

Daily Market Report for Tuesday 3rd of November 2009.**Market comment**

News out from Berkshire Hathaway just prior to the US open that they are buying Burlington Northern raised the S&P 500 futures off the morning lows. Look like good buying interest below 1030 that will most likely support prices going into Friday's US nonfarm payrolls. Volume picking up over the last few days and we get the sense that a lot of players are now making adjustments to their positions coming into FOMC tomorrow and of course Friday's US nonfarm payrolls. Regarding FOMC we expect interest rates to stay on hold with little change to the statement. On top of that we have US nonfarm payrolls coming out on Friday, which the market is really eagerly awaiting to see if the unemployment rate can stay below 10%. We expect the unemployment rate to tick above 10% this or next month. From yesterday's report *"Gold tested the September high Wednesday last week (previous resistance, now support), held that level and bounced higher yesterday. That price action signals buying interest and it will be interesting to see what happens today. Remember still some weakness in the background on gold to and the way to remove this is to gap prices above the highs on a strong breakout move to force shorts out and avoid selling pressure to halt the move."* Exactly what happen following news that Indian bought 200 tons of Gold from IMF. When it comes to Forex, we note that options volatility is again much higher this morning and now we see risk for even higher volatility over the next few days going into US nonfarm payrolls on Friday. However we expect volatility to drop off again next week. Yesterday's move in JPY on the Asia open looks very much like a stop hunting move and we expect JPY weakness to resurface. We generally think JPY has limited scope for a very strong rally as BOJ will most likely step in and prevent the JPY from moving much below 87 vs. USD. Remember that Toyota was out last week saying that if JPY got stronger they had to move their production abroad. We can mention it again as we have done over the past few months, Japan has really weak looking fundamentals with ageing population, weak domestic spending, huge public debt and now a strong JPY. That is not a good mix to have in our opinion and it is unlikely that JPY can sustain a substantial rally when the fundamentals are that bad. It is normally that JPY benefits from risk aversion and we don't want to step against that trend just yet, but at lower levels in both AUDJPY and EURJPY we would favor longs. We continue to favor shorts in NZD as the latest rally has made the NZD overvalued in our opinion. EURUSD tested 1.4670 support yesterday and held so far. Still looks toppish as long as it stays below 1.49. RBA raised rates to 3,5% overnight, but AUD sold off on the less than expected hawkish statement. We expect AUD to continue to perform strongly and dips to be supported as other Central Banks are still clearly behind RBA in the tightening cycle. Crude taking a hit Friday, falling 2.87 USD per barrel as equities sold off. Crude had problems to stay above 81 USD level and clearly rejected on the move above 82 USD per barrel. This price action signals weakness and unless equities make substantial rally we favor looking for a short trade in Crude over the next weeks. Same with Wheat and Soybeans, both made bearish reversals last week. However yesterday's price action was bullish and looking at the chart the volume actually dried up on the decline with signals lack of selling pressure. According to head of commodities research, Jeffrey Currie at Goldman Sachs, annual demand growth for Soybeans is expected to be 3,5%, 2,5% for corn and 1% for Wheat.

As noted on Friday; *"VIX is all over the place and reflecting increased nervousness among traders for a possible correction, can easily rally back towards 30 level that it traded at during the summer. In*

general 30 on VIX is historically very high, but of course keep in mind that during the crash in 1987 it was 98.”

Some interesting news stories:

Australia Increases Benchmark Interest Rate to 3.5% - Bloomberg -

<http://www.bloomberg.com/apps/news?pid=20601110&sid=aPYYZfd9yGBA>

BOE Should End Bond Plan at 200 Billion Pounds, Julius Says - Bloomberg -

http://www.bloomberg.com/apps/news?pid=20601068&sid=aH_YmJtARvyw

Charles Goodhart warns banks are risking creating immense asset bubbles - The Telegraph -

<http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/6488141/Charles-Goodhart-warns-banks-are-risking-creating-immense-asset-bubbles.html>

Dollar at crossroads ahead of policy meetings - The FT -

<http://www.ft.com/cms/s/0/1189af0a-c7e0-11de-8ba8-00144feab49a.html>

IMF Sells Gold to Central Bank of India, Netting \$6.7 Billion - Bloomberg -

<http://www.bloomberg.com/apps/news?pid=20601110&sid=aAkoEr3mFLv0>

Technical's

Euro: Failed to get above 1.51 and the correction was triggered when it broke below 1.4850 earlier this week and successfully held 1.4670 last week. Key resistance remains 1.4900 and weak below.

Cable: Still looks well supplied towards 1.67 and BoE interest meeting this week could bring more QE and send the GBP falling. Any signal from BoE that QE is over should provide GBP with a strong boost, so BoE on Thursday is key for GBP.

USDJPY: Was rejected at 92.50 last week and trading down below 91.50 Wednesday, which opens for a test of 89.88. Good support 88 and expect JPY to struggle to break that level.

Swissy: The break above 1.0155 opens for a run towards 1.04.

AUDUSD: The upper end of the long defined trend channel held and it corrected lower toward middle of the trend channel. We expect equities to be the driver for AUD going forward, so we look at S&P 500 for direction again today. Lower end of trend channel is 0.8850, which if seen is a good risk reward level to test a long trade in our opinion.

USDCAD: Expect to see supply as it approached 1.09 key resistance and we look to get short if it tests this level over the next few sessions.

EURJPY: Didn't make it to 138.72, which was the key resistance, but stopped above 20 pips shy of this level. Monday's reversal opens for a run back towards 131.

GBPJPY: Tested 148.47 as expected and actually got down to 148 Wednesday and rebound strongly on the GBP buy interest yesterday moving above toward 152 this morning. Very volatile last 2 sessions, key levels remains 147 support and 153.30 resistances. Technically bullish above 147.

AUDJPY: We called for a correction to 82 and that level was broken Wednesday. AUD is strongly correlated to equities. We expect the direction in equities to drive AUD as well.

Levels	Euro	Cable	USDJPY	Swissy	AUDUSD	USDCAD	EURJPY	GBPJPY	AUDJPY
Res2	1.5284	1.6750	95.29	1.07	0.95	1.1125	140	153.26	90.26
Res1	1.5050	1.6670	92.54	1.0453	0.93	1.0960	138.72	152	85
Sup1	1.4670	1.6252	89.26	1.0013	0.8850	1.0226	131	148	80.74
Sup2	1.4550	1.5720	87.13	0.9889	0.8544	1.0000	127.02	147.10	76.35

Our outlook

Pair	Our strategy Today	Our medium term forecast
EURO	Weak below 1.49	Our 1.50 year-end target reached
Cable	Bearish, sell rallies below 1.67	Negative on both GBP and USD
USDJPY	Looking for a test of 89.88	weaker JPY, 100 or higher by year end
USDCAD	Bullish above 1.04 for 1.09 test	Reached our target of 1.0350
EURJPY	Bearish below 138, next support is 131	140 level within 3 months
AUDJPY	Our target at 82 reached, watch S&P for direction	85 target hit
GBPJPY	Key support is 147.10 and key resistance 152, play range	153 target hit, stand aside
AUDUSD	Stand aside after slightly weakness	95 within 4 weeks

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