



FX Technical Strategy - Weekly

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Drop in vols the first stage to risk appreciation

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Market overview

The short term market orientation does not seem ready to change. This is hardly surprising given the journey the markets have travelled over the past 18 months. However, it is becoming increasingly clear that the price of risk is simply too high and by virtue of this situation, it is discouraging risk appetite. If the market has a heightened expectation of a risky environment, then there is no value in paying for this. The value comes from looking at what the market does not expect. As FX vols continue to ease, this will actually provide a positive back drop for the next main trend in FX. The downside is that we may still be some weeks away from this. The default position for now is to look for dollar strength and monitor the signs of a counter trend move. Base metals such as lead have put on a decent rally with copper continuing to build a base. The outlook for gold looks soft short term and a break of \$900 would imply a deeper correction to \$850. It is easy to dismiss these signals as the market wants to focus on the bearish angle. However with oil continuing to hold firm and the baltic dry index extending gains, consideration has to be given to a dollar sell off, driven by an oversold bounce in stocks.

Euro dollar one month volatility,



Vols continue to ease as the market stays somewhat sidelined. This is due to the high price of risk and the increased uncertainty of the longer term outlook. This in itself should help to drive prices down to 13.00 and perhaps even single digits by May.

By Paul Rodriguez, Senior Technical Analyst

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Technical strategy - EUR/USD, USD/JPY, GBP/USD

Euro/US dollar

Bias remains neutral.
Break-out parameters are on a close over 1.2750 or below 1.2500.



US dollar/ Japanese yen

The 100 target came close.
However, the case for a retracement have increased hence sell the long and go short at 99.00 on stops over 100.10.



Sterling/ US dollar

The 1.4000/1.5000 straight jacket has been broken to the downside.
This implies a move to sub 1.3500 and it should also extend relatively quickly. A rally back towards 1.4000 is seen as a sell signal. Only a two-day close over 1.4050 puts the focus back into neutral.



Technical strategy - EUR/JPY, AUD/USD, EUR/GBP

Euro/ Japanese yen

The expectation of a base continues although there is some stalling of the trend around resistance at 126.00. The longer term bias remains for 130.00 despite the short term neutral outlook. Stops are on a close below 121.70.



Australian dollar/ US dollar

The price action continues to hold above the buy level at 0.6330 and stops can be moved from 0.6250 to there. Whilst there are few signs of a trend, this remains a short term bias.



Euro/ sterling

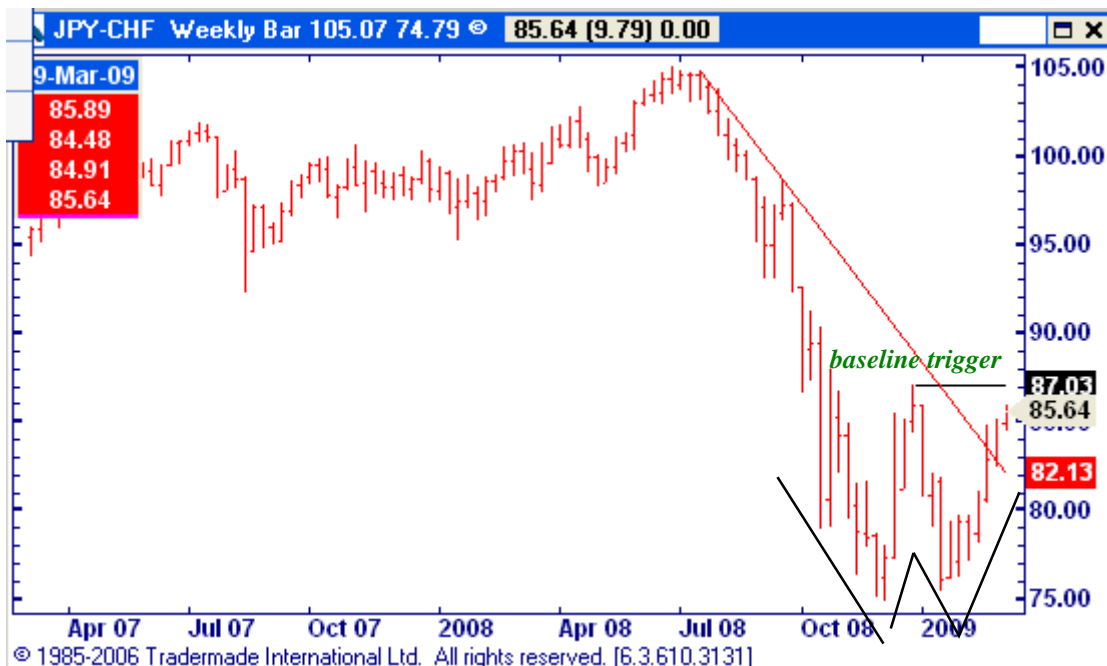
Euro short stops have been hit. Look to sell into 0.9270 on stops over 9355.



Technical Strategy - CHF/JPY, USD/PLN

Swiss / yen

The outlook remains bullish. The main signal to complete a major base is a break of 87.03 and given the close proximity of this, the probability looks good. Initial targets are at 93.00



US dollar/ Polish zloty

Resistance over 3.90 continues to cap gains here, but more importantly, momentum could be on the verge of turning and a good risk reward trade is at hand. Look to sell the dollar at current, looking for a break of 3.54. Stops are on a two-day close over 3.75.



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