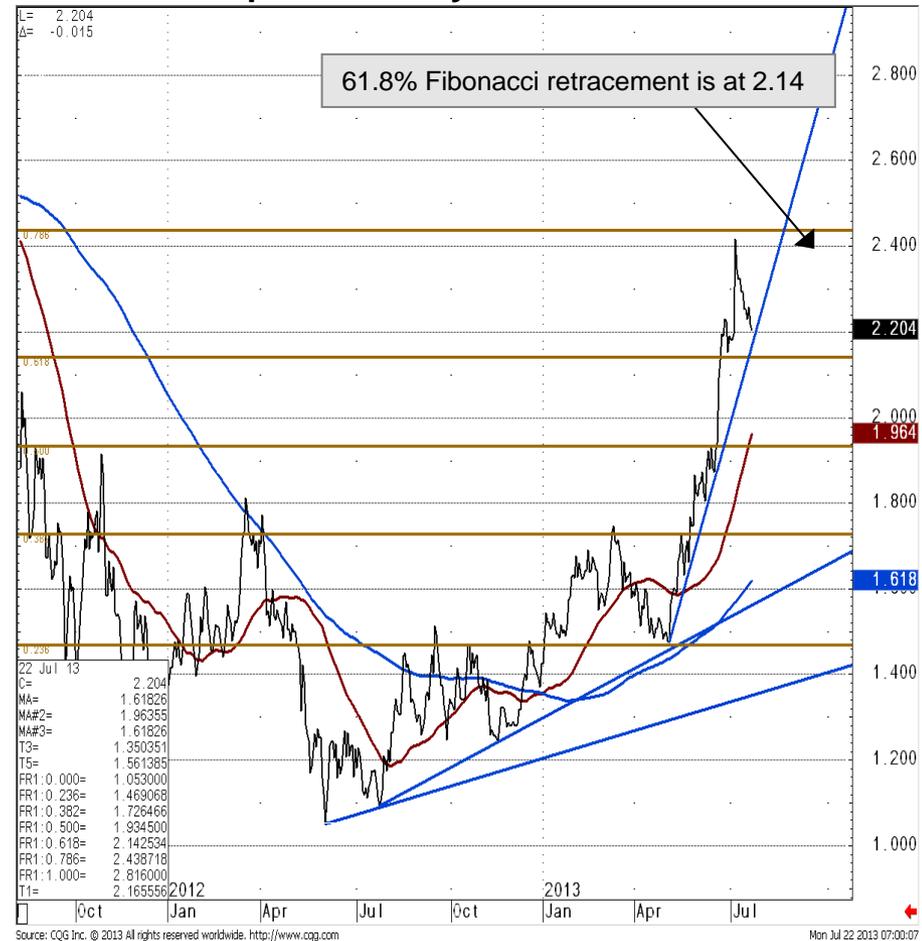


US 2-10Y Swap Curve - Daily Chart

Has narrowed further but is likely to stabilise in the 2.20/2.14 region

- › The US 2-10Y swap curve widened all the way to 2.415, a level last seen in August 2011, before narrowing back to the 2.23 June high. This has now been eroded and the next lower 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, should offer good support.
- › Should this not be the case, a slip back towards the psychological 2.00 mark could be back in the cards before renewed widening should take the swap curve back to the 2.415/435 resistance area (current July high and 78.6% Fibonacci retracement of the 2011-13 narrowing phase).
- › Above it lurk the 2.55 March 2011 low and the 2.59 June 2011 high.
- › We will retain our long term widening bias while the swap curve remains above the 55 day moving average at 1.96.

US 2-10Y Swap Curve Daily Chart





Credit

ITRAXX 5Y Europe Index - Daily Chart

Drops lower attention reverts to the 96.21 mid-May high

- › The ITRAXX 5Y Europe index has come off its 132.52 June high and fell through the 55-day moving average at 104.56. The 102.08 January low has been eroded and attention reverts to the 96.21 mid-May high. Around the psychological 100 level the index is expected to level out.
- › 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.
- › For now we believe that further range trading around the 55 day moving average at 104.56 is to be seen over the next few weeks.

ITRAXX 5Y Europe Index Daily Chart



ITRAXX 5Y Crossover Index - Daily Chart

Has reacted back to the 399 March low.

- › The ITRAXX 5Y Crossover index is still coming off its 528.79 June high and has now also slipped through the 55-day moving average at approximately 426. The area seen around the January low at 402.22 has been eroded for a slide to the 3.99 March low.
- › Ideally around here it should stabilise and while above here on a daily chart closing basis, the risk of the June high at 528.79 being taken out, remains in place.
- › Should this happen and the long term downtrend line at 529.94 be breached, the 566.94 November 2012 peak will be back in focus and our forecast therefore change to being medium term bullish.
- › At present we continue to hold onto our neutral medium stance, however.
- › Below 399 targets 367/365, the May low.

ITRAXX 5Y Crossover Index Daily Chart



ITRAXX 5Y Senior Financial Index - Daily Chart

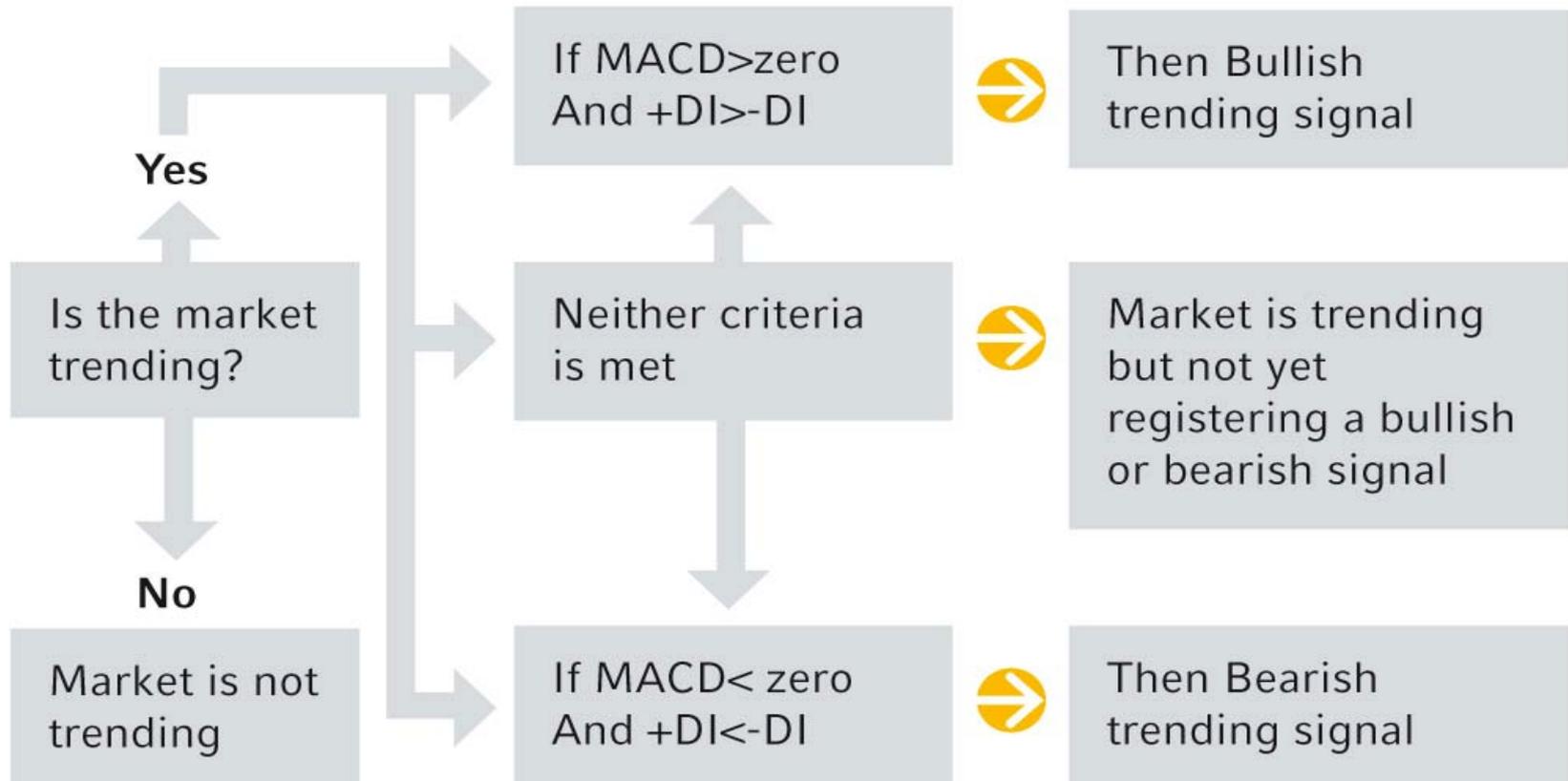
Has reached the 55 day moving average at 152.44

- > The ITRAXX 5Y Senior Financial index has come off its 190.19 June high and has so far dropped to the 55 day moving average at 152.44. Around it the index may well level out.
- > Further support can be seen around the 138.98 March low.
- > 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 131.49/122.64, made up of the May and January lows.

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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Daily Market Technicals
FX Outlook



For important disclosure information please see pages 14 and 15.

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Technical Analysis Research **COMMERZBANK**

Strategic Technical Themes
Weekly Outlook and Technical Highlights



For important disclosure information please see pages 28 and 29.

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FX Emerging Markets Weekly Technicals
Technical Outlook



For important disclosure information please see pages 16 and 15.

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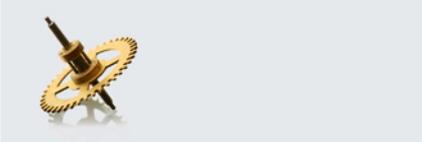


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