



FX Technical Strategy - Weekly

12th May 2009

Green shoots' roots in commodities

Market overview

As the market picks on the underlying bullish themes that have been building over the past few months the natural inclination is to be wary. In the last release, the favoured currencies were Sterling and the commodity currencies against the US dollar coupled with the more benign environment that a drop in volatility would imply. Whilst from an equity perspective a consolidation/corrective phase is becoming more compelling, the strength in commodities still underpins the pro-risk theme. The reasoning being that whilst it is still probable that this is a bounce in a bear market, the risk of being caught long dollars and long treasuries if *the low* is behind is greater than selling dollars now and reversing the strategy if proved wrong.

In this regard it is notable that gold is holding above the \$900 level, which can no longer be attributed to the 'fear factor'. With oil edging towards \$60 and sugar prices matching the heights of the commodity boom phase of 2008 at 16.00 (although off the 19.73 peak of February 2006) the positive view is still compelling. Summer is approaching and the markets will be taking a breather soon one way or the other, but for the moment the cautiously bullish strategy continues.

Brent crude oil futures, continuation contract Daily bar chart



Whether this is demand led or speculative is a valid debate however, oil has been basing since \$45 with the next main resistance point at \$63.00. Until there are signs of selling, the dollar view will stay bearish.

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

Euro/US dollar

The trend break-out signal over 1.3300 was initiated. There is key overhead resistance at 1.3736, but this should be breached. Move stops to the 200 day m.a. at 1.3442.



US dollar/ Japanese yen

The yen is a tricky call as the arguments are balanced as to whether pro risk is positive or negative. For the moment downward pressure has not fully abated, although support between 95.80 and 94.60 should hold. Buy dollars at 94.75 on stops below 93.70.



Sterling/ US dollar

Upward pressure continues although notably sterling TWI still has not breached the key 80.10 level to indicate a major base. The view is therefore cautiously bullish with 1.5368 the next resistance and 1.5530 the main target after that. Stops are on a close below 1.5070.



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

Euro/ Japanese yen

The bullish targets at 131.75 have been hit, but a consolidation phase is due. Sell euros at the current level, looking to re-buy at 131.00 or on a close over 134.00. Target 137.40.



Australian dollar/ US dollar

The buy trigger over 0.7200 was initiated. Main targets are at 0.8100 from here with 0.7806 a short term target. Stops are on a close below 0.7500.



Euro/ sterling

The euro bearish view remains although the recent bounce over 0.9000 upset the short term momentum. Look to sell euros into 0.9000 or a break of 0.8816, target 0.8640/62 trigger. Key stops are over 0.9088.



Technical Strategy - NZD/USD, USD/PLN

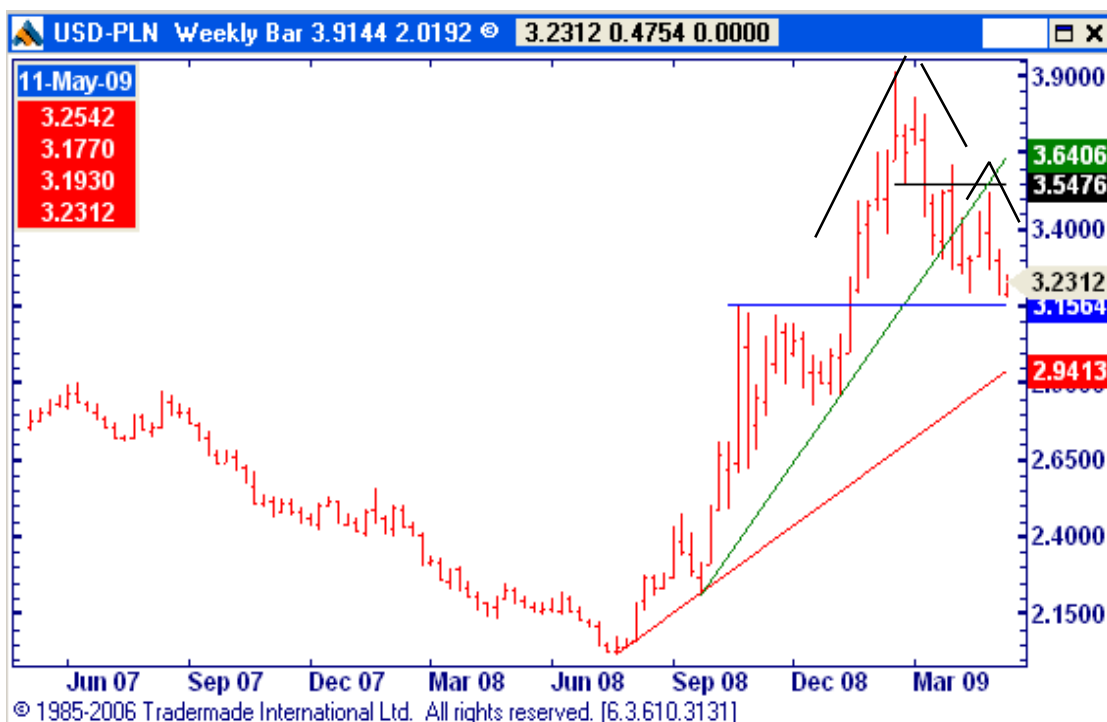
New Zealand dollar/ US dollar

Commodity currencies are favoured against the US dollar. An inverse H&S reversal pattern has completed indicating a major base with targets at 0.6947. Buy the current spot, stop on a close below 0.5938.



US dollar/ Polish Zloty

Support between 3.1564 and 3.1800 is a major barrier, but the characteristics of the chart imply a reversal for the US dollar. Hence sell dollars on a bounce to 3.27, looking for a break of 3.1564 on stops over 3.2820.



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